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**State of Mississippi
Department of Corrections**

Independent Accountants' Report,
Financial Statements of Funds Selected for Audit and
Schedule of Analysis of Changes in Long-term Obligations
June 30, 2010

BKD_{LLP}
CPAs & Advisors

**State of Mississippi
Department of Corrections**

June 30, 2010

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Independent Accountants' Report on Financial Statements

Commissioner Christopher B. Epps
State of Mississippi Department of Corrections
Jackson, Mississippi

We have audited the accompanying financial statements of the Inmate Welfare Fund, the Area Supervision Fee Fund, the General Support Fund, the Medical Fund, the Medical Contingency Fund, the Private Prison Fund, the Private Prison Contingency Fund, the Regional Prison Fund, and the Regional Prison Contingency Fund of the State of Mississippi Department of Corrections (MDOC) as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of MDOC's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Inmate Welfare Fund, the Area Supervision Fee Fund, the General Support Fund, the Medical Fund, the Medical Contingency Fund, the Private Prison Fund, the Private Prison Contingency Fund, the Regional Prison Fund, and the Regional Prison Contingency Fund representing funds selected for audit by the Office of the State Auditor, State of Mississippi, and do not purport to, and do not present fairly the financial position of MDOC as of June 30, 2010, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Inmate Welfare Fund, the Area Supervision Fee Fund, the General Support Fund, the Medical Fund, the Medical Contingency Fund, the Private Prison Fund, the Private Prison Contingency Fund, the Regional Prison Fund, and the Regional Prison Contingency Fund of MDOC as of June 30, 2010, and the respective changes in its financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2010, on our consideration of MDOC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing

of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BKD, LLP

December 6, 2010

State of Mississippi
Department of Corrections
Balance Sheets of Funds Selected for Audit
June 30, 2010

	<u>Governmental Fund Type</u>		
	<u>Inmate Welfare Fund</u>	<u>Area Supervision Fee Fund</u>	<u>General Support Fund</u>
Assets			
Cash	\$ 1,472,497	\$ 75,034	\$ 2,750
Cash with fiscal agent	-	-	104,661
Appropriation/allotment balance	-	-	4,562,698
Due from other funds	1,046,431	-	-
Accounts receivable	263,112	-	-
Advances to other funds	-	-	55,000
Inventory	-	-	2,643,669
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 2,782,040</u>	<u>\$ 75,034</u>	<u>\$ 7,368,778</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 236,247	\$ -	\$ 2,054,245
Accrued wages payable	7,492	-	4,642,010
Due to other funds	282,661	75,034	1,110,708
Due to local governments	-	-	45,687
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>526,400</u>	<u>75,034</u>	<u>7,852,650</u>
Fund Balances			
Fund balance (deficit) unreserved	2,255,640	-	(4,064,159)
Fund balance reserved for inventories	-	-	2,643,669
Fund balance reserved for encumbrances	-	-	936,618
	<u> </u>	<u> </u>	<u> </u>
Total fund balance (deficit)	<u>2,255,640</u>	<u>-</u>	<u>(483,872)</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 2,782,040</u>	<u>\$ 75,034</u>	<u>\$ 7,368,778</u>

See Notes to Financial Statements of Funds Selected for Audit

Governmental Fund Type

Medical Fund	Medical Contingency Fund	Private Prison Fund	Private Prison Contingency Fund	Regional Prison Fund	Regional Prison Contingency Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 128,836
-	-	19,733,802	-	-	-
179,285	376,634	48,231	495,768	-	-
2,895,301	-	-	-	128,836	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 3,074,586</u>	<u>\$ 376,634</u>	<u>\$ 19,782,033</u>	<u>\$ 495,768</u>	<u>\$ 128,836</u>	<u>\$ 128,836</u>
\$ 3,014,675	\$ 370,692	\$ -	\$ 489,306	\$ -	\$ -
596	-	-	-	-	-
-	-	2,566,466	-	128,835	128,836
-	5,942	-	-	-	-
<u>3,015,271</u>	<u>376,634</u>	<u>2,566,466</u>	<u>489,306</u>	<u>128,835</u>	<u>128,836</u>
54,592	-	17,215,567	6,462	1	-
-	-	-	-	-	-
4,723	-	-	-	-	-
<u>59,315</u>	<u>-</u>	<u>17,215,567</u>	<u>6,462</u>	<u>1</u>	<u>-</u>
<u>\$ 3,074,586</u>	<u>\$ 376,634</u>	<u>\$ 19,782,033</u>	<u>\$ 495,768</u>	<u>\$ 128,836</u>	<u>\$ 128,836</u>

