



OFFICE OF THE STATE TREASURER  
LYNN FITCH  
TREASURER

February 14, 2014

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

Subject: Financial Audit Findings

Dear Mr. Pickering:

We have reviewed the financial audit findings in reference to our fiscal year 2013 audit. Listed below are our responses and plan for corrective action:

Audit Finding:	Reconcile Unclaimed Property Reporting and Record Fees Paid
Response:	We concur with this finding.
Corrective Action:	A reconciliation of the subsidiary ledger (WAGERS) to SAAS is being performed and differences properly documented. In addition, fees will be adjusted through a GAAP entry at the end of the fiscal year to ensure proper recording of expenditures in the financial statements.
Audit Finding:	Strengthen Controls over Escrow Reimbursement
Response:	We concur with this finding.
Corrective Action:	The Office of the State Treasurer will ensure that all escrow reimbursements are properly credited against expenditures by matching those reimbursements immediately upon receipt.
Audit Finding:	Strengthen Controls over Arbitrage Calculations
Response:	We concur with this finding.
Corrective Action:	The Office of the State Treasurer has recently acquired the services of a new arbitrage rebate consultant, AMTEC. The new consultant has a more robust system of helping the State keep track of all of its bond issues subject to the arbitrage rebate calculation.

Audit Finding: Review Employee Approval Levels in the Statewide Automated Accounting System

Response: We concur with this finding.

Corrective Action: The employee approval levels for cash receipts, disbursements and journal vouchers in the Statewide Automated Accounting System have been evaluated by the Office of the State Treasurer. Due to the size of the agency, we believe that duties are adequately segregated in order to mitigate risks and ensure transactions are recorded properly and promptly. We have assigned responsibilities to ensure that no individual has the ability to initiate and approve a transaction. In addition, the signers on the documents do not have the authority to initiate the transactions.

Audit Finding: Strengthen Controls over the Issuance of Pay Warrants

Response: We concur with this finding.

Corrective Action: We reviewed the eight instances in which there were no visible evidence of agreement between the warrant report per the bank and the Daily Bank Reconciliation (DBR) and determined agency oversight. The person generating the DBR will ensure a visible tick mark exists in the future. We do believe, however, that adequate review of the DBR, including a comparison between the warrant report per the bank and the DBR was performed as evidenced by the reviewer's signature before the pay warrant was issued.

Audit Finding: Maintain Investment Ratios in Accordance with State Law

Response: We do not concur with the audit finding. We fundamentally disagree with the application of the 50 percent limitation to certain Agency securities.

Corrective Action: Under the conservatorship put in place on September 7, 2008, FNMA and FHLMC are being run by the Federal Housing Finance Agency. The US Treasury's actions on September 7th included the institution of Preferred Stock Purchase Agreements, which are the foundation of the direct financial support of the US government to the agencies. The Treasury secretary's speech highlighted the additional security and clarity that these agreements provide to debt holders of FNMA and FHLMC. There were other steps that provided additional security to the debt holders through the provision of greater market stability, but the Purchase Agreements are, in our view, the most important and direct source of financial support. Because FNMA and FHLMC are congressionally chartered, only Congress can effect a permanent change in the status of the companies – either making them entirely public or entirely private. That is a matter that has yet to be determined. Reform will likely occur in some form over the next couple of years, and we will see what ultimately becomes of FNMA and FHLMC. The point put forth by Treasury is that what we know today is that the debt is for all

intents and purposes fully supported by the US government, and therefore the debt of FNMA and FHLMC held in the portfolio should not be included in the 50 percent calculation. There is not an explicit legal guarantee, and there will not be – partly because of the balance sheet effects on the US as a whole and partly because of the congressional charters of these companies, to say nothing of the precedent set by the US assuming a public/private entity's debt. The net result of the conservatorship is financial support of the companies, which includes support to pay its debt obligations and amounts to a guarantee from the federal government on the debt.

Treasury does not believe it is in the best interest of the taxpayers to liquidate FNMA and FHLMC holdings in favor of Treasuries to lower the allocation to Agencies due to the large losses in income to the portfolio that would result from such a rebalancing. The allocation to FNMA and FHLMC securities does not represent additional risk vis-à-vis Treasuries to the State or the taxpayers but does offer meaningfully higher yields. As FNMA and FHLMC holdings mature and/or are called, US Treasury holdings will be added to the portfolio as market rates and pricing are compelling compared to prevailing market rates of securities of similar maturities. Since March 2012, \$440 million of US Treasury securities have been added to the portfolio.

In the 2013 legislative session, the Office of the State Treasurer (OST) proposed revisions to amend Miss. Code Ann. § 27-105-33, including the removal of the fifty percent required allocation to Treasury securities. The revisions were introduced and passed by the House of Representatives, but later died in conference. The OST has introduced the same legislation in the 2014 legislative session.

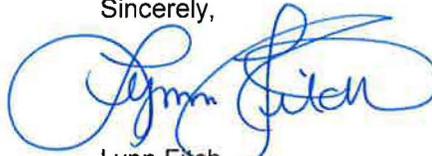
Audit Finding: Maintain Surety Bonds in Accordance with State Law

Response: We concur with this finding.

Corrective Action: The invoice was not received timely for the renewal of one of the surety bonds. Therefore, it was not paid until invoiced from vendor. There was never a lapse in coverage and this was further supported by the insurance company. We will ensure in the future that surety bond invoices are received and paid on a timely basis.

If you have any questions, please call Laura Jackson, Deputy Treasurer at 359-3600.

Sincerely,



Lynn Fitch  
State Treasurer