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# **Mississippi Department of Marine Resources**

Independent Auditor's Reports and  
Financial Statements of Funds Selected for Audit

June 30, 2018



# Mississippi Department of Marine Resources

June 30, 2018

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## Independent Auditor's Report

Gen. Joe Spraggins  
Executive Director  
State of Mississippi, Department of Marine Resources  
Biloxi, Mississippi

### Report on the Financial Statements of Funds Selected for Audit

We have audited the accompanying financial statements of the General Fund, the Seafood Fund, the Tidelands Trust Fund and the MDMR Federal Clearing Fund of the State of Mississippi, Department of Marine Resources (MDMR), which are comprised of balance sheets as of June 30, 2018, and statements of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinions, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, the Seafood Fund, the Tidelands Trust Fund and the MDMR Federal Clearing Fund of the State of Mississippi, Department of Marine Resources as of June 30, 2018, and the

respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Emphasis of Matters***

As discussed in *Note 1*, the financial statements present only the General Fund, the Seafood Fund, the Tidelands Trust Fund and the MDMR Federal Clearing Fund representing the funds selected for audit by the State of Mississippi, Office of the State Auditor and do not purport to, and do not present fairly the financial position of MDMR as of June 30, 2018, or the changes in their financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in *Note 2* to the financial statements, the fund balance at the beginning of the year has been restated to correct a misstatement in the 2017 financial statements of the MDMR Federal Clearing Fund. Our opinion is not modified with respect to this matter.

***Other Matter***

***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinions on the financial statements are not affected by this missing information.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2018, on our consideration of MDMR's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDMR's internal control over financial reporting and compliance.

**BKD, LLP**

Jackson, Mississippi  
December 17, 2018

**Mississippi Department of Marine Resources**  
**Balance Sheets of Funds Selected for Audit**  
**June 30, 2018**

	<b>Governmental Fund Type</b>			
	<b>General Fund 2245000000</b>	<b>Seafood Fund 3345000000</b>	<b>Tidelands Trust Fund 3345200000</b>	<b>MDMR Federal Clearing Fund 5345000000</b>
<b>Assets</b>				
Cash	\$ -	\$ 4,409,511	\$ 22,601,519	\$ -
Receivables	-	248,344	98	-
Due from other governments	-	533,980	-	1,932,201
Due from other funds	-	993,930	9,369	-
Total assets	<u>\$ -</u>	<u>\$ 6,185,765</u>	<u>\$ 22,610,986</u>	<u>\$ 1,932,201</u>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 575,444	\$ 319,166	\$ 375,443
Cash payments in excess of available balance	-	-	-	1,633,544
Due to other funds	-	90,445	197,650	55,590
Due to other governments	-	444	2,000,921	419,950
Funds held for others	-	20,397	-	-
Unearned federal revenues	-	-	-	5,156
Total liabilities	<u>-</u>	<u>686,730</u>	<u>2,517,737</u>	<u>2,489,683</u>
<b>Fund Balance</b>				
Restricted for Marine Resources	-	5,499,035	20,093,249	-
Unassigned	-	-	-	(557,482)
Total fund balance	<u>-</u>	<u>5,499,035</u>	<u>20,093,249</u>	<u>(557,482)</u>
Total liabilities and fund balance	<u>\$ -</u>	<u>\$ 6,185,765</u>	<u>\$ 22,610,986</u>	<u>\$ 1,932,201</u>

**Mississippi Department of Marine Resources**  
**Statement of Revenues, Expenditures and Changes in**  
**Fund Balance of Funds Selected for Audit**  
**Year Ended June 30, 2018**