State of Mississippi
Department of Corrections
Statements of Revenues, Expenditures and
Changes in Fund Balance of Funds Selected for Audit
Year Ended June 30, 2010

	<u>Governmental Fund Type</u>		
	<u>Inmate Welfare Fund</u>	<u>Area Supervision Fee Fund</u>	<u>General Support Fund</u>
Revenues			
State appropriation/allotment	\$ -	\$ -	\$ 127,332,366
ARRA federal subgrant	-	-	-
Phone commission revenue	3,015,927	-	-
Vending commission revenue	57,478	-	-
Western Union commissions	92,482	-	-
Area supervision fees	-	14,290,940	-
Interest earned	1,826	-	68,830
Other income	270,666	-	-
Total revenues	<u>3,438,379</u>	<u>14,290,940</u>	<u>127,401,196</u>
Expenditures			
Current			
Salaries	382,385	-	92,829,897
Travel	-	-	333,247
Contractuals	996,010	610	20,715,950
Commodities	505,167	-	15,990,875
Debt service			
Principal	-	-	1,028,529
Interest and other charges	-	-	539,731
Capital outlay	280,687	-	1,531,930
Subsidies	744,673	-	98,995
Total expenditures	<u>2,908,922</u>	<u>610</u>	<u>133,069,154</u>
Excess of Revenues Over (Under) Expenditures	<u>529,457</u>	<u>14,290,330</u>	<u>(5,667,958)</u>
Other Financing Sources (Uses)			
Transfers in	1,179,905	-	46,634
Transfers out	(4,033,154)	(14,290,880)	(1,050,000)
Proceeds from issuance of debt	-	-	-
Payment to bond refunding escrow agent	-	-	-
	<u>(2,853,249)</u>	<u>(14,290,880)</u>	<u>(1,003,366)</u>
Net Change in Fund Balance	(2,323,792)	(550)	(6,671,324)
Fund Balance (Deficit), Beginning of Year	<u>4,579,432</u>	<u>550</u>	<u>6,187,452</u>
Fund Balance (Deficit), End of Year	<u>\$ 2,255,640</u>	<u>\$ -</u>	<u>\$ (483,872)</u>

See Notes to Financial Statements of Funds Selected for Audit

Governmental Fund Type					
Medical Fund	Medical Contingency Fund	Private Prison Fund	Private Prison Contingency Fund	Regional Prison Fund	Regional Prison Contingency Fund
\$ 33,282,592	\$ -	\$ 47,217,500	\$ -	\$ 21,156,648	\$ -
-	-	-	3,588,614	-	411,386
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	556,876	-	-	-
-	145,873	-	-	-	-
<u>33,282,592</u>	<u>145,873</u>	<u>47,774,376</u>	<u>3,588,614</u>	<u>21,156,648</u>	<u>411,386</u>
232,696	-	-	-	-	-
-	-	-	-	-	-
34,529,736	16,934,964	37,791,179	29,961,701	21,030,646	9,100,232
158	-	-	-	-	-
-	-	4,770,000	-	-	-
-	-	8,739,665	-	-	-
-	-	-	-	-	-
-	-	914,534	-	-	-
<u>34,762,590</u>	<u>16,934,964</u>	<u>52,215,378</u>	<u>29,961,701</u>	<u>21,030,646</u>	<u>9,100,232</u>
<u>(1,479,998)</u>	<u>(16,789,091)</u>	<u>(4,441,002)</u>	<u>(26,373,087)</u>	<u>126,002</u>	<u>(8,688,846)</u>
2,895,301	18,004,328	1,381,285	30,176,687	-	9,457,231
-	(1,346,304)	(2,566,466)	(3,997,140)	(128,835)	(787,950)
-	-	38,675,000	-	-	-
-	-	(41,998,094)	-	-	-
<u>2,895,301</u>	<u>16,658,024</u>	<u>(4,508,275)</u>	<u>26,179,547</u>	<u>(128,835)</u>	<u>8,669,281</u>
1,415,303	(131,067)	(8,949,277)	(193,540)	(2,833)	(19,565)
<u>(1,355,988)</u>	<u>131,067</u>	<u>26,164,844</u>	<u>200,002</u>	<u>2,834</u>	<u>19,565</u>
<u>\$ 59,315</u>	<u>\$ -</u>	<u>\$ 17,215,567</u>	<u>\$ 6,462</u>	<u>\$ 1</u>	<u>\$ -</u>

