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State of Mississippi
Department of Corrections

Independent Auditor's Reports and
Financial Statements of Funds Selected for Audit

June 30, 2014



State of Mississippi
Department of Corrections
June 30, 2014

Contents

Independent Auditor’s Report	1
Financial Statements of Funds Selected for Audit	
Balance Sheets - Governmental Fund Type	3
Statements of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund Type	5
Notes to Financial Statements	7
Independent Auditor’s 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 <i>Government Auditing Standards</i>	14
Schedule of Findings and Responses	16

Independent Auditor's Report

Commissioner Marshall Fisher
State of Mississippi, Department of Corrections
Jackson, Mississippi

Report on the Financial Statements of Selected Funds

We have audited the accompanying financial statements of the Inmate Welfare Fund, the Area Supervision Fee Fund, the General Support Fund, the General Support Contingency Fund, the Capital Expense Fund, the Community Service Revolving Fund, the Community Corrections Fund, the Medical Fund, the Medical Contingency Fund, the Medical Capital Expense Fund, the Private Prison Fund, the Private Prison Contingency Fund, the Regional Prison Fund, the Regional Prison Contingency Fund, the Regional Prison Capital Expense Fund, the Local Confinement Fund and the Local Confinement Capital Expense Fund of the State of Mississippi, Department of Corrections (MDOC), which are comprised of a balance sheet as of June 30, 2014, and a statement of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements.

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 opinions on these financial statements based on our audits. We conducted our audits 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 audits 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 opinions.

Opinion

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 General Support Contingency Fund, the Capital Expense Fund, the Community Service Revolving Fund, the Community Corrections Fund, the Medical Fund, the Medical Contingency Fund, the Medical Capital Expense Fund, the Private Prison Fund, the Private Prison Contingency Fund, the Regional Prison Fund, the Regional Prison Contingency Fund, the Regional Prison Capital Expense Fund, the Local Confinement Fund and the Local Confinement Capital Expense Fund of MDOC as of June 30, 2014, 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.

Emphasis of Matter

As discussed in *Note 1*, the financial statements present only the Inmate Welfare Fund, the Area Supervision Fee Fund, the General Support Fund, the General Support Contingency Fund, the Capital Expense Fund, the Community Service Revolving Fund, the Community Corrections Fund, the Medical Fund, the Medical Contingency Fund, the Medical Capital Expense Fund, the Private Prison Fund, the Private Prison Contingency Fund, the Regional Prison Fund, the Regional Prison Contingency Fund, the Regional Prison Capital Expense Fund, the Local Confinement Fund and the Local Confinement Capital Expense Fund representing funds selected for audit by the State of Mississippi, Office of the State Auditor and do not purport to, and do not present fairly the financial position of MDOC as of June 30, 2014, 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. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2015, 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* in considering MDOC's internal control over financial reporting and compliance.

BKD, LLC

Jackson, Mississippi
January 14, 2015

State of Mississippi
Department of Corrections
Balance Sheets of Funds Selected for Audit
June 30, 2014

