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MISSISSIPPI MILITARY DEPARTMENT

FINANCIAL REPORT

JACKSON, MISSISSIPPI

JUNE 30, 2018

HARPER, RAINS, KNIGHT & COMPANY, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS  
RIDGELAND, MISSISSIPPI

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Major General Janson D. Boyles  
The Adjutant General of Mississippi  
Mississippi Military Department  
Jackson, Mississippi

### Independent Auditors' Report

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of Funds 3370100000 and 5370900000 of the Mississippi Military Department (the "Department"), as of and for the year ended June 30, 2018 and the related notes to financial statements as listed in the table of contents. These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report.

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

Mississippi Military Department's 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.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit 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 auditors' 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 auditors consider 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.

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Major General Janson D. Boyles  
Mississippi Military Department (continued)

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

***Opinion***

In our opinion, the financial statements of Funds 3370100000 and 5370900000 referred to above present fairly, in all material respects, the financial position of Funds 3370100000 and 5370900000 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 Matter***

As discussed in Note 1, the financial statements of Funds 337100000 and 5370900000 of the Department present only the financial position and changes in financial position of that portion of the governmental activities of the Department and of the State of Mississippi that is attributable to the transactions of Funds 3370100000 and 5370900000. They do not purport to, and do not, present fairly the financial position of the Department or the State of Mississippi as of June 30, 2018, or the changes in the financial position of each entity for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

***Other Matter - Required Supplementary Information***

Management has omitted Management's Discussion and Analysis and the Budgetary Comparison Schedules 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 opinion on the financial statements is 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 November 8, 2018, on our consideration of the Department's internal control over financial reporting and on 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 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 the Department's internal control over financial reporting and compliance.

*Harper, Raina, Knight & Company, P.A.*

November 8, 2018

MISSISSIPPI MILITARY DEPARTMENT

BALANCE SHEETS

June 30, 2018

ASSETS		
	FUND <u>3370100000</u>	FUND <u>5370900000</u>
Current assets		
Equity in state treasury funds	\$ 2,879,268	\$ -
Due from federal government	-	22,145,088
Receivables	149,428	35,334
Inventory	<u>-</u>	<u>1,498,457</u>
Total assets	<u>\$ 3,028,696</u>	<u>\$ 23,678,879</u>
LIABILITIES AND FUND BALANCE		
Current liabilities		
Equity in state treasury funds overdraft	\$ -	\$ 16,971,207
Accounts payable and other liabilities	75,041	6,622,614
Due to other governments	6,693	32,769
Due to other funds	<u>864</u>	<u>1,901</u>
Total liabilities	<u>82,598</u>	<u>23,628,491</u>
Fund balance		
Unassigned (deficit)	-	(1,448,069)
Nonspendable inventory	-	1,498,457
Restricted for:		
Law justice public safety	<u>2,946,098</u>	<u>-</u>
Total fund balance	<u>2,946,098</u>	<u>50,388</u>
Total liabilities and fund balance	<u>\$ 3,028,696</u>	<u>\$ 23,678,879</u>

The Notes to Financial Statements are an integral part of these Financial Statements.

MISSISSIPPI MILITARY DEPARTMENT

STATEMENTS OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES

For the year ended June 30, 2018

	FUND <u>3370100000</u>	FUND <u>5370900000</u>
Operating revenues:		
Federal government	\$ -	\$ 100,335,129
Other income	<u>183,385</u>	<u>13,880</u>
Total revenues	<u>183,385</u>	<u>100,349,009</u>
Operating expenditures:		
Salaries	494,595	36,864,754
Travel	5,782	386,097
Contractuals	1,558,466	26,936,389
Commodities	240,021	4,989,587
Capital outlay	-	31,870,330
Subsidies	<u>-</u>	<u>4,973</u>
Total expenditures	<u>2,298,864</u>	<u>101,052,130</u>
Excess of expenditures over revenues	(2,115,479)	(703,121)
Other financing sources (uses):		
Transfers in	2,324,205	-
Transfers out	<u>-</u>	<u>(14,475)</u>
Net other financing sources (uses)	<u>2,324,205</u>	<u>(14,475)</u>
Excess (deficit) of revenues and other financing sources over expenditures	208,726	(717,596)
Fund balance, beginning of year	<u>2,737,372</u>	<u>767,984</u>
Fund balance, end of year	<u>\$ 2,946,098</u>	<u>\$ 50,388</u>