State of Mississippi Department of Corrections

Notes to Financial Statements of Funds Selected for Audit June 30, 2010

Note 1: Significant Accounting Policies

Background Information

The State of Mississippi Department of Corrections (MDOC or the Agency), an agency of the State of Mississippi, follows fund accounting with respect to its Inmate Welfare Fund, Area Supervision Fee Fund, General Support Fund, Medical Fund, Medical Contingency Fund, Private Prison Fund, Private Prison Contingency Fund, Regional Prison Fund, and Regional Prison Contingency Fund pursuant to applicable state statutes. The Inmate Welfare Fund is used to account for revenues and other sources received by MDOC through phone and vending commissions, as well as canteen revenues and related expenditures to provide for certain benefits for the inmates. The Area Supervision Fee Fund is used to account for supervision fees paid by parolees and probationers and their subsequent remittance to other designated state treasury funds. The General Support Fund is used to account for the general operations of MDOC. The Medical Fund and the Medical Contingency Fund are used to account for expenditures related to yearly health care contracts, specialty health care needs and security for hospitalized inmates. The Private Prison Fund and the Private Prison Contingency Fund are used to account for the expenditures paid to private prison entities for the management of the six (6) private prisons. The Regional Prison Fund and the Regional Prison Contingency Fund are used to account for the expenditures related to managing and maintaining the eleven (11) regional facilities.

These funds represent funds selected for audit by the Office of the State Auditor, State of Mississippi, and the accompanying presentation does not purport to present the financial condition and results of operations of MDOC on all activities related to the funds' stated purpose.

Basis of Presentation

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

Account Classifications

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

Fund Accounting

The financial activities of the Inmate Welfare Fund, the Area Supervision Fee Fund, the General Support Fund, the Medical Fund, the Medical Contingency Fund, the Private Prison Fund, the Private Prison Contingency Fund, the Regional Prison Fund, and the Regional Prison Contingency Fund 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

State of Mississippi Department of Corrections

Notes to Financial Statements of Funds Selected for Audit June 30, 2010

fund is a separate accounting entity with a self-balancing set of accounts, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Basis of Accounting/Measurement Focus

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

Use of Estimates

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

Revenue Recognition

Revenue from phone commission in the Inmate Welfare Fund is recognized in the month the commissions are earned. Revenues from area supervision fees in the Area Supervision Fee Fund are recognized when they are received. Other revenues in the various funds are generally recognized when the revenue is received.

Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. All short-term, highly liquid investments that are readily convertible to cash (generally with a maturity of three months or less) are considered cash equivalents. At June 30, 2010, there were no cash equivalents..

Investments and Investment Income

Investments in money market mutual funds, U.S. agency obligations and other debt securities are carried at fair value. Fair value is determined using quoted market prices. Investments in nonnegotiable certificates of deposit and repurchase agreements are carried at cost.

Investment income consists of interest and dividend income and the net change for the year in the fair value of investments carried at fair value.

