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Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)

Independent Auditor's Reports and Financial Statements

June 30, 2019

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)

June 30, 2019

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Independent Auditor's Report

Local Governments and Rural Water Systems Improvements Board
Drinking Water Systems Improvements Revolving Loan Fund,
as administered by the Mississippi State Department of Health,
an agency of the State of Mississippi
Jackson, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the Drinking Water Systems Improvements Revolving Loan Fund (the Fund), as administered by the Mississippi State Department of Health, an agency of the State of Mississippi, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

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 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2019, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1*, the financial statements referred to above are intended to present only the financial position and the changes in financial position of the Drinking Water Systems Improvements Revolving Loan Fund, as administered by the Mississippi State Department of Health, an agency of the State of Mississippi. These statements are not intended, and do not purport, to present the financial position and the changes in financial position of the State of Mississippi or the Mississippi State Department of Health. 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 basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic 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 December 18, 2019, on our consideration of the Fund'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 effectiveness of the Fund's 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 Fund's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
December 18, 2019

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)
Statement of Financial Position
June 30, 2019

Assets

Equity in internal investment pool	\$ 96,664,355
Receivables	
Loans receivable	70,046,688
Due from other governments	102,344,727
Due from federal government	10,478,420
Due from other funds	<u>54,602</u>
 Total assets	 <u><u>\$ 279,588,792</u></u>

Liabilities and Fund Balance

Liabilities

Warrants payable	\$ 33,172
Accounts payable	1,020,230
Due to other governments	2,826,954
Unearned revenue	<u>519,064</u>
 Total liabilities	 <u>4,399,420</u>

Fund Balance

Restricted for health and social service	<u>275,189,372</u>
 Total liabilities and fund balance	 <u><u>\$ 279,588,792</u></u>

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2019

Revenues

Interest on loans	\$ 1,863,568
Interest on investments	1,758,027
Loan administration fee	1,168,780
Federal program grants	<u>15,611,990</u>
Total revenues	<u>20,402,365</u>

Expenditures

Administrative expenses	919,120
Principal forgiveness	<u>-</u>
Total expenditures	<u>919,120</u>

Excess of Revenues Over Expenditures	<u>19,483,245</u>
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Other Financing Sources (Uses)

Transfers in, net	<u>2,698,568</u>
Total other financing uses	<u>2,698,568</u>

Net Change in Fund Balance	22,181,813
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Fund Balance, Beginning of Year	<u>253,007,559</u>
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Fund Balance, End of Year	<u><u>\$ 275,189,372</u></u>
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Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)

Notes to Financial Statements

June 30, 2019

Note 1: Background Information and Summary of Significant Accounting Policies

Background Information

The State of Mississippi (State) Legislature established the Drinking Water Systems Improvements Revolving Loan Fund (Fund) pursuant to the federal Safe Drinking Water Act Amendments of 1996. The Act created the revolving loan fund program to provide low interest rate loans to counties, municipalities, districts and other tax-exempt water systems organizations for construction of new water systems, the expansion or repair of existing water systems and/or the consolidation of new or existing water systems. The State law further provides that any such federal funds shall be used and expended only in accordance with federal laws, rules and regulations governing the expenditure of such funds. The State law created the Local Governments and Rural Water Systems Improvements Board (Board) to implement the loan program and otherwise administer provisions of the law.

Loans are awarded on a priority system, which gives maximum priority to projects needed to comply with the federal Safe Drinking Water Act (SDWA), projects that provide the greatest protection to public health and those projects which assist systems most in need on a per household basis. Interest rates charged on loans will be at or below market interest rates as determined by the Board, with up to 20 years allowed for repayment.

Federal funds are provided through federal capitalization grants pursuant to Section 1452 of the SDWA Amendments of 1996. The amount of each grant is determined by the State's allocated share of the U.S. Environmental Protection Agency (EPA) annual federal appropriation for the program. The award of each grant is conditioned on the State depositing an amount into the Fund equaling 20% of the amount of each federal capitalization grant. The State Legislature authorized the issuance of the State general obligation bonds to provide State funds for the program. \$29,843,000 of the proceeds from the sale of these bonds has been deposited into the Fund. During the year ended June 30, 2018, the State authorized \$3,000,000 in bonds which were issued during the year ended June 30, 2019, bringing the total of State funds available for match to \$32,843,000. These funds are invested by the State Treasurer until such time that the funds are needed to meet State matching requirements on loan payments. The Fund also receives direct appropriations from the State Legislature and amounts from other funds authorized by the Board. As of June 30, 2019, the EPA had awarded \$204,319,866 in capitalization grants to the State, requiring a minimum of \$40,863,973 in State matching funds.