The Notes to Financial Statements are an integral part of these Financial Statements.



## MISSISSIPPI MILITARY DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018

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#### NOTE 1 • SIGNIFICANT ACCOUNTING POLICIES

##### Background Information

The Mississippi Military Department ("the Department") is a state agency whose main function is to provide trained military units and individuals to the Army and Air Force of the United States in time of war or national emergency. The Department also provides sufficient organization within the state, so that trained and equipped forces can function efficiently at existing strength in the protection of life and property and the preservation of peace, order, and public safety under competent orders of the state authorities.

##### Purpose of Funds 3370100000 and 5370900000

Funds 3370100000 and 5370900000 are related to National Guard military operations and maintenance projects, and special military operations and projects. The National Guard Bureau enters into cooperative agreements for Army National Guard Facilities Programs and Air National Guard Facility Operations & Maintenance Activities with the States to provide Federal support for services provided by the State Military Departments for authorized facilities for leases, facilities operations, and sustainment, restoration, and modernization, including operations and maintenance and minor construction costs.

##### Basis of Presentation

The accompanying program specific financial statements have been prepared in conformity with Generally Accepted Accounting Principles ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"). General fund types are used for Funds 3370100000 and 5370900000. These fund types are 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 account is utilized. Under this method, revenues are recognized when they become measurable and available, and expenditures are generally recognized when they are incurred, except for accumulated sick and vacation pay, which are recorded when paid.

##### Use of Estimates

The Department's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing its financial statements, the Department is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the balance sheets and the reported amounts of revenues and expenditures for the years then ended. Actual results could differ significantly from those estimates.

## MISSISSIPPI MILITARY DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018

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#### NOTE 1 • SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Fund Accounting

The financial activities of the Army National Guard and Air National Guard funds are recorded in individual funds and account groups used to report financial position and results of operations. 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. The Department funds presented herein utilize the governmental fund category, which is further divided into separate "funds types." General funds are used to account for the proceeds of revenue sources that are not legally restricted to expenditures for specified purposes.

##### Receivables

Receivables are reported net of allowances for uncollectible accounts, where applicable. At June 30, 2018, there were no allowances deemed necessary for Funds 3370100000 or 5370900000. At June 30, 2018 receivables for Fund 5370900000 consisted of \$22,145,088 due from the federal government and \$35,334 due from the Mississippi Department of Education. At June 30, 2018 receivables for fund 3370100000 consisted of \$149,428 due from Florida Department of Emergency Management.

##### Inventory

Inventory is stated using the average cost basis of accounting.

##### Fund Balance

The Funds presents defined fund balance categories to demonstrate the nature and extent of the constraint placed on the selected fund's fund balances. The classifications used in the selected governmental funds financial statements are based on the following methodology:

Unassigned – The residual classification for the general fund and 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 amount had been restricted, committed or assigned.

Nonspendable – This classification includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. Inventories are not in spendable form and are thus reflected as nonspendable fund balance.

## MISSISSIPPI MILITARY DEPARTMENT

### NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018

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#### NOTE 1 • SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Fund Balance (continued)

Restricted – This classification includes amounts that may only be spent for 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. The remaining fund balances are restricted for military operations and the fund's cooperative agreements with the U.S. Department of Defense.

Committed – This classification includes amounts that can be used only for the specific purposes determined by enabling legislations by the State legislature.