**State of Mississippi
Department of Corrections**

**Notes to Financial Statements of Funds Selected for Audit
June 30, 2010**

Interfund Receivables/Payables

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

Accounts Receivable

Accounts receivable are reported net of allowances for uncollectible accounts, where applicable.

Inventories

Inventories consist of food supplies, clothing and maintenance supplies. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Fund Balance

Fund balance represents the amounts available for future operations or distribution. The fund balance for the Private Prison Fund includes \$7,412,782, which is designated for debt service.

Note 2: Cash and Other Deposits

Deposits

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

Investments (Private Prison Fund)

Cash with fiscal agent in the Private Prison Fund includes cash and investments held pursuant to bond agreements. The Agency may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements.

**State of Mississippi
Department of Corrections**

**Notes to Financial Statements of Funds Selected for Audit
June 30, 2010**

At June 30, 2010, the Agency had the following cash and investments and maturities:

Type	June 30, 2009				
	Fair Value	Maturities in Years			
		Less than 1	1 - 5	6 - 10	More 10
Cash	\$ 690,644	\$ 690,644	\$ -	\$ -	\$ -
Certificate of deposits	15,911,781	-	15,911,781	-	-
Money market mutual funds	3,131,377	3,131,377	-	-	-
	<u>\$ 19,733,802</u>	<u>\$ 3,822,021</u>	<u>\$ 15,911,781</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk - MDOC does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. MDOC's investment policies do not place a limit on the amount that may be invested in any one maturity category. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. All investments at June 30, 2010, are either directly guaranteed by the U.S. government or collateralized by state collateral pools.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, MDOC will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. None of MDOC's investments at June 30, 2010, are subject to custodial credit risk, as the investments are in MDOC's name and the custodian's internal records identify MDOC as the owner.

Concentration of Credit Risk - MDOC places no limit on the amount that may be invested in any one issuer. At June 30, 2010, MDOC's investment in certificates of deposits and money market mutual funds constituted 83.6% and 16.4% of investments held, respectively.

Note 3: Defined Benefit Pension Plan

MDOC participates in the Public Employees' Retirement System of Mississippi (PERS) a cost-sharing, multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. This information may be obtained by contacting PERS.

**State of Mississippi
Department of Corrections**

**Notes to Financial Statements of Funds Selected for Audit
June 30, 2010**

PERS members are required to contribute 9% of their annual covered salary, and MDOC is required to contribute at an actuarially determined rate. The current rate is 12% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. MDOC's contributions are made at the agency level; therefore, information is not available on contributions by specific funds.

Note 4: Interfund Receivables, Payables and Transfers

Interfund receivables and payables at June 30, 2010, are as follows:

	Interfund Receivables	Interfund Payables
Inmate Welfare Fund		
Commissary Fund	\$ 1,046,431	\$ -
Telecommunications Equipment Fund	-	164,886
Prison Agricultural Fund	-	117,775
	\$ 1,046,431	\$ 282,661
Area Supervision Fee Fund		
Community Service Fund	\$ -	\$ 68,281
Training Revolving Fund	-	2,626
Crime Victims Compensation Fund	-	4,127
	\$ -	\$ 75,034
General Support Fund		
Mississippi Prison Industries	\$ -	\$ 60,708
Medical Fund	-	300,000
Local Confinement	-	750,000
	\$ -	\$ 1,110,708

**State of Mississippi
Department of Corrections**

**Notes to Financial Statements of Funds Selected for Audit
June 30, 2010**

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Medical Fund		
General Support Fund	\$ 300,000	\$ -
Regional Prisons Fund	128,835	-
Private Prisons Fund	2,466,466	-
	<u>\$ 2,895,301</u>	<u>\$ -</u>
Private Prison Fund		
Local Confinement	\$ -	\$ 100,000
Medical Fund	-	2,466,466
	<u>\$ -</u>	<u>\$ 2,566,466</u>
Regional Prison Fund		
Medical Fund	\$ -	\$ 128,835
Regional Prison Contingency Fund	128,836	-
	<u>\$ 128,836</u>	<u>\$ 128,835</u>
Regional Prison Contingency Fund		
Regional Prison Fund	<u>\$ -</u>	<u>\$ 128,836</u>