	<b>Governmental Fund Type</b>			
	<b>General Fund 2245000000</b>	<b>Seafood Fund 3345000000</b>	<b>Tidelands Trust Fund 3345200000</b>	<b>MDMR Federal Clearing Fund 5345000000</b>
<b>Revenues</b>				
State appropriation/allotment	\$ 922,150	\$ -	\$ -	\$ -
Federal grant revenue	-	-	-	4,424,524
Other grant or contractual revenues	-	1,159,523	-	750
Rental of state property	-	-	8,253,215	-
Gasoline tax	-	3,050,000	-	-
License and permit sales	-	1,612,432	-	1,019
Fines and penalties	-	19,053	-	-
Interest income	-	77,055	311,554	-
Other income	-	141,346	24,041	79,146
<b>Total revenues</b>	<b>922,150</b>	<b>6,059,409</b>	<b>8,588,810</b>	<b>4,505,439</b>
<b>Expenditures</b>				
Salaries	922,148	5,441,111	970,102	1,666,405
Travel	-	49,283	29,027	31,248
Contractuals	-	761,189	720,068	443,528
Commodities	-	526,105	1,145,669	1,348,216
Capital outlay	-	355,523	4,764	139,356
Subsidies	-	330	5,097,366	839,294
Intra-agency cost allocation reimbursement, net	-	(1,495,993)	197,150	545,219
<b>Total expenditures</b>	<b>922,148</b>	<b>5,637,548</b>	<b>8,164,146</b>	<b>5,013,266</b>
<b>Excess of Revenues Under Expenditures</b>	<b>2</b>	<b>421,861</b>	<b>424,664</b>	<b>(507,827)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in (out), net	-	(126,223)	(1,089,259)	29,725
<b>Net Changes in Fund Balance</b>	<b>2</b>	<b>295,638</b>	<b>(664,595)</b>	<b>(478,102)</b>
<b>Fund Balance, Beginning of Year, as Previously Reported</b>	<b>(2)</b>	<b>5,203,397</b>	<b>20,757,844</b>	<b>(1,041,956)</b>
<b>Adjustment Applicable to Prior Years</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>962,576</b>
<b>Fund Balance, Beginning of Year, as Restated</b>	<b>(2)</b>	<b>5,203,397</b>	<b>20,757,844</b>	<b>(79,380)</b>
<b>Fund Balance, End of Year</b>	<b>\$ -</b>	<b>\$ 5,499,035</b>	<b>\$ 20,093,249</b>	<b>\$ (557,482)</b>



**Mississippi Department of Marine Resources**  
**Notes to Financial Statements of Funds Selected for Audit**  
**June 30, 2018**

**Note 1: Significant Accounting Policies**

***Background Information***

Mississippi Department of Marine Resources (MDMR), an agency of the State of Mississippi, follows fund accounting pursuant to applicable state statutes. These funds represent funds selected for audit by the State of Mississippi, Office of the State Auditor, and the accompanying presentation does not purport to present the financial position and changes in financial position of MDMR.

- A. **Appropriations Fund or General Fund** (Fund 2245000000): This fund receives appropriations each year from the Legislature.
- B. **Seafood Fund** (Fund 3345000000): This fund accounts for operating funds supporting a majority of MDMR operations that are not funded by federal grants. Funding sources include off-road fuel taxes, nonfederal grants, contracts, license sales, permitting, etc.). This fund also holds the balances of MDMR's "Obligated Funds," which are received for specific legislative or contractual purposes that are restricted only for those uses (examples include Coastal Preservation, Shell Retention and Artificial Reef).
- C. **Tidelands Trust Fund** (Fund 3345200000): This fund is used to account for the lease of Mississippi water bottoms.
- D. **MDMR Federal Clearing Fund** (Fund 5345000000): This is a reimbursable fund set up to recover any funds spent on federal grants. The only grant programs that are included in this fund are those which are pure reimbursement programs, thus facilitating the reconciliation of the account and creating improved transparency of the status of reimbursements from the federal government. Funds that are not true federal grants or reimbursements are contained in the Seafood Fund.

***Basis of Presentation***

The accompanying fund financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

***Account Classifications***

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting*, as issued by the Government Finance Officers Association.