	Governmental Fund Type									
	8091	8105	2551	3551	3567	3556	3566	2554	3553	355A
	Inmate Welfare Fund	Area Supervision Fee Fund	General Support Fund	General Support Contingency Fund	Capital Expense Fund	Community Service Revolving Fund	Community Corrections Fund	Medical Fund	Medical Contingency Fund	Medical Capital Expense Fund
Assets										
Cash	\$ 676,723	\$ 122,926	\$ -	\$ 2,767,835	\$ 2,543,483	\$ 10	\$ 1,213,738	\$ -	\$ 260,484	\$ 2,782,936
Cash with fiscal agent	-	-	-	225,862	-	-	-	-	-	-
Due from other funds	424,178	-	-	171,575	-	-	112,518	-	-	-
Accounts receivable	175,961	720	-	-	-	-	-	-	-	-
Advances to other funds	-	-	-	55,000	-	-	-	-	-	-
Inventories	-	-	-	4,041,225	-	-	-	-	-	-
Total assets	\$ 1,276,862	\$ 123,646	\$ -	\$ 7,261,497	\$ 2,543,483	\$ 10	\$ 1,326,256	\$ -	\$ 260,484	\$ 2,782,936
Liabilities and Fund Balances										
Liabilities										
Accounts payable	\$ 173,495	\$ -	\$ 685,788	\$ 8,968	\$ 1,949,920	\$ -	\$ 35,943	\$ 1,327,400	\$ 51,064	\$ 1,364,255
Accrued wages payable	16,354	-	4,290,062	110,696	-	-	299,868	10,054	-	-
Due to other funds	106,107	123,646	254,498	-	-	-	-	-	-	-
Due to local governments	-	-	121,490	-	52,505	-	4,754	-	-	-
Total liabilities	295,956	123,646	5,351,838	119,664	2,002,425	-	340,565	1,337,454	51,064	1,364,255
Fund Balances (Deficit)										
Nonspendable										
Inventories	-	-	-	4,041,225	-	-	-	-	-	-
Restricted for										
Law, justice and public safety	980,906	-	-	3,100,608	541,058	10	985,691	-	-	1,418,681
Committed to										
Law, justice and public safety	-	-	-	-	-	-	-	-	209,420	-
Unassigned	-	-	(5,351,838)	-	-	-	-	(1,337,454)	-	-
Total fund balances (deficit)	980,906	-	(5,351,838)	7,141,833	541,058	10	985,691	(1,337,454)	209,420	1,418,681
Total liabilities and fund balances	\$ 1,276,862	\$ 123,646	\$ -	\$ 7,261,497	\$ 2,543,483	\$ 10	\$ 1,326,256	\$ -	\$ 260,484	\$ 2,782,936

State of Mississippi
Department of Corrections
Balance Sheets of Funds Selected for Audit (Continued)
June 30, 2014

	Governmental Fund Type						
	2555	3564	2556	3562	355B	2557	355C
	Private Prison Fund	Private Prison Contingency Fund	Regional Prison Fund	Regional Prison Contingency Fund	Regional Prison Capital Expense Fund	Local Confinement Fund	Local Confinement Capital Expense Fund
Assets							
Cash	\$ -	\$ -	\$ -	\$ 37,020	\$ 202,805	\$ -	\$ 2,346,650
Cash with fiscal agent	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-
Accounts receivable	-	-	-	-	-	-	-
Advances to other funds	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-
Total assets	\$ -	\$ -	\$ -	\$ 37,020	\$ 202,805	\$ -	\$ 2,346,650
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 163,371	\$ -	\$ 85,960
Accrued wages payable	-	-	-	-	-	-	-
Due to other funds	-	-	-	37,020	-	-	-
Due to local governments	5,588	-	1,201,649	-	-	65,160	2,254,580
Total liabilities	5,588	-	1,201,649	37,020	163,371	65,160	2,340,540
Fund Balances (Deficit)							
Nonspendable							
Inventories	-	-	-	-	-	-	-
Restricted for							
Law, justice and public safety	-	-	-	-	39,434	-	6,110
Committed to							
Law, justice and public safety	-	-	-	-	-	-	-
Unassigned	(5,588)	-	(1,201,649)	-	-	(65,160)	-
Total fund balances (deficit)	(5,588)	-	(1,201,649)	-	39,434	(65,160)	6,110
Total liabilities and fund balances	\$ -	\$ -	\$ -	\$ 37,020	\$ 202,805	\$ -	\$ 2,346,650

State of Mississippi
Department of Corrections
Statements of Revenues, Expenditures and Changes in Fund Balances of Funds Selected for Audit
Year Ended June 30, 2014