In 2009, the Fund also received \$19,500,000 of American Recovery and Reinvestment Act (ARRA) funds; however, these funds were not subject to State matching funds.

The Fund is administered by the Mississippi State Department of Health (MSDH) under the direction of the Board. MSDH's primary activities include loans for drinking water systems and management and coordination of the Fund. The Board consists of the following nine voting members: the State Health Officer; the Executive Directors of the Mississippi Development

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
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Notes to Financial Statements

June 30, 2019

Authority, the Department of Environmental Quality, the Department of Finance and Administration, the Mississippi Association of Supervisors, the Mississippi Municipal League, and the American Council of Engineering Companies of Mississippi; the State Director of the United States Department of Agriculture, Rural Development; and a manager of a rural water system. The manager of a rural water system is appointed by the Governor from a list of candidates provided by the Executive Director of the Mississippi Rural Water Association. Nonappointed members of the Board may designate another representative of their agency or association to serve as an alternate. The gubernatorial appointee serves a term concurrent with the Governor and until a successor is appointed.

The Fund does not have any full-time employees. MSDH provides employees to manage the program.

The Fund represents Funds 5331500000, 6330300000, 6331B00000 and 6331C00000 selected for audit by the State of Mississippi, Office of the State Auditor, and the accompanying statements are not intended, and do not purport, to present the financial position and results of operations for the State of Mississippi or MSDH.

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).

Basis of Accounting/Measurement Focus

The Fund presents its financial statements as a governmental fund and uses the modified accrual basis of accounting. Revenues are recognized when they are both “measurable and available.” Measurable means the amount can be determined. Available means amounts collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when the related liability is incurred. The Fund applies all relevant GASB pronouncements.

The Fund first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

Budget Information

Under the Constitution of the State of Mississippi, money may only be drawn from the Treasury by a legal appropriation. The Fund operations are included in MSDH’s annual budget.

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

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)

Notes to Financial Statements

June 30, 2019

of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Loans Receivable and Due From Other Governments

The Fund operates as a direct loan program, whereby loans made to drinking water systems are approximately 80% funded by the federal capitalization grant and 20% by the State matching amount. Loan funds are disbursed to the loan recipients upon receipt of a request from the loan recipient for the purposes of the loan. Interest is calculated from the initial contract completion date. After the final disbursement has been made, the payment schedule identified in the loan agreement is adjusted for the actual amounts disbursed, plus interest accrued from initial contract completion date to initiation of repayment process, less principal forgiveness granted on the loan.

Loans receivable represents amounts due from water associations. Due from other governments represents amounts due from cities and counties.

Interfund Receivables/Payables

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

Fund Balance – Governmental Funds

Although governmental funds can contain five classifications, all of the fund balance of the Fund are restricted. The fund balance for the Fund’s governmental funds are displayed as applicable in five components. Restricted funds are 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.

Risk Management

The Fund is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; and natural disasters. MSDH maintains insurance for some risks of loss. Risks of loss related to torts are administered by the Mississippi Tort Claims Board. Since its inception in 1996, there have not been any claims against the Fund.

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
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Notes to Financial Statements

June 30, 2019

Note 2: Equity in Internal Investment Pool

All monies of the Fund are deposited with the State Treasury and are considered to be cash and cash equivalents. The Treasurer is responsible for maintaining the cash balances in accordance with state laws, and excess cash is invested in the State's cash and short-term investment pool. Details of the investments of the internal investment pool for state agencies can be obtained from the State Treasurer. As of June 30, 2019, the State's total pooled deposits and investments for State agencies were approximately \$4.108 billion, and the average remaining life of the securities invested was 1.16 years. The earnings for the total pooled investments for the year ended June 30, 2019 were approximately \$23.1 million.

Equity in internal investment pool is cash equity with the Treasurer and consists of pooled deposits and investments carried at cost, which approximates fair value. At June 30, 2019, the Fund had approximately \$97 million in the Treasurer's internal investment pool. The total deposits and investments of the internal investment pool are categorized according to credit risk in the State of Mississippi's Comprehensive Annual Financial Report. However, the Fund's portion of the internal investment pool cannot be individually categorized because the deposits and investments are pooled with other State agencies.

Custodial risk is the risk that in the event of bank failure, a government's deposits may not be returned. The Fund's deposit policy for protection of custodial risk is handled under a statewide 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 State of Mississippi 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 (FDIC).