**Mississippi Department of Marine Resources**  
**Notes to Financial Statements of Funds Selected for Audit**  
**June 30, 2018**

***Fund Accounting***

The financial activities of the funds audited are recorded in individual funds and account groups used to report financial position and changes in financial position. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

***Basis of Accounting/Measurement Focus***

The governmental fund type is accounted for on a flow of current financial resources measurement focus. This focus measures financial resources available to the entity in the near future as a result of transactions and events of the fiscal period reported. The modified accrual basis of accounting is utilized. Under this method, revenues are recognized when they become measurable and available, and expenditures are recognized at the time liabilities are incurred.

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and other changes in fund balances during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

Cash includes cash on hand and demand deposits. All short-term, highly liquid investments that are readily convertible to cash (generally with a maturity of three months or less) are considered cash equivalents. At June 30, 2018, there were no cash equivalents.

***Interfund Receivables/Payables***

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due from or due to other funds." Noncurrent portions of interfund receivables/payables are reported as "advances to or advances from other funds."

***Accounts Receivable***

Accounts receivable are reported net of allowances for uncollectible accounts, where applicable. No allowance for uncollectible accounts was recorded at June 30, 2018.

# Mississippi Department of Marine Resources

## Notes to Financial Statements of Funds Selected for Audit

### June 30, 2018

#### **Fund Balances**

The fund balances for MDMR's governmental funds can be displayed in five components.

- ***Nonspendable*** – Amounts that are not in a spendable form or are required to be maintained intact, such as inventories.
- ***Restricted*** – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.
- ***Committed*** – Amounts that can be used only for the specific purposes determined by a formal action of the Mississippi Legislature.
- ***Assigned*** – Amounts intended to be used by the government for specific purposes. In governmental funds other than the General Fund, assigned fund balances represent the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- ***Unassigned*** – The residual classification for the General Fund includes all amounts not contained in the other classifications. The unassigned classification is also used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The fund balances for the funds included in these financial statements are considered restricted for marine resource purposes. Restrictions may be changed or lifted only with the consent of resource providers.

Deficit Fund Balances – As of June 30, 2018, certain funds of MDMR were in a deficit net position. The deficit net position in each fund will be funded by either an interfund transfer from a fund with positive net position, future appropriations or future grant revenues.

#### **Note 2: Restatement of Prior Years' Financial Statements**

In prior years, MDMR's grant schedule and related grant revenue calculation contained errors. An adjustment of \$962,576 applicable to 2017 and prior has been included in the restated 2018 beginning fund balance for the MDMR Federal Clearing Fund. This correction increased 2017 change in fund balance by approximately \$113,000.

#### **Note 3: Cash and Other Deposits**

Custodial risk is the risk that in the event of bank failure, a government's deposits may not be returned. MDMR's deposit policy for protection of custodial risk is handled under a statewide

**Mississippi Department of Marine Resources**  
**Notes to Financial Statements of Funds Selected for Audit**  
**June 30, 2018**

collateral program. The collateral for public entities' deposits in financial institutions is held by the depository bank in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entities' funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

**Note 4: Interfund Receivables, Payables and Transfers**

At June 30, 2018, MDMR had the following interfund receivables and payables.

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Seafood Fund		
Tidelands Trust Fund	\$ 197,150	\$ -
GOMESA Fund	666,109	-
State of Mississippi	<u>130,671</u>	<u>90,445</u>
	993,930	90,445
Tidelands Trust Fund		
Seafood Fund	-	197,150
State of Mississippi	<u>9,369</u>	<u>500</u>
	9,369	197,650
MDMR Federal Clearing Fund		
State of Mississippi	-	55,590

For the year ended June 30, 2018, all interfund transfers were transferred to funds of other agencies of the State of Mississippi outside of MDMR.

**Note 5: Defined Benefit Pension Plan**

MDMR participates in the Public Employees' Retirement System of Mississippi (PERS) a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of

**Mississippi Department of Marine Resources**  
**Notes to Financial Statements of Funds Selected for Audit**  
**June 30, 2018**

Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. This information may be obtained by contacting PERS.

During fiscal year 2018, PERS members were required to contribute 9% of their annual covered salary, and MDMR is required to contribute at an actuarially determined rate, which was 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. MDMR's contributions are made at the agency level; therefore, information is not available on contributions by specific funds.