The Funds consider restricted amounts to have been spent when the expenditure is incurred for purposes determined for which both restricted and unrestricted fund balances are available.

##### Revenue Recognition

Grant revenue is recognized when the related liability for expenditures allowable under the grant is paid. Other revenues in the Fund are generally recognized when amounts become due to the funds.

##### Risk Management

The Department is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; error and omissions; and natural disasters. The State of Mississippi has elected to finance most exposures to risk through the retention of risk. The State utilizes the internal services Risk Management Fund to account for these activities.

##### Subsequent Events

Subsequent events were evaluated for the Department through November 8, 2018, which is the date the financial statements were available to be issued.

#### NOTE 2 • EQUITY IN STATE TREASURY FUNDS

Equity in State Treasury funds consists of pooled cash held by the Treasurer of the State of Mississippi. The collateral for public entities' deposits in financial institutions are held 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 covered by the Federal Deposit Insurance Corporation.

# MISSISSIPPI MILITARY DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018

### NOTE 3 • TRANSFERS BETWEEN FUNDS AND FROM OTHER STATE AGENCIES

Transfers to and from other Department funds and other state agencies to Funds 3370100000 and 5370900000 are detailed in the chart below. Due to other funds and other state agencies consisted of the following:

	FUND	FUND
<u>June 30, 2018</u>	<u>3370100000</u>	<u>5370900000</u>
DFA Office of Insurance	\$ -	\$ 722
Public Service Commission	234	234
Department of Environmental Quality	-	200
Department of Health	630	745
	<u>\$ 864</u>	<u>\$ 1,901</u>

Transfers between other funds and other State agency funds are as follows:

	FUND	FUND
<u>Year ended June 30, 2018</u>	<u>3370100000</u>	<u>5370900000</u>
Transfers in from:		
2270100000 - National Guard Support Fund	\$ 2,183,370	\$ -
2270500000 - Armed Forces Museum Fund	43,221	-
2270800000 - State Educational Assistance Program	97,614	-
Total Transfers in	<u>\$ 2,324,205</u>	<u>\$ -</u>
Transfers out to:		
Department of Environmental Quality	\$ -	\$ 1,000
Department of Insurance	-	13,475
Total Transfers out to:	<u>\$ -</u>	<u>\$ 14,475</u>

### NOTE 4 • RETIREMENT PLAN

The Department contributes to 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 Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information.

That information may be obtained by writing to Public Employees' Retirement System, PERS building, 429 Mississippi Street, Jackson, Mississippi 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

MISSISSIPPI MILITARY DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2018

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NOTE 4 • RETIREMENT PLAN (continued)

PERS members are required to contribute 9.00% of their annual covered salary and the Department is required to contribute at an actuarially determined rate. The current rate is 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.



Major General Janson D. Boyles  
The Adjutant General of Mississippi  
Mississippi Military Department  
Jackson, Mississippi

Independent Auditors' Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with *Government Auditing Standards*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Funds 3370100000 and 5370900000 (the "Funds") of the Mississippi Military Department (the "Department"), which comprise the balance sheets as of June 30, 2018, and the related statements of revenues, expenditures and changes in fund balances as of and for the year ended June 30, 2018, and the related notes to financial statements and have issued our report thereon dated November 8, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Funds' 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 the Funds' internal control. Accordingly, we do not express an opinion on the effectiveness of the Funds' 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 the Funds' 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.

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### **Internal Control Over Financial Reporting (continued)**

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. We did identify the following deficiency in internal control (finding 2018-1) that we consider to be a material weakness.

Criteria. Management should have internal control procedures in place to ensure that payroll transactions recorded in each Fund are completed timely.

Condition. Certain payroll expenses and related liability amounts were recorded in the wrong fund.