	Governmental Fund Type									
	8091	8105	2551	3551	3567	3556	3566	2554	3553	355A
	Inmate Welfare Fund	Area Supervision Fee Fund	General Support Fund	General Support Contingency Fund	Capital Expense Fund	Community Service Revolving Fund	Community Corrections Fund	Medical Fund	Medical Contingency Fund	Medical Capital Expense Fund
Revenues										
State appropriation/allotment	\$ -	\$ -	\$ 142,335,416	\$ -	\$ -	\$ -	\$ -	\$ 63,051,914	\$ -	\$ -
Federal grant revenue	-	-	-	740,139	-	-	-	-	-	-
Sales of supplies	-	-	-	2,492,160	-	-	-	-	-	-
Phone commission revenue	2,083,845	-	-	-	-	-	-	-	-	-
Vending commission revenue	29,056	-	-	-	-	-	-	-	-	-
Western Union commissions	75,501	-	-	-	-	-	-	-	-	-
Area supervision fees	-	17,087,469	-	-	-	-	-	-	-	-
Other income	400,046	-	-	249,441	-	10	-	-	185,529	-
Total revenues	2,588,448	17,087,469	142,335,416	3,481,740	-	10	-	63,051,914	185,529	-
Expenditures										
Current										
Salaries	488,400	-	103,332,948	2,466,098	1,613,000	-	11,088,995	239,452	-	-
Travel	-	-	398,139	9,834	56,655	-	33,927	-	-	-
Contractuals	800,198	793	19,770,273	-	4,671,295	-	2,162,397	60,387,486	144,071	5,331,319
Commodities	498,210	-	16,785,733	481,009	867,992	163,048	1,372,753	-	-	-
Debt service										
Principal	-	-	1,420,020	8,577,636	-	-	-	-	-	-
Interest and other charges	-	-	379,765	-	-	-	-	-	-	-
Capital outlay	-	-	1,490,481	1,946,439	-	13,600	92,090	-	-	-
Subsidies	693,912	-	6,898	867,855	-	-	-	782,156	-	-
Total expenditures	2,480,720	793	143,584,257	14,348,871	7,208,942	176,648	14,750,162	61,409,094	144,071	5,331,319
Excess of Revenues Over (Under) Expenditures	107,728	17,086,676	(1,248,841)	(10,867,131)	(7,208,942)	(176,638)	(14,750,162)	1,642,820	41,458	(5,331,319)
Other Financing Sources (Uses)										
Transfers in	973,477	-	-	2,515,599	11,050,000	419,224	16,155,077	-	-	6,750,000
Transfers out	(1,264,930)	(17,086,676)	-	-	(3,300,000)	(282,281)	(419,224)	-	-	-
Proceeds from issuance of capital lease	-	-	-	10,363,240	-	-	-	-	-	-
	(291,453)	(17,086,676)	-	12,878,839	7,750,000	136,943	15,735,853	-	-	6,750,000
Net Change in Fund Balances	(183,725)	-	(1,248,841)	2,011,708	541,058	(39,695)	985,691	1,642,820	41,458	1,418,681
Fund Balances (Deficit), Beginning of Year	1,164,631	-	(303,013)	1,330,141	-	39,705	-	(2,980,274)	167,962	-
Fund Balances - Inventory Transfer	-	-	(3,799,984)	3,799,984	-	-	-	-	-	-
Fund Balances (Deficit), End of Year	\$ 980,906	\$ -	\$ (5,351,838)	\$ 7,141,833	\$ 541,058	\$ 10	\$ 985,691	\$ (1,337,454)	\$ 209,420	\$ 1,418,681

See Notes to Financial Statements of Funds Selected for Audit

State of Mississippi Department of Corrections

Statements of Revenues, Expenditures and Changes in Fund Balances of Funds Selected for Audit (Continued) Year Ended June 30, 2014

	Governmental Fund Type						
	2555	3564	2556	3562	355B	2557	355C
	Private Prison Fund	Private Prison Contingency Fund	Regional Prison Fund	Regional Prison Contingency Fund	Regional Prison Capital Expense Fund	Local Confinement Fund	Local Confinement Capital Expense Fund
Revenues							
State appropriation/allotment	\$ 69,523,121	\$ -	\$ 45,208,829	\$ -	\$ -	\$ 12,200,245	\$ -
Federal grant revenue	-	-	-	-	-	-	-
Sales of supplies	-	-	-	-	-	-	-
Phone commission revenue	-	-	-	-	-	-	-
Vending commission revenue	-	-	-	-	-	-	-
Western Union commissions	-	-	-	-	-	-	-
Area supervision fees	-	-	-	-	-	-	-
Other income	-	-	-	-	-	-	-
Total revenues	69,523,121	-	45,208,829	-	-	12,200,245	-
Expenditures							
Current							
Salaries	-	-	-	-	-	-	-
Travel	-	-	-	-	-	-	-
Contractuals	59,363,979	-	45,208,829	-	2,460,566	9,162,736	2,993,890
Commodities	-	-	-	-	-	-	-
Debt service							
Principal	-	-	-	-	-	-	-
Interest and other charges	10,154,992	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Subsidies	-	-	-	-	-	-	-
Total expenditures	69,518,971	-	45,208,829	-	2,460,566	9,162,736	2,993,890
Excess of Revenues Over (Under) Expenditures	4,150	-	-	-	(2,460,566)	3,037,509	(2,993,890)
Other Financing Sources (Uses)							
Transfers in	-	-	-	93,994	2,500,000	-	3,000,000
Transfers out	-	-	-	(37,020)	-	-	-
Proceeds from issuance of capital lease	-	-	-	-	-	-	-
	-	-	-	56,974	2,500,000	-	3,000,000
Net Change in Fund Balances	4,150	-	-	56,974	39,434	3,037,509	6,110
Fund Balances (Deficit), Beginning of Year	(9,738)	-	(1,201,649)	(56,974)	-	(3,102,669)	-
Fund Balance - Inventory Transfer	-	-	-	-	-	-	-
Fund Balances (Deficit), End of Year	\$ (5,588)	\$ -	\$ (1,201,649)	\$ -	\$ 39,434	\$ (65,160)	\$ 6,110