Interfund transfers for the year ended June 30, 2010, are as follows:

	<u>Interfund Transfers Out</u>	<u>Interfund Transfers In</u>
Inmate Welfare Fund		
General Contingency Fund	\$ 2,173,905	\$ -
Prison Agricultural Fund	980,603	-
Telecommunications Equipment Fund	864,396	-
Other	14,250	-
Commissary Fund	-	1,179,905
	<u>\$ 4,033,154</u>	<u>\$ 1,179,905</u>

**State of Mississippi
Department of Corrections**

**Notes to Financial Statements of Funds Selected for Audit
June 30, 2010**

	Interfund Transfers Out	Interfund Transfers In
Area Supervision Fee Fund		
Community Service Fund	\$ 13,078,310	\$ -
Crime Victims Compensation Fund	724,817	-
Training Revolving Fund	487,753	-
	\$ 14,290,880	\$ -
General Support Fund		
Local Confinement	\$ 750,000	\$ -
Medical Fund	300,000	-
Prison Agricultural Fund	-	46,634
	\$ 1,050,000	\$ 46,634
Medical Fund		
General Support Fund	\$ -	\$ 300,000
Regional Prison Fund	-	128,835
Private Prison Fund	-	2,466,466
	\$ -	\$ 2,895,301
Medical Contingency Fund		
State of Mississippi	\$ 1,346,304	\$ 18,004,328
Private Prison Fund		
Local Confinement	\$ 100,000	\$ -
Medical Fund	2,466,466	-
Private Prison Contingency Fund	-	1,381,285
	\$ 2,566,466	\$ 1,381,285
Private Prison Contingency Fund		
Private Prison Fund	\$ 1,381,285	\$ -
State of Mississippi	2,615,855	30,176,687
	\$ 3,997,140	\$ 30,176,687

**State of Mississippi
Department of Corrections**

**Notes to Financial Statements of Funds Selected for Audit
June 30, 2010**

	Interfund Transfers Out	Interfund Transfers In
Regional Prison Fund		
Medical Fund	\$ 128,835	\$ -
Regional Prison Contingency Fund		
State of Mississippi	\$ 787,950	\$ 9,457,231

Note 5: Subsequent Events

Subsequent to year-end, MDOC refunded approximately \$166,000,000 of bonds issued for construction of prison facilities by issuing approximately \$162,000,000 of new debt and using \$15,852,000 of funds held by fiscal agent. The new debt proceeds, related bond premiums, net of discounts, and other funds were placed in an escrow account for repayment of the existing debt. As part of the refunding transaction, MDOC incurred an interest rate swap termination charge of \$21,155,000.

Independent Accountants' Report on Schedule of Analysis of Changes in Long-term Obligations

Commissioner Christopher B. Epps
State of Mississippi Department of Corrections
Jackson, Mississippi

We have audited the accompanying schedule of analysis of changes in long-term obligations of the State of Mississippi Department of Corrections (MDOC) as of and for the year ended June 30, 2010, as listed in the table of contents. This schedule is presented for the purpose of assisting the State of Mississippi in preparation of its annual financial report and is not a required part of the fund financial statements. This schedule is the responsibility of MDOC's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of analysis of changes in long-term obligations referred to above present fairly, in all material respects, the balance of and the changes in long-term obligations of MDOC as of and for the year ended June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2010, on our consideration of MDOC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BKD, LLP

December 6, 2010

State of Mississippi
Department of Corrections
Schedule of Analysis of Changes in Long-Term Obligations
Year Ended June 30, 2010