In July 2018, the Board of Trustees of PERS voted to increase the employer contribution from 15.75% of payroll to 17.40%. This increase must be approved by the Mississippi State Legislature.

**Note 6: Contingencies**

***Litigation***

In the normal course of business, MDMR is, from time to time, subject to allegations that may or do result in litigation. MDMR evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term. No estimate for loss was recorded at June 30, 2018.

**Independent Auditor's Report on Internal Control  
Over Financial Reporting and on  
Compliance and Other Matters Based on an  
Audit of the Financial Statements Performed in Accordance  
With Government Auditing Standards**

Gen. Joe Spraggins  
Executive Director  
State of Mississippi, Department of Marine Resources  
Biloxi, Mississippi

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the funds selected for audit consisting of the General Fund, the Seafood Fund, the Tidelands Trust Fund and the MDMR Federal Clearing Fund of the State of Mississippi, Department of Marine Resources (MDMR), which are comprised of balance sheets as of June 30, 2018, and statements of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2018, which contained *Emphasis of Matters* paragraphs regarding the entity reflected in the financial statements and the correction of an error and an *Other Matter* paragraph regarding the omission of management's discussion and analysis.

***Internal Control Over Financial Reporting***

In planning and performing our audits of the financial statements, we considered MDMR's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MDMR's internal control. Accordingly, we do not express an opinion on the effectiveness of MDMR's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of MDMR's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of finding and response as item 2018-002 that we consider to be a material weakness.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether MDMR's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***MDMR's Response to Finding***

MDMR's response to the finding identified in our audits is described in the accompanying schedule of finding and response. MDMR's response was not subjected to the auditing procedures applied in the audits of the financial statements, and, accordingly, we express no opinion on it.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MDMR's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDMR's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Jackson, Mississippi  
December 17, 2018

**Mississippi Department of Marine Resources**  
**Schedule of Finding and Response**  
**Year Ended June 30, 2018**

Reference Number	Finding
2018-002	<p><b>Criteria or Specific Requirement</b> – Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in the financial reporting of all funds.</p> <p><b>Condition</b> – In prior years, the federal grant schedule of the MDMR Federal Clearing Fund contained an error in deferred revenue, whereas closed grant programs carried forward a deferred revenue balance resulting in a misstatement of prior years’ financial statements. The error was identified and corrected by the Mississippi Department of Finance and Administration (DFA) and by MDMR in the current year in accordance with instructions provided by DFA.</p> <p><b>Context</b> – While MDMR followed DFA’s processes and procedures for completing the federal grant schedule, errors resulted related to the recognition of revenues.</p> <p><b>Effect</b> – A restatement of beginning fund balance and a current year audit adjustment were required to correct the recorded deferred revenue in the MDMR Federal Clearing Fund.</p> <p><b>Cause</b> – The previously designed accounting policies and procedures promulgated by DFA and followed by MDMR did not allow for the error in the grant schedule to be identified in a timely manner. Ultimately, the underlying expenditure reports used to create the federal grant schedule did not include the capital expenditures of the grants because capital expenditures were not assigned a specific grant identifying number within the accounting system. These errors originated in 2016 during the second year of implementation of the MAGIC – Mississippi’s Accountability System for Government Information and Collaboration – system and the continued redevelopment of the year-end close and GAAP Package Reporting processes for MDMR.</p> <p><b>Recommendation</b> – MDMR should implement a process, where the federal grant schedule is subject to sufficient review and approval to prevent future errors. Additionally, MDMR should continue to work with DFA to ensure their processes and procedures are sufficient to prevent or detect errors in the federal grant schedule.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> – The grant schedule is submitted by MDMR each year in accordance with DFA policy on a date specified by DFA. When compiling the most recent grant schedule, it came to the attention of MDMR that due to the DFA reporting requirements, a portion of grant expenditures were</p>