See Notes to Financial Statements of Funds Selected for Audit

State of Mississippi Department of Corrections

Notes to Financial Statements of Funds Selected for Audit

June 30, 2014

Note 1: Significant Accounting Policies

Background Information

The State of Mississippi, Department of Corrections (MDOC), an agency of the State of Mississippi, follows fund accounting with respect to its Inmate Welfare Fund, Area Supervision Fee Fund, General Support Fund, General Support Contingency Fund, Capital Expense Fund, Community Service Revolving Fund, Community Corrections Fund, Medical Fund, Medical Contingency Fund, Medical Capital Expense Fund, Private Prison Fund, Private Prison Contingency Fund, Regional Prison Fund, Regional Prison Contingency Fund, Regional Prison Capital Expense Fund, Local Confinement Fund, and Local Confinement Capital Expense Fund (collectively the Selected Funds) and 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, General Support Contingency Fund and Capital Expense Fund are used to account for the general operations of MDOC. The Community Service Revolving Fund and the Community Corrections Fund are used to supervise parolees. The Medical Fund, Medical Contingency Fund and Medical Capital Expense 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 Private Prison Contingency Fund are used to account for the expenditures paid to private prison entities for the management of the four (4) private prisons. The Regional Prison Fund, Regional Prison Contingency Fund and Regional Prison Capital Expense Fund are used to account for the expenditures related to managing and maintaining the fifteen (15) regional facilities. The Local Confinement Fund and Local Confinement Capital Expense Fund are used to account for the expenditures related to housing inmates in local county jail facilities.

These funds represent funds selected for audit by the State of Mississippi, Office of the State Auditor, and the accompanying presentation does not purport to present the financial position and changes in financial position of MDOC.

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.

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2014

Fund Accounting

The financial activities of the Selected Funds are recorded in individual funds and account groups used to report financial position and changes in financial position. 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.

Basis of Accounting/Measurement Focus

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 balances during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenues from phone commissions in the Inmate Welfare Fund is recognized in the month the commission is 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 revenues are received or appropriated by the Mississippi Legislature.

Cash and Cash Equivalents

Cash includes cash on hand and demand deposits at financial institutions. 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, 2014, there were no cash equivalents.

Cash with fiscal agent includes cash on hand at lending institutions for use under master lease agreements.

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2014

Appropriations/Allotment Balance

This amount, if any, is held in the treasury of the State of Mississippi and is defined as the balance of MDOC's current allotment, which is available to spend for the current fiscal year.

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, if any, are reported as "advances to or advances from other funds."

Accounts Receivable

Accounts receivable are reported net of allowances for uncollectible accounts, where applicable. No allowance for uncollectible accounts is recorded at June 30, 2014.

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 Balances – Governmental Funds

The fund balances for MDOC's governmental funds are displayed in five components.

- ***Nonspendable*** – Amounts that are not in a spendable form or are required to be maintained intact, such as inventories.
- ***Restricted*** – 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. Fund balances under the Inmate Welfare Fund, the Area Supervision Fee Fund and the Community Service Revolving Fund are restricted by enabling legislation under Sections 47-5-158, 47-5-1013 and 47-7-49, Miss. Code Ann. (1972), respectively.
- ***Committed*** – Amounts that can be used only for the specific purposes determined by a formal action of the Mississippi Legislature.
- ***Assigned*** – Amounts intended to be used by the government for specific purposes. In governmental funds other than the General Fund, assigned fund balances represent the amount that is not restricted or committed. This indicates resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. MDOC had no assigned fund balances at June 30, 2014.