Liability Category	Balance as of June 30, 2009	Additions	Deletions	Balance as of June 30, 2010
Accrued compensated absences	\$ 26,306,001	\$ 11,615,285	\$ 12,085,654	\$ 25,835,632
Capital lease obligations	1,089,358	-	294,941	794,417
Bonds payable	<u>221,052,615</u>	<u>38,675,000</u>	<u>43,429,761</u>	<u>216,297,854</u>
	<u>\$ 248,447,974</u>	<u>\$ 50,290,285</u>	<u>\$ 55,810,356</u>	<u>\$ 242,927,903</u>

**Independent Accountants' 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***

Commissioner Christopher B. Epps
State of Mississippi Department of Corrections
Jackson, Mississippi

We have audited the financial statements of the funds selected for audit consisting of the Inmate Welfare Fund, the Area Supervision Fee Fund, the General Support Fund, the Medical Fund, the Medical Contingency Fund, the Private Prison Fund, the Private Prison Contingency Fund, the Regional Prison Fund and the Regional Prison Contingency Fund and the schedule of analysis of changes in long-term obligations of the State of Mississippi Department of Corrections (MDOC) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 6, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MDOC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MDOC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MDOC's internal control over financial reporting.

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

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 MDOC's financial statements will not be prevented or detected and corrected on a timely basis. We

consider the deficiency described in the accompanying schedule of findings and responses as item 2010-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MDOC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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*.

We also noted certain matters that we reported to MDOC's management in a separate letter dated December 6, 2010.

MDOC's response to the finding identified in our audit are described in the accompanying schedule of findings and responses. We did not audit MDOC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governing body, management and others within MDOC and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

December 6, 2010

State of Mississippi
Department of Corrections
Funds Selected for Audit
Schedule of Findings and Responses
Year Ended June 30, 2010

<i>Reference Number</i>	<i>Finding</i>
2010-01	<p><i>Criteria or Specific Requirement</i> – Inmate Welfare Fund - Management is responsible for establishing and maintaining effective internal control over financial reporting. Internal controls should allow management or employees in the normal course of performing their assigned functions to prevent or detect and correct material misstatements in the financial reporting.</p> <p><i>Condition</i> – MDOC did not have sufficient procedures in place to review and approve manual journal entries posted during the year, including prior year audit entries and manual journal entries posted to the equity clearing account to reconcile income statement accounts.</p> <p>Also, MDOC does not have a policy or procedure in place to prohibit the overwriting/editing of information such as amount, date, etc. in the QuickBooks system.</p> <p><i>Effect</i> – As a result, the audit adjustments from the prior year were not properly recorded. Additionally, manual journal entries were posted to the equity clearing account to reconcile income statement accounts without appropriate review. The editing of dates allowed for transactions to be posted to an incorrect period, thereby allowing for unrecorded liabilities in the fund.</p> <p>Also, no audit trail is present when QuickBooks information is overwritten, and material misstatement could occur and not be detected.</p> <p><i>Cause</i> – MDOC has not designed internal control procedures for proper review and approval of manual journal entries.</p> <p>Also, MDOC does not have policies and procedures to prohibit the overwriting/editing of information such as amount, date, etc. in the QuickBooks system.</p> <p><i>Recommendation</i> – MDOC should implement a policy whereas each significant manual journal entry is subject to review and approval as to purpose, propriety and amount. This review should include a determination that no entries are posted to equity accounts or the equity clearing account outside of the monthly closing entry. Further, to ensure that equity accounts are properly accounted for during the monthly close process, we recommend the nonappropriated funds accountant reconcile equity on a monthly basis and include the reconciliation in</p>

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Schedule of Findings and Responses
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*Reference
Number*

Finding

the monthly financial reports that are reviewed and approved by the Director of Fiscal Affairs and the Deputy Commissioner of Administration and Finance.

Also, we recommend MDOC implement a policy whereas QuickBooks data is not overwritten, journal entries are reversed and invoices are voided. This will not only provide an audit trail, but it will provide MDOC with sufficient support to perform easier reconciliations with more reliable data.

View of Responsible Officials and Planned Corrective Actions – Management will implement a review process for all manual journal entries made. We will also establish a policy that will prohibit the alteration of dates or entries previously made in the QuickBooks accounting system.