Cause. Payroll systems used by the Mississippi Military Department will not split payroll expenses between funds. This results in some of the payroll expenses being paid from one fund, and a portion of these expenses must then be reclassified into another fund. An entry was made at year end to reclassify the payroll transactions and balances between funds. Management failed to make the entry prior to the Mississippi Department Finance and Administration's closing deadlines.

Effect. This resulted in \$2,054,543 of payroll expenses being incorrectly recorded in Fund 5370900000 and \$478,806 of payroll expenses not being reported in Fund 3370100000. In addition, payroll liabilities were over reported in Fund 5370900000 by \$203,990 and under reported in Fund 3370100000 by \$6,933.

Recommendation. Management should institute a process to reclassify the payroll expenses and balances between funds on a more regular basis. This will ensure that management reports are more accurate throughout the fiscal year, establish familiar routines for dealing with end of year reclassification requirements, and lessen the materiality of any timeliness issues that may occur in the future if end of year deadlines are not met.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements of Funds 3370100000 and 5370900000 are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Major General Janson D. Boyles  
Mississippi Military Department (continued)

**Purpose of this Report**

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

*Harper, Rainie, Knight & Company, P.A.*

November 8, 2018





# FINANCIAL REPORT

MISSISSIPPI MILITARY DEPARTMENT

JACKSON, MISSISSIPPI

JUNE 30, 2018

Presented by: Harper, Rains, Knight & Company, P.A.  
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Major General Janson D. Boyles  
The Adjutant General of Mississippi  
Mississippi Military Department  
Jackson, Mississippi

### Independent Auditors' Report

#### **Report on the Schedule of Expenditures of Federal Awards**

We have audited the accompanying Schedule of Expenditures of Federal Awards for the National Guard Military Operations and Maintenance Projects of the Mississippi Military Department (the "Department"), for the year ended June 30, 2018, and the related notes (the financial statement).

#### **Management's Responsibility for the Schedule of Expenditures of Federal Awards Programs Selected for Audit**

Mississippi Military Department's management is responsible for the preparation and fair presentation of this financial statement 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 a financial statement that is free from material misstatement, whether due to fraud or error.

#### **Auditors' Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit 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; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Department's preparation and fair presentation of the financial statement 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 Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting

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Major General Janson D. Boyles  
Mississippi Military Department (continued)

**Auditors' Responsibility (continued)**

policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

**Opinion**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the expenditures of federal awards for the National Guard Military Operations and Maintenance Projects of the Mississippi Military Department for the year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2018 on our consideration of the Department'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 solely 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 the Department's internal control over financial reporting and compliance.

*Harper, Raines, Knight & Company, P.A.*

December 20, 2018



Major General Janson D. Boyles  
The Adjutant General of Mississippi  
Mississippi Military Department  
Jackson, Mississippi

Independent Auditors' Report on Compliance for Each Major Federal Program and Report  
on Internal Control Over Compliance Required by The Uniform Guidance

**Report on Compliance for Each Major Federal Program**

We have audited the Mississippi Military Department's (the "Department") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Department's major federal program selected by the Office of the State Auditor for the year ended June 30, 2018. The Department's major federal programs, as selected by the Office of the State Auditors, are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Department's major federal programs selected by the Office of the State Auditor based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Department's major federal programs selected by the Office of the State Auditor. However, our audit does not provide a legal determination of the Department's compliance.

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Major General Janson D. Boyles  
Mississippi Military Department (continued)

### **Opinion on Each Major Federal Program**

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major program selected for audit for the year ended June 30, 2018.

### **Report on Internal Control over Compliance**

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that a material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Major General Janson D. Boyles  
Mississippi Military Department (continued)

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Hopper, Rams, Knight & Company, P.A.*

December 20, 2018

MISSISSIPPI MILITARY DEPARTMENT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR FEDERAL PROGRAMS SELECTED BY THE OFFICE OF THE STATE AUDITOR  
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
National Guard Military OM		
National Guard Military Operations and Maintenance Projects	12.401	\$ 67,031,954
Total expenditures of federal awards		\$ 67,031,954

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards for Federal Programs Selected by the Office of State Auditor includes the federal grant activity for federal programs reported in the schedule. These programs were selected for audit by the Office of the State Auditor and do not represent all the federal expenditures of the Department. The Schedule is presented on an accrual basis of accounting in accordance with *Accounting Principles Generally Accepted in the United States*.