State of Mississippi Department of Corrections

Notes to Financial Statements of Funds Selected for Audit

June 30, 2014

- **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 amounts had been restricted, committed or assigned.

MDOC considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. MDOC applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balances classifications could be used.

Deficit Fund Balances – As of June 30, 2014, certain funds of MDOC were in a deficit net position. The deficit net position in each fund will be funded by either an interfund transfer from a fund with positive net position or future appropriations.

Note 2: Cash and Other 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 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 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.

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.

During fiscal year 2014, PERS members were required to contribute 9% of their annual covered salary, and MDOC is required to contribute at an actuarially determined rate, which was 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. MDOC's contributions are made at the agency level; therefore, information is not available on contributions by specific funds.

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2014

Note 4: Interfund Receivables, Payables and Transfers

Interfund receivables and payables at June 30, 2014, are as follows:

	Interfund Receivables	Interfund Payables
Inmate Welfare Fund		
Canteen Fund	\$ 413,908	\$ -
General Support Contingency Fund	-	44,994
Prison Agricultural Fund	-	60,403
Employees Cafeteria Fund	-	710
State of Mississippi	10,270	-
	\$ 424,178	\$ 106,107
Area Supervision Fee Fund		
Community Corrections Fund	\$ -	\$ 112,518
Training Revolving Fund	-	4,946
Crime Victims Compensation Fund	-	6,182
	\$ -	\$ 123,646
General Support Fund		
State of Mississippi	\$ -	\$ 254,498
General Support Contingency Fund		
State of Mississippi	\$ 89,561	\$ -
Inmate Welfare Fund	44,994	-
Regional Prison Contingency Fund	37,020	-
	\$ 171,575	\$ -
Community Corrections Fund		
Area Supervision Fee Fund	\$ 112,518	\$ -
Regional Prison Contingency Fund		
Inmate Welfare Fund	\$ -	\$ 37,020

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2014

Interfund transfers for the year ended June 30, 2014, are as follows:

	Interfund Transfers Out	Interfund Transfers In
Inmate Welfare Fund		
Prison Agricultural Enterprises Fund	\$ 729,346	\$ -
General Support Contingency Fund	520,962	-
Employee Cafeteria Fund	14,622	-
Canteen Fund	-	973,477
	<u>\$ 1,264,930</u>	<u>\$ 973,477</u>
Area Supervision Fee Fund		
Community Corrections Fund	\$ 15,694,936	\$ -
Crime Victims Compensation Fund	773,189	-
Training Revolving Fund	618,551	-
	<u>\$ 17,086,676</u>	<u>\$ -</u>
General Support Contingency Fund		
Regional Prison Contingency Fund	\$ -	\$ 37,020
Inmate Welfare Fund	-	520,962
State of Mississippi	-	1,957,617
	<u>\$ -</u>	<u>\$ 2,515,599</u>
Capital Expense Fund		
State of Mississippi	<u>\$ 3,300,000</u>	<u>\$ 11,050,000</u>
Community Service Revolving Fund		
Community Corrections Fund	<u>\$ 282,281</u>	<u>\$ 419,224</u>
Community Corrections Fund		
Area Supervision Fee Fund	\$ -	\$ 15,694,936
State of Mississippi	-	177,860
Community Service Revolving Fund	419,224	282,281
	<u>\$ 419,224</u>	<u>\$ 16,155,077</u>

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2014

	Interfund Transfers Out	Interfund Transfers In
Medical Capital Expense Fund State of Mississippi	\$ -	\$ 6,750,000
Regional Prison Contingency Fund General Support Contingency State of Mississippi	\$ 37,020 -	\$ - 93,994
	\$ 37,020	\$ 93,994
Regional Prison Capital Expense Fund State of Mississippi	\$ -	\$ 2,500,000
Local Confinement Capital Expense Fund State of Mississippi	\$ -	\$ 3,000,000

Note 5: Contingencies and Subsequent Events

In November 2014, the former Commissioner of MDOC resigned after a 49 count indictment, alleging the Commissioner was the recipient of bribes and kickbacks in exchange for favorable treatment in the awarding of MDOC contracts, was returned by a federal grand jury. Mississippi Governor Phil Bryant has subsequently directed MDOC to review all contracts for necessity and cost efficiency. The Governor required all contracts associated with the indictment be rebid, and he also created a task force to oversee the review of MDOC vendor contracts and the rebidding process of those contracts associated with the indictment. The effects of the contract review and rebidding process on these financial statements are unknown at this time.