Note 3: Loans Receivable and Due from Other Governments and Credit Risk

The Fund makes loans to qualified drinking water systems for projects that meet the eligibility requirements of the SDWA. Loans are financed by capitalization grants, ARRA grants, State match and revolving funds. Interest rates on loans vary between 1.95% to 4.5% and are generally repaid over 20 years, starting as specified in the loan agreement; the beginning date is normally at the end of the project construction, which is usually a one-year time period. Details of loans receivable as of June 30, 2019, are described below.

In the event of a default on a loan obligation by a public entity, MSDH has certain legal remedies that are intended to provide for ultimate collection of amounts due. Based on past history, management believes that no allowance for doubtful accounts is necessary.

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)

Notes to Financial Statements

June 30, 2019

Loans by Category

Loans receivable (including amounts due from other governments) at June 30, 2019, are as follows:

Description	Loans Authorized	Authorized Amount Remaining	Loan Balance
Completed projects	\$ 252,049,793	\$ -	\$ 143,933,487
Projects in progress	<u>76,002,040</u>	<u>47,544,112</u>	<u>28,457,928</u>
Totals	<u>\$ 328,051,833</u>	<u>\$ 47,544,112</u>	172,391,415
Less amount due within one year on completed projects			<u>(12,634,627)</u>
Loans receivable and due from other governments, long-term			<u>\$ 159,756,788</u>

Loan Administrative Fees

The Fund collects administrative fees from each loan recipient at 5% of the initial loan amount. Beginning July 1, 2009, the Fund collects administrative fees from the interest portion of loan repayments. Interest payments from each loan recipient are reclassified to administrative fee income until the entire administrative fee for that loan has been collected. Loan administrative fee revenue of \$1,168,780 was collected in 2019.

Major Loans to Drinking Water Systems

As of June 30, 2019, the Fund had made loans to 53 drinking water systems that, in the aggregate, exceeded \$1,500,000, net of principal forgiveness. The outstanding balances of these loans represent approximately 78% of the total loans receivable, as follows:

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)

Notes to Financial Statements

June 30, 2019

Local Agency	Authorized Loan Amount	Outstanding Balance
Adams County Water Association	\$ 2,844,725	\$ 846,554
Bear Creek Water Association	16,122,439	3,169,745
Burnsville	4,890,000	-
Center Water	1,905,594	1,664,672
Central Yazoo	1,663,587	1,581,865
City of Baldwin	1,610,110	1,281,891
City of Brandon	6,203,669	966,140
City of Brookhaven	2,500,000	2,394,143
City of Clinton	4,552,211	2,906,614
City of Columbia	1,741,864	1,371,612
City of Fayette	5,730,285	941,317
City of Gautier	2,677,171	1,254,496
City of Hernando	2,177,042	658,132
City of Horn Lake	4,636,612	1,684,615
City of Jackson	10,861,920	2,407,151
City of Laurel	4,804,390	3,850,083
City of Long Beach	1,521,484	212,151
City of Madison	1,957,707	1,686,747
City of Meridan	1,636,300	465,088
City of Ocean Springs	5,497,240	2,665,843
City of Pearl	4,924,984	2,979,502
City of Port Gibson	2,389,835	2,175,633
City of Richland	3,688,913	2,624,427
City of Ridgeland	2,750,338	1,979,123
City of Southaven	11,270,753	4,953,345
City of Tupelo	10,629,045	8,857,479
City of West Point	1,536,148	416,400
City of Wiggins	3,034,863	1,179,835
Collinsville Water Association	1,530,000	476,983
Corinth Utilities Commission	47,034,278	31,813,864
Culkin Water District	8,037,597	6,826,028
Fannin Water Association	2,777,171	692,576
Fisher Ferry Water District	3,105,984	1,310,944
Greenfield Water Association	2,150,808	893,303
Greenwood Utilities	2,822,302	2,530,900
Harland Creek Community Water Association	1,676,437	442,414
Hilldale Water District	5,406,481	3,379,067
Jackson County Utility Authority	4,045,255	3,974,276
Lewisburg Water Association	1,948,907	643,282
North Pike	2,130,602	878,034
Northeast Mississippi Regional Water Supply District	2,677,553	428,804
Pleasant Hill Water Association	1,935,359	-
Progress Community Water Association	1,748,791	679,355
Southeast Rankin	1,838,909	734,030
Southwest Jones Water Association	1,871,292	1,149,476
Town of Caledonia	3,285,745	2,078,251
Town of Lampton	1,856,966	1,204,222
Town of Morton	2,188,373	982,997
Town of Sumner	1,664,857	237,883
Town of Taylorsville	1,599,785	1,385,812
Walls Water Association	3,775,222	1,404,042
West Jackson Utility District	12,870,006	10,227,690
Yazoo City	5,427,188	2,543,582
	<u>251,165,097</u>	<u>134,092,418</u>