The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Department.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Federal program selected for audit does not allow reimbursement for indirect costs.



MISSISSIPPI MILITARY DEPARTMENT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2018

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SECTION I: SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on whether the financial statements of Mississippi Military Department (the "Department") were prepared in accordance with GAAP.
2. One material weakness was identified during the audit of the financial statements. No significant deficiencies were reported.
3. No instances of non-compliance material to the financial statements of the Department were identified during the audit.
4. No material weaknesses were identified during the audit of the major federal award program.
5. The auditors' report on compliance for the major federal award program for the Department expresses an unmodified opinion.
6. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) are reported in this Schedule.
7. The program tested as a major program was National Guard Military Operations and Maintenance Projects (CFDA #12.401).
8. The threshold used for distinguishing between Type A and B programs was \$3,000,000.
9. The Department was determined to be a high-risk auditee.

SECTION II: FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 2018-1: Material Weakness in Internal Control over Financial Reporting

*Criteria:* Management should have internal control procedures in place to ensure that payroll transactions recorded in each Fund are completed timely.

*Condition:* Certain payroll expenses and related liability amounts were recorded in the wrong fund.

*Cause:* Payroll systems used by the Mississippi Military Department will not split payroll expenses between funds. This results in some of the payroll expenses being paid from one fund and a portion of these expenses must then be reclassified into another fund. An entry was made at year end to reclassify the payroll transactions and balances between

MISSISSIPPI MILITARY DEPARTMENT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2018

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SECTION II: FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

funds. Management failed to make the entry prior to the Mississippi Department Finance and Administration's closing deadlines.

*Effect:* This resulted in \$2,054,543 of payroll expenses being incorrectly recorded in Fund 5370900000. In addition, payroll liabilities were over reported in Fund 5370900000 by \$203,990.

*Recommendation:* Management should institute a process to reclassify the payroll expenses and balances between funds on a more regular basis. This will ensure that management reports are more accurate throughout the fiscal year, establish familiar routines for dealing with end of year reclassification requirements, and lessen the materiality of any timeliness issues that may occur in the future if end of year deadlines are not met.

SECTION III: FEDERAL AWARDS FINDINGS

None

MISSISSIPPI MILITARY DEPARTMENT

CORRECTIVE ACTION PLANS  
YEAR ENDED JUNE 30, 2018

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*Views of the Responsible Officials and Planned Corrective Action:* The Department has implemented and adheres to established internal control policies to reclassify payroll expenses on a more regular basis.



November 8, 2018

General Robert Thomas, Director of State Resources  
Mississippi Military Department  
Jackson, Mississippi

We have audited the financial statements of Funds 3370100000 and 5370900000 of the Mississippi Military Department (the "Department") as of and for the year ended June 30, 2018, and have issued our report thereon dated November 8, 2018. Professional standards require that we advise you of the following matters relating to our audit.

### **Our Responsibilities in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated August 20, 2018, our responsibility as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Department solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding a material weakness in internal control over financial reporting noted during our audit in a separate letter to you dated November 8, 2018.

### **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

**Certified Public Accountants • Consultants • [hrkcpa.com](http://hrkcpa.com)**

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Mississippi Military Department  
Jackson, Mississippi

## **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

## **Qualitative Aspects of the Trust's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Department is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2018. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgements.

The most sensitive accounting estimates affecting the financial statements is the allowance for estimated uncollectible amounts.