**Mississippi Department of Marine Resources**  
**Schedule of Findings and Response**  
**Year Ended June 30, 2018**

<b>Reference Number</b>	<b>Finding</b>
	<p>not being captured properly. After DFA review, it was concluded that capital assets were posting to an alternate category and not corresponding directly to the respective grant. DFA was unable to reclassify all of the necessary capital assets prior to the submission of the grants schedule. Moreover, as DFA policy has maintained these guidelines since the inception of MAGIC, it has created a continual reporting error. As stated in the "Condition" section above, MDMR worked swiftly to reconcile an error caused by policy that was originated outside of agency purview. The grant schedule is governed by DFA, and both DFA and MDMR have worked in tandem to resolve this issue with DFA procedure. Suggested reports to DFA by MDMR to use to capture the aforementioned expenditures were subsequently denied; moreover, DFA assured MDMR that the financial statements would not be affected by the omission of said expenses from the grant schedule itself. These amounts were seen according to DFA in the financials; therefore, MDMR acted in accordance with all internal and external financial guidelines and will continue to work internally and with DFA to avoid any potential or future errors caused by outside agency policy.</p>

Gen. Joe Spraggins  
Executive Director  
State of Mississippi, Department of Marine Resources  
Biloxi, Mississippi

As part of our audits of the financial statements of the funds selected for audit by the State of Mississippi, Office of the State Auditor, of the Mississippi Department of Marine Resources (MDMR) as of and for the year ended June 30, 2018, we wish to communicate the following to you.

## AUDIT SCOPE AND RESULTS

### **Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America and the Standards Applicable to Financial Audits Contained in *Government Auditing Standards*, Issued by the Comptroller General of the United States**

An audit performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audits that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audits. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

### **Qualitative Aspects of Significant Accounting Policies and Practices**

#### **Significant Accounting Policies**

MDMR's significant accounting policies are described in *Note 1* of the audited financial statements.

#### **Alternative Accounting Treatments**

No matters are reportable.

Management Judgments and Accounting Estimates

No matters are reportable.

Financial Statement Disclosures

The following area involves a particularly sensitive financial statement disclosure for which we are prepared to discuss the issues involved and related judgments made in formulating this disclosure:

- Restatement of prior years' financial statements

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

***Proposed Audit Adjustments Recorded***

- Accounts receivable
- Indirect costs
- Correction of prior years' errors in the federal grants schedule
- Other reclassifications for MDMR standalone financial reporting

***Proposed Audit Adjustments Not Recorded***

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

Auditor's Judgments About the Quality of the Entity's Accounting Principles

No matters are reportable.

Disagreements with Management

No matters are reportable.

#### **Difficulties Encountered in Performing the Audit**

No matters are reportable.

#### **Other Material Communication**

Listed below is another material communication between management and us related to the audit:

- Management representation letter (attached)

#### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audits of the financial statements of funds selected for audit of MDMR as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered MDMR's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MDMR's internal control. Accordingly, we do not express an opinion on the effectiveness of MDMR's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of MDMR's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of MDMR's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be a deficiency or a material weakness.

**Material Weakness**

Refer to the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

**Deficiency**

***Year-end Accruals***

At year-end, MDMR recorded an accrual twice for the receivable under a Joint Enforcement Agreement (JEA) Program, once manually through year-end close procedures and again through the automated accruals posted by MAGIC – Mississippi's Accountability System for Government Information and Collaboration. This resulted in an audit adjustment noted above. We recommend MDMR implement a process, whereas manual accruals are evaluated against automated accruals to ensure no accruals are recorded twice at year-end.

We observed matters that we consider to be deficiencies that we communicated to management orally.

This communication is intended solely for the information and use of management, the Board of Commissioners and others within MDMR, and is not intended to be and should not be used by anyone other than these specified parties.

*BKD, LLP*

December 17, 2018



**STATE OF MISSISSIPPI**

Phil Bryant  
Governor

**MISSISSIPPI DEPARTMENT OF MARINE RESOURCES**

Joe Spraggins, Executive Director

December 17, 2018

**BKD, LLP**

Certified Public Accountants  
190 East Capital St, Suite 500  
Jackson, Ms. 39201-2190

We are providing this letter in connection with your audits of the governmental fund financial statements, including the General Fund [2245000000], the Seafood Fund [3345000000], the Mississippi Department of Marine Resources Federal Clearing Fund [5345000000], the Tidelands Trust Fund [3345200000], of the Mississippi Department of Marine Resources (MDMR) selected for audit by the State of Mississippi, Office of the State Auditor as defined by the Contract for Professional Services as of and for the year ended June 30, 2018.