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)

Notes to Financial Statements

June 30, 2019

<u>Local Agency</u>	<u>Authorized Loan Amount</u>	<u>Outstanding Balance</u>
Total major loans	\$ 251,165,097	\$ 134,092,418
Combined nonmajor loans	<u>76,886,736</u>	<u>38,298,997</u>
	<u>\$ 328,051,833</u>	<u>\$ 172,391,415</u>

Note 4: Grant Awards

The Fund is funded by capitalization grants from the EPA authorized by Section 1452 of the SDWA Amendments of 1996 and matching funds from the State. All federal funds drawn are recorded as grant awards from the EPA. As of June 30, 2019, the EPA has awarded capitalization grants of \$204,319,866 to the State, of which \$193,776,644 has been drawn for loans and administrative expenses. The State has provided matching funds of \$32,843,000 from nine general obligation bond issues by the State and additional funds from direct State appropriations. The proceeds from these bonds were deposited into the Fund for State matching. State appropriations, reallocation of set asides and earned interest are also sources of matching funds. The following summarizes the capitalization grants awarded, amounts drawn on each grant and balances available for future loans:

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)

Notes to Financial Statements

June 30, 2019

Year	Grant Amount	Draws		Through June 30, 2019	Available June 30, 2019
		Through June 30, 2018	2019 Draws		
1997	\$ 16,474,200	\$ 16,474,200	\$ -	\$ 16,474,200	\$ -
1998	8,271,700	8,271,700	-	8,271,700	-
1999	8,669,500	8,669,500	-	8,669,500	-
2000	9,010,100	9,010,100	-	9,010,100	-
2001	9,047,400	9,047,400	-	9,047,400	-
2002	8,052,500	8,052,500	-	8,052,500	-
2003	8,004,100	8,004,100	-	8,004,100	-
2004	8,303,100	8,303,100	-	8,303,100	-
2005	8,285,500	8,285,500	-	8,285,500	-
2006	8,229,300	8,229,300	-	8,229,300	-
2007	8,229,000	8,229,000	-	8,229,000	-
2008	8,146,000	8,146,000	-	8,146,000	-
2009	8,146,000	8,146,000	-	8,146,000	-
2010	14,125,000	14,125,000	-	14,125,000	-
2011	9,811,166	9,811,166	-	9,811,166	-
2012	9,341,000	9,341,000	-	9,341,000	-
2013	8,764,000	8,764,000	-	8,764,000	-
2014	9,159,000	9,119,455	-	9,119,455	39,545
2015	9,099,000	8,793,740	457,464	9,251,204	(152,204)
2016	8,607,000	1,853,230	5,419,784	7,273,014	1,333,986
2017	8,534,000	4,463,376	3,797,389	8,260,765	273,235
2018	11,957,000	-	962,640	962,640	10,994,360
	<u>\$ 206,265,566</u>	<u>\$ 183,139,367</u>	10,637,277	<u>\$ 193,776,644</u>	12,488,922
Net receivable, June 30, 2018			(4,984,643)		-
Net receivable, June 30, 2019			<u>9,959,356</u>		<u>(9,959,356)</u>
Grant revenues, modified accrual basis			<u>\$ 15,611,990</u>		
Amount available, modified accrual basis					<u>\$ 2,529,566</u>

Note 5: Significant Estimates and Concentrations

Certain significant estimates and current vulnerabilities due to certain concentrations of the Fund include the following:

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)

Notes to Financial Statements

June 30, 2019

Economic Dependency

The Program is economically dependent upon revenue from the EPA. During 2019, the Fund received approximately 77% of total revenue in the form of federal grants.

Program Set Asides

The Fund has four set aside funds. These set aside funds make up to 31% of the annual capitalization grant awarded each year. These funds are used to provide for reimbursement of expenses of the Fund. Through federal regulations, the EPA has allowed states to redirect and reserve set asides as needed to ensure proper management of funds. Although the set asides have expiration dates, management continues to redirect those funds and has not had exposure to any recall of funds in the past five years.

Principal Forgiveness Loans

The EPA requires the Fund to provide loan forgiveness to eligible borrowers. Management provides loan forgiveness in compliance with the EPA guidelines. There was no principal forgiveness for the year ended June 30, 2019.