Management' estimate of no allowance for uncollectible receivables for amounts due from the federal government is based on a history of no uncollectible amounts from the Federal government. We evaluated the key factors and assumptions used to develop the allowance for estimated uncollectible amounts and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgement and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Department's financial statements relate to transfers to or from other funds of the State of Mississippi.

Mississippi Military Department  
Jackson, Mississippi

### **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. The attached schedule summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The material misstatements identified in the accompanying schedules were identified as the result of our audit procedures and were brought to the attention of and corrected by management.

### **Disagreements with Management**

For the purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Department's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

### **Representations Requested from Management**

We have requested certain written representations from management, which are included in the attached letter dated November 8, 2018.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Mississippi Military Department  
Jackson, Mississippi

### **Other Significant Matters, Findings or Issues**

In the normal course of our professional association with the Department, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the Department, and operational plans and strategies that may affect the risk of material misstatement. None of the matters discussed resulted in a condition to our retention as the Department's auditors.

### **Closing**

This report is intended solely for the information and use of the Mississippi Military Department and management of the Department and is not intended to be, and should not be, used by anyone other than these specified parties.

*Harper, Rainie, Knight & Company, P.A.*

November 8, 2018

Mississippi Military Department  
Jackson, Mississippi

**Mississippi Military Department**  
**Fund 537090000**  
**Summary of Uncorrected Misstatements**  
**June 30, 2018**

Description	Effect - Debit (Credit)				
	Assets	Liabilities	Net Assets	Revenue	Expenses
To adjust inventory to year-end inventory observation balance	\$ 20,318	\$ -	\$ -	\$ -	\$ (20,318)
To adjust allocation of youth challenge program	98,514	-	-	(98,514)	-
Impact of adjustments on fund balance			(118,832)	\$ (98,514)	\$ (20,318)
Net effect	<u>\$ 118,832</u>	<u>\$ -</u>	<u>\$ (118,832)</u>		
Total	<u>\$ 6,707,674</u>	<u>\$ (6,657,285)</u>	<u>\$ (767,984)</u>	<u>\$ (100,349,009)</u>	<u>\$ 101,066,604</u>
Percentage misstatement	1.77%	0.00%	15.47%	0.00%	0.00%



Mississippi Military Department  
Jackson, Mississippi

**Mississippi Military Department**  
**Fund 337010000**  
**Summary of Uncorrected Misstatements**  
**June 30, 2018**

<b>Description</b>	<b>Effect - Debit (Credit)</b>				
	<b>Assets</b>	<b>Liabilities</b>	<b>Net Assets</b>	<b>Revenue</b>	<b>Expenses</b>
To adjust accounts payable to actual	-	(4,200)	-	-	4,200
Impact of adjustments on fund balance			4,200	\$ -	\$ 4,200
Net effect	\$ -	\$ (4,200)	\$ 4,200		
Total	\$ 3,028,696	\$ (82,597)	\$ (2,946,098)	\$ (2,507,590)	\$ 2,298,864
Percentage misstatement	-	5.08%	0.15%	-	16.57%

Mississippi Military Department  
Jackson, Mississippi

**Mississippi Military Department  
Fund 537090000  
Summary of Corrected Misstatements  
June 30, 2018**

<b>Description</b>	<b>Effect - Debit (Credit)</b>				
	<b>Assets</b>	<b>Liabilities</b>	<b>Net Assets</b>	<b>Revenue</b>	<b>Expenses</b>
To correct payroll and related liabilities of other funds record in	\$ 2,054,543	\$ 203,990	\$ -	\$ -	\$ (2,258,533)
Impact of adjustments on fund balance			(2,258,533)	\$ -	\$ (2,258,533)
Net effect	<u>\$ 2,054,543</u>	<u>\$ 203,990</u>	<u>\$ (2,258,533)</u>		
Total	<u>\$ 23,678,879</u>	<u>\$ (23,628,491)</u>	<u>\$ (50,388)</u>	<u>\$ (100,349,009)</u>	<u>\$ 101,052,130</u>
Percentage misstatement	<u>8.68%</u>	<u>-0.86%</u>	<u>4482.28%</u>	<u>0.00%</u>	<u>-2.24%</u>