**Independent Auditor's 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**

Commissioner Marshall Fisher
State of Mississippi, Department of Corrections
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 funds selected for audit consisting of the Inmate Welfare Fund, the Area Supervision Fee Fund, the General Support Fund, the General Support Contingency Fund, the Capital Expense Fund, the Community Service Revolving Fund, the Community Corrections Fund, the Medical Fund, the Medical Contingency Fund, the Medical Capital Expense Fund, the Private Prison Fund, the Private Prison Contingency Fund, the Regional Prison Fund, the Regional Prison Contingency Fund, the Regional Prison Capital Expense Fund, the Local Confinement Fund and the Local Confinement Capital Expense Fund of the State of Mississippi, Department of Corrections (MDOC), which are comprised of a balance sheet as of June 30, 2014, and a statement of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 14, 2015, which contained an *Emphasis of Matter* paragraph regarding the entity reflected in the financial statements.

Internal Control Over Financial Reporting

Management of MDOC is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits, we considered MDOC's 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 MDOC's internal control. Accordingly, we do not express an opinion on the effectiveness of MDOC's internal control.

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

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 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. 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 2014-001 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2014-002.

We also noted certain matters that we reported to MDOC's management in a separate letter dated January 14, 2015.

MDOC's Response to Findings

MDOC's responses to the findings identified in our audits are described in the accompanying schedule of findings and responses. Management's responses were not subjected to the auditing procedures applied in the audits of the financial statements and schedule and, accordingly, we express no opinion on them.

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 MDOC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLC

Jackson, Mississippi
January 14, 2015

**State of Mississippi
Department of Corrections
Schedule of Findings and Responses
Year Ended June 30, 2014**

<i>Reference Number</i>	<i>Finding</i>	<i>Questioned Costs</i>
2014-001	<p><i>Criteria or Specific Requirement</i> – 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 material misstatements in the financial reporting of all funds.</p> <p><i>Condition</i> – MDOC did not have procedures in place to ensure that manually accrued payables in one fund were not also recorded as payables in another fund under the same appropriation unit.</p> <p><i>Effect</i> – As a result, the expenses for one appropriation unit were overstated in the prior year. The underlying vendors were properly paid only once, so there are no questioned costs.</p> <p><i>Cause</i> – MDOC’s designed internal control procedures for identifying and recording of year-end liabilities did not evaluate accruals at the appropriation unit.</p> <p><i>Recommendation</i> – MDOC should implement a process whereas accruals are considered both at the fund level and at the appropriation unit level to ensure no accruals are recorded twice.</p> <p><i>View of Responsible Officials and Planned Corrective Actions</i> – Management will implement more thorough procedures in future periods to ensure all material liabilities are identified and recorded.</p>	None
2014-002	<p><i>Criteria or Specific Requirement</i> – Management is responsible for compliance with provisions of laws, regulations, contracts and grant agreements and preventing abuse.</p> <p><i>Condition</i> – The former Commissioner of MDOC resigned after a 49 count indictment, alleging the Commissioner was the recipient of bribes and kickbacks in exchange for favorable treatment in the awarding of MDOC contracts, was returned by a federal grand jury.</p>	Unknown

State of Mississippi
Department of Corrections
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2014

<i>Reference Number</i>	<i>Finding</i>	<i>Questioned Costs</i>
	<p><i>Effect</i> – Potential noncompliance with laws, regulations and abuse have occurred.</p> <p><i>Cause</i> – Alleged misuse of an official’s position has occurred for personal gain. An investigation is ongoing, and the potential cause will be determined at its conclusion.</p> <p><i>Recommendation</i> – Management should comply with the Governor’s directive to review contracts and rebid where appropriate. Also, we recommend management reevaluate MDOC’s controls surrounding the procurement process to deter future potential issues.</p> <p><i>Views of Responsible Officials and Planned Corrective Actions</i> – MDOC is in the process of rebidding all contracts mentioned in the Governor’s directive. MDOC will engage a CPA firm to assist in developing an internal control plan for MDOC, which will include processes and procedures related to all procurements.</p>	

**State of Mississippi
Department of Corrections**

Independent Auditor's Reports and
Schedule of Analysis of Changes in Long-term Obligations