Contingency

The Fund is capitalized by state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the Fund has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectability of any related receivable at June 30, 2019, may be impaired. In the opinion of management of the Fund, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such a contingency.

**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**

Independent Auditor's Report

Local Governments and Rural Water Systems Improvements Board
Drinking Water Systems Improvements Revolving Loan Fund,
as administered by the Mississippi State Department of Health,
an agency of the State of Mississippi
Jackson, 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 Drinking Water Systems Improvements Revolving Loan Fund (Fund), as administered by the Mississippi State Department of Health, an agency of the State of Mississippi, which are comprised of the statement of financial position as of June 30, 2019, and the related statement of revenues, expenditures and changes in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 18, 2019, which contained an *Emphasis of Matter* paragraph regarding the entity reflected in the financial statements and an *Other Matter* paragraph regarding the omission of management's discussion and analysis.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 the entity'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 a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-008 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from 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 audit, 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*.

Management's Response to Finding

Management's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit 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 the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Jackson, Mississippi
December 18, 2019

Drinking Water Systems Improvements Revolving Loan Fund
(As administered by the Mississippi State Department
of Health, an agency of the State of Mississippi)
Schedule of Findings and Responses
Year Ended June 30, 2019

Reference Number	Findings
2019-008	<p><i>Criteria or Specific Requirement</i> - Management is responsible for establishing and maintaining effective internal control over financial reporting, including the basic financial statements and related notes to the financial statements. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect material misstatements in financial reporting.</p> <p><i>Condition</i> - Drinking Water Systems Improvements Revolving Loan Fund (Fund) procedures for the proper cutoff of loan related receivable and payables incurred before year-end but paid either during or after the lapse period need to be established.</p> <p><i>Cause</i> - Although Fund internal control procedures in place at year-end include a process for the identification and recording of accruals, the process did not include a step to fully consider those items charged into general ledger account 67998000: Prior Year Expense during the subsequent fiscal year.</p> <p><i>Effect</i> - As a result, an audit adjustment was proposed and recorded related to the cutoff of these loan related receivables and payables.</p> <p><i>Recommendation</i> - We recommend management expand the year-end close process or the GAAP Packet preparation process over the cutoff of loan related receivables and payables to include an evaluation of those items charged to general ledger account 67998000: Prior Year Expense in the subsequent fiscal year.</p> <p><i>Views of Responsible Officials and Planned Corrective Actions</i> - Management concurs with the finding in that these items should have been accrued. However, the GAAP submission deadline was August 16, 2019, and the invoices were not submitted to the Department of Finance and Administration (Finance) in sufficient time to be included in the accrual entry. The invoices were submitted to Finance for processing either two days before the deadline or seven days after the deadline. In addition, after the lapse period ended (August 31), Finance would not allow us to process additional accrual entries since the treasury funds were being audited. The Fund will continue to evaluate the general ledger account in the year-end process and make adjustments as allowed.</p>



MISSISSIPPI STATE DEPARTMENT OF HEALTH

FINANCIAL AUDIT FINDINGS

December 5, 2019

Honorable Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P. O. Box 956
Jackson, MS 39205-0956

Dear Mr. White:

We have reviewed the audit finding below in reference to the Drinking Water Systems Improvements Revolving Loan Fund 2019 fiscal year audit. Listed below is our individual response and plan for corrective action:

Audit Finding:

2019-008 Management is responsible for establishing and maintaining effective internal control over financial reporting, including the basic financial statements and related notes to the financial statements.

Response: The agency concurs with this finding.

Corrective Action: The GAAP submission deadline was August 16, 2019 and the invoices were not submitted to Finance in sufficient time to be included in the accrual entry. The invoices were submitted to Finance for processing either two days before the deadline or seven days after the deadline. In addition, after the lapse period ended (August 31st), the Department of Finance and Administration would not allow us to process additional accrual entries since the Treasury funds were being audited. The agency will continue to evaluate the general ledger account in the year-end process and make adjustments as allowed.

Name of contact person responsible for corrective action: Sharon Dowdy

Anticipated completion date of corrective action: June 30, 2020

Should you have any questions regarding our response or corrective action plan, please feel free to contact Sharon Dowdy, 601-576-7359.

Sincerely,
DocuSigned by:

Thomas Dobbs

Thomas E. Dobbs III, M.D., M.P.H.
State Health Officer

570 East Woodrow Wilson • Post Office Box 1700 • Jackson, MS 39215-1700
601-576-8090 • 1-866-HLTHY4U • www.HealthyMS.com

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