Mississippi Military Department  
Jackson, Mississippi

**Mississippi Military Department**  
**Fund 337010000**  
**Summary of Corrected Misstatements**  
**June 30, 2018**

Description	Effect - Debit (Credit)				
	Assets	Liabilities	Net Assets	Revenue	Expenses
To correct payroll and related liabilities of other funds record in Fund 53709	\$ (478,806)	\$ (6,933)	\$ -	\$ -	\$ 485,739
Record reimbursement due from another state	149,428	-	-	(149,428)	-
Impact of adjustments on fund balance			336,311	\$ (149,428)	\$ 485,739
Net effect	<u>\$ (329,378)</u>	<u>\$ (6,933)</u>	<u>\$ 336,311</u>		
Total	<u>\$ 3,028,696</u>	<u>\$ (82,597)</u>	<u>\$ (2,946,098)</u>	<u>\$ (2,507,590)</u>	<u>\$ 2,298,864</u>
Percentage misstatement	<u>-10.88%</u>	<u>8.39%</u>	<u>-11.42%</u>	<u>5.96%</u>	<u>21.13%</u>



STATE OF MISSISSIPPI  
MILITARY DEPARTMENT

THE ADJUTANT GENERAL'S OFFICE  
POST OFFICE BOX 5027  
JACKSON, MISSISSIPPI 39296-5027



November 8, 2018

Harper, Rains, Knight, & Company,  
P.A. 1052 Highland Colony Parkway,  
Suite 100 Ridgeland, MS 39157

This representation letter is provided in connection with your audit of the financial statements of Funds 3370100000 and 5370900000 of the Mississippi Military Department (the "Department") as of and for the year ended June 30, 2018, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of the Department in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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 the 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 that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the above date:

**Financial Statements**

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 20, 2018, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
- 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes.
- We have a process to track the status of audit findings and recommendations.

- We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
- All funds and activities are properly classified.
- All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
- All components of net position, nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
- Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
- All revenues within the statement of revenues, expenditures, and changes in fund balances have been properly classified.
- All expenditures have been properly classified in statements of revenues, expenditures and changes in fund balances.
- All interfund and intra-entity transactions and balances have been properly classified and reported.
- Special items and extraordinary items have been properly classified and reported.
- Deposit and investment risks have been properly and fully disclosed.
- Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
- All required supplementary information is measured and presented within the prescribed guidelines.

### Information Provided

- We have provided you with:
  - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
- We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation, claims, or assessments.
- We have disclosed to you the identity of the Department's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- The Department has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which the Department is contingently liable.
- We have disclosed to you all nonexchange financial guarantees, under which we are obligated and have declared liabilities and disclosed properly in accordance with GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, for those guarantees where it is more likely than not that the entity will make a payment on any guarantee.
- For nonexchange financial guarantees where we have declared liabilities, the amount of the liability recognized is the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. Where there was no best estimate but a range of estimated future outflows has been established, we have recognized the minimum amount within the range.
- We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in*

Harper, Rain, Knight & Company  
November 8, 2018

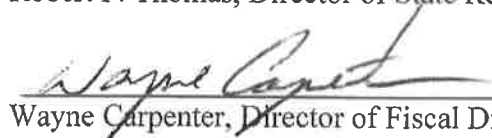
*Pre-November 30, 1989 FASB and AICPA Pronouncements.* Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no:
  - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
  - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62
- Continuing disclosure consent decree agreements or filings with the securities and exchange commission and we have filed updates on a timely basis in accordance with the agreements (Rule 240, 15c2-12). The Department has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.



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Robert F. Thomas, Director of State Resources



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Wayne Carpenter, Director of Fiscal Division