



STATE OF MISSISSIPPI  
TREASURY DEPARTMENT

TATE REEVES  
STATE TREASURER

POST OFFICE BOX 138  
JACKSON, MISSISSIPPI 39205  
TELEPHONE (601) 359-3600

February 19, 2009

Honorable Stacey Pickering  
State Auditor  
State of Mississippi  
8<sup>th</sup> Floor, Woolfolk Building  
Jackson, Mississippi 39201

Dear Mr. Pickering:

We have reviewed the financial audit findings in reference to our fiscal year 2008 audit. Listed below are our responses and plan for corrective action:

AUDIT FINDING:	Controls Should be Strengthened over Collateral Sufficiency
Response:	We concur with this finding.
Corrective Action:	The employee responsible for entering in the daily and monthly balances for the Collateral spreadsheet inputs data from over one hundred banks at month end. Participating banks in the collateral program submit statements to the Treasury each month reporting their total and average balances. In addition, they are required to calculate FDIC insurance allocated to each individual tax ID depositor. Some statements, though, have errors whereby non-public funds have been included on the report. These errors are corrected and new balances are computed, along with the recalculation of FDIC insurance and collateral pledged. To ensure that this data has been entered correctly into the Collateral spreadsheet, the Director of Bonds and Collateral will review at month end.



STATE OF MISSISSIPPI  
TREASURY DEPARTMENT

TATE REEVES  
STATE TREASURER

POST OFFICE BOX 138  
JACKSON, MISSISSIPPI 39205  
TELEPHONE (601) 359-3600

**AUDIT FINDING:** Supervisory Review of Arbitrage Schedules Should Be Performed

**Response:** We concur with this finding.

**Corrective Action:** The employee responsible for preparing these schedules spends a considerable amount of time reviewing MERLIN reports and compiling the schedules before they are sent to the arbitrage attorney for calculation. In order to fully comply with the request as stated in the audit finding, a supervisor would be required to review the reports and trace all numbers back to supporting documentation to ensure they were properly prepared without error. A supervisor will perform a cursory review of the schedules and this review will be documented. However, the review will be limited in scope to a representative sample.

**AUDIT FINDING:** Investment Ratios Should be Maintained in Accordance with State Law

**Response:** We concur with the audit finding; however, we will point out that a major contributing factor to the violation was the steep decline in the CD inventory over the course of the fiscal year, which is beyond the control of Treasury staff. Efforts were made to purchase government-guaranteed securities to lower the Agency allocation, but the additional inventory could not offset the decline in CDs.



STATE OF MISSISSIPPI  
TREASURY DEPARTMENT

TATE REEVES  
STATE TREASURER

POST OFFICE BOX 138  
JACKSON, MISSISSIPPI 39205  
TELEPHONE (601) 359-3600

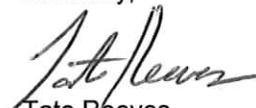
Corrective Action:

The actions taken by the federal government with regard to Fannie Mae and Freddie Mac in September 2008 have clouded the issue surrounding the statutory limitation. Both Fannie Mae and Freddie Mac were taken into conservatorship by the federal government in September. The strict legal obligations from the federal government backing the companies do not appear to be explicit, but the nature of the takeover does effectively guarantee the companies' debt, as has been stated by the director of the FHFA, the agency overseeing Fannie Mae and Freddie Mac. It is the view of the Treasury given what we know today, that the statutory limitation cannot be applied until the future of Fannie Mae and Freddie Mac and their relationship vis-à-vis the federal government is made clear.

Should the statutory limitation be deemed to hold, the Treasury would prefer to work out of the positions over time via purchase decisions and maturities as opposed to selling bonds in order to bring the portfolio into compliance. In many if not all cases, selling bonds is not beneficial to taxpayers either because it forfeits attractive future earnings for the portfolio or results in a realized loss for the portfolio. It is the opinion of the Treasury that working out of positions over time is in the best interests of the State and the taxpayers.

If you have any question, please call Liz Welch, Deputy Treasurer at 359-3600.

Sincerely,

  
Tate Reeves  
State Treasurer