We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated July 20, 2018, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of

financial statements that are free from material misstatement, whether due to fraud or error.

3. We understand that you will not render an unmodified opinion on the financial statements of MDMR as the audited financial statements only represent funds selected for audit by the State of Mississippi, Office of the State Auditor, and do not purport to, and do not present fairly the financial position of MDMR as of June 30, 2018, or the changes in its financial position for the year ended in conformity with accounting principles generally accepted in the United States of America.
4. MDMR has restated the 2017 financial statements through beginning fund balance to conform with accounting principles generally accepted in the United States of America. Management has provided you with all relevant information regarding the restatement. We are not aware of any other known matters that require correction in the financial statements.
5. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
6. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.
7. We have provided you with:
  - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
  - (b) Additional information that you have requested from us for the purpose of the audit.
  - (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - (d) All minutes of meetings of the governing body held through the date of this letter.
  - (e) All significant contracts and grants.
8. All transactions have been recorded in the accounting records and are reflected in the financial statements.

9. We have informed you of all current risks of a material amount that are not adequately prevented or detected by entity procedures with respect to:
  - (a) Misappropriation of assets.
  - (b) Misrepresented or misstated assets, liabilities or net position.
10. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
11. We have no knowledge of any known or suspected:
  - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
  - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.
12. We have no knowledge of any allegations of fraud or suspected fraud affecting MDMR received in communications from employees, customers, regulators, suppliers or others.
13. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; management, and members of their immediate families, component units; and any other party with which the entity may deal if it can significantly influence, or be influenced by, the management or operating policies of the other. The term related party refers to a party that directly or indirectly controls, or is controlled by, or is under common control with us.
14. Except as reflected in the financial statements, there are no:
  - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
  - (b) Material transactions omitted or improperly recorded in the financial statements.
  - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
  - (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.



- (e) Agreements to purchase assets previously sold.
  - (f) Restrictions on cash balances or compensating balance agreements.
  - (g) Guarantees, whether written or oral, under which MDMR is contingently liable.
15. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
16. We have no reason to believe the Agency owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.
17. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
18. Adequate provisions and allowances have been accrued for any material losses from:
- (a) Uncollectible receivables.
  - (b) Sales commitments, including those unable to be fulfilled.
  - (c) Purchase commitments in excess of normal requirements or above prevailing market prices.
19. Except as disclosed in the financial statements, we have:
- (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
  - (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.
20. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
21. We have notified you of any instances of noncompliance with applicable disclosure requirements of the SEC Rule 15c2-12 and applicable state laws.

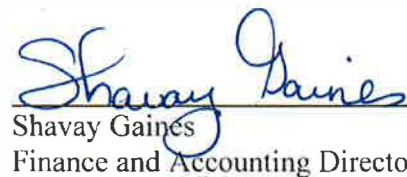
22. With regard to deposit and investment activities:
- (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.
  - (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
  - (c) We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.
23. With respect to any nonattest services you have provided us during the year, including proposing adjusting or correcting journal entries and drafts of the financial statements and related notes to be reviewed and approved by management:
- (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
  - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
  - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
  - (d) We have evaluated the adequacy of the services performed and any findings that resulted.
24. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.
25. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.
26. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.

27. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.
28. We have a process to track the status of audit findings and recommendations.
29. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.
30. We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.
31. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
32. Management of MDMR has elected to omit management's discussion and analysis, which is supplementary information required by the Governmental Accounting Standards Board. We understand you will include an emphasis of matter paragraph in your opinion related to this omission.



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Gen. Joe Spraggins  
Executive Director



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Shavay Gaines  
Finance and Accounting Director

**MDMR**  
**ATTACHMENT**

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

**33452**

**QUANTITATIVE ANALYSIS**

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	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Total Assets & Deferred Outflows	22,610,986		22,610,986	
Total Liabilities & Deferred Inflows	(2,517,737)	(7,172)	(2,524,909)	0.28%
Total Fund Balance	(20,093,249)	7,172	(20,086,077)	-0.04%
Revenues	(8,588,810)		(8,588,810)	
Expenditures	9,253,405	7,172	9,260,577	0.08%
Change in Fund Balance	664,595	7,172	671,767	1.08%

Client: MDMR

Period Ending: June 30, 2018

33452

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

												Net Effect on Following Year					
Description		Financial Statement Line Item	Factual (F), Judgmental (J), Projected (P)	Assets & Deferred		Liabilities &		Revenues		Expenditures		Fund Balance		Change in Fund Balance		Fund Balance	
				Outflows		Deferred Inflows								Balance		Balance	
				DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)
To record portion of invoice not accrued in the proper period			F	0		(7,172)		0		7,172		0		(7,172)		7,172	
		Accounts Payable															
		Subsidies						7,172				(7,172)		7,172			
Total passed adjustments				0		(7,172)		0		7,172		0		(7,172)		7,172	
Impact on Change in Fund Balance:												7,172					
Impact on Fund Balance												7,172					

**MDMR**  
**ATTACHMENT**

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

**33450**

**QUANTITATIVE ANALYSIS**

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	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Total Assets & Deferred Outflows	6,185,765		6,185,765	
Total Liabilities & Deferred Inflows	(686,730)	(2,391)	(689,121)	0.35%
Total Fund Balance	(5,499,035)	2,391	(5,496,644)	-0.04%
Revenues	(6,059,409)		(6,059,409)	
Expenditures	5,763,771	(43,199)	5,720,572	-0.75%
Change in Fund Balance	(295,638)	(43,199)	(338,837)	14.61%

Client: MDMR

Period Ending: June 30, 2018

33450

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

														Net Effect on Following Year			
Description	Financial Statement Line Item	Factual (F), Judgmental (J), Projected (P)	Assets & Deferred		Liabilities &		Revenues		Expenditures		Fund Balance		Change in Fund		Fund		
			Outflows		Deferred Inflows								Balance		Balance		
			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	
PY Impact: To write-off uncollectible AR.		F	0	0	0	(40,408)	40,408	0									
	Revenue (Fund 33450)					(40,408)	40,408										
	Due From Other Gov. Adj. (Fund 33450)																
To record compensated absences for terminations prior to FYE		F	0	(2,391)	0	(2,791)	5,182	2,791	(2,791)								
	Accrued Compensated Absences			(2,391)				2,791	(2,791)								
	Fund Balance						5,182										
	Salary Expense					(2,791)											
Total passed adjustments			0	(2,391)	0	(43,199)	45,590	2,791	(2,791)								
							Impact on Change in Fund Balance		(43,199)								
							Impact on Fund Balance		2,391								

**MDMR**  
**ATTACHMENT**

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

**53450**

**QUANTITATIVE ANALYSIS**

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	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Total Assets & Deferred Outflows	1,932,201		1,932,201	
Total Liabilities & Deferred Inflows	(2,489,683)		(2,489,683)	
Total Fund Balance	557,482		557,482	
Revenues	(4,505,439)		(4,505,439)	
Expenditures	4,983,541		4,983,541	
Change in Fund Balance	478,102		478,102	



Client: MDMR

Period Ending: June 30, 2018

53450

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

												Net Effect on Following Year				
Description	Financial Statement Line Item	Factual (F), Judgmental (J), Projected (P)	Assets & Deferred		Liabilities &		Revenues		Expenditures		Fund Balance		Change in Fund		Fund	
			Outflows		Deferred Inflows								Balance		Balance	
			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)
To reclassify grant funds posted to a non-grant account		F		0		0		0		0		0		0		0
	Grant revenues							(55,054)								
	Nongrant revenues							55,054								
Total passed adjustments				0		0		0		0		0		0		0
Impact on Change in Fund Balance												0				
Impact on Fund Balance												0				