June 30, 2014



State of Mississippi
Department of Corrections
June 30, 2014

Contents

Independent Auditor’s Report	1
Financial Statement	
Schedule of Analysis of Changes in Long-term Obligations.....	3
Notes to Schedule of Analysis of Changes in Long-term Obligations	4
Independent Auditor’s 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 <i>Government Auditing Standards</i>	9
Schedule of Findings and Responses	11

Independent Auditor's Report

Commissioner Marshall Fisher
State of Mississippi, Department of Corrections
Jackson, Mississippi

Report on the Schedule of Analysis of Changes in Long-term Obligations

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, 2014, and the related notes to the schedule.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this schedule 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 a schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this schedule 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 schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule, 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 schedule 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 schedule.

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 schedule of analysis of changes in long-term obligations referred to above presents 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, 2014, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 2* to the schedule of analysis of changes in long-term obligations, the balance as of June 30, 2013, on the schedule has been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2015, 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* in considering MDOC's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
January 27, 2015

State of Mississippi
Department of Corrections
Schedule of Analysis of Changes in Long-term Obligations
Year Ended June 30, 2014

Governmental Activities Liability Category	Balance as of June 30, 2013 (As Previously Reported)	Adjustment	Balance as of June 30, 2013 (As Restated - Note 2)	Additions	Deletions	Balance as of June 30, 2014
Accrued compensated absences	\$ 25,904,541	\$ (5,137,347)	\$ 20,767,194	\$ 11,463,762	\$ 12,620,968	\$ 19,609,988
Capital lease obligations	1,238,694	-	1,238,694	1,721,328	482,477	2,477,545
Bonds and notes payable, net	<u>221,425,579</u>	<u>-</u>	<u>221,425,579</u>	<u>8,641,912</u>	<u>10,759,591</u>	<u>219,307,900</u>
	<u>\$ 248,568,814</u>	<u>\$ (5,137,347)</u>	<u>\$ 243,431,467</u>	<u>\$ 21,827,002</u>	<u>\$ 23,863,036</u>	<u>\$ 241,395,433</u>

State of Mississippi
Department of Corrections
Notes to Schedule of Analysis of Changes in Long-term Obligations
June 30, 2014

Note 1: Summary of Significant Accounting Policies

Background Information

The State of Mississippi, Department of Corrections (MDOC), an agency of the State of Mississippi, follows fund accounting with respect to its operations. The schedule of analysis of changes in long-term obligations (the schedule) of MDOC was selected for audit by the State of Mississippi, Office of the State Auditor, and the accompanying presentation does not purport to present the financial position and changes in financial position of MDOC.

Basis of Presentation

The accompanying schedule has 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 schedule conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting*, as issued by the Government Finance Officers Association.

Bond and Note Premiums/Discounts and Refunding Charges

Bond and note proceeds, premiums and discounts are reported as an other financing source or use in the governmental fund financial statements. In the government-wide and proprietary fund financial statements, bond and note premiums and discounts, as well as refunding charges (the difference between the carrying amount of redeemed/defeased debt and its reacquisition price), are deferred and amortized over the life of the bonds and notes using the straight-line method. Bonds and notes payable are reported exclusive of the applicable unamortized bond and note premium or discount.

Debt Issuance Costs

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflow of resources since the costs are not applicable to a future period and therefore are recognized as an expense/expenditure in the period incurred.

Accrued Compensated Absences

State law authorizes payment for a maximum of 30 days accrued personal leave in a lump sum upon termination of employment. No payment is authorized for accrued major medical leave

State of Mississippi
Department of Corrections
Notes to Schedule of Analysis of Changes in Long-term Obligations
June 30, 2014

unless employees present medical evidence that their physical condition is such that they can no longer work in a capacity of state government. The State's obligation for accumulated unpaid personal leave, up to the maximum of 30 days per employee, is reported as "accrued compensated absences" in the accompanying schedule. The State uses the last-in, first-out method of recognizing use of compensated absences. The reported liability, applicable to all funds, includes the related fringe benefits that the State, as employer, is required to pay when the accrued compensated absences are liquidated. Accumulated unpaid major medical leave is not accrued, because it is not probable that the compensation will be paid in a lump sum other than in the event of severe illness.

State law also authorizes the accumulation of additional compensated absences through compensatory time when an employee is required to perform his or her duties in excess of the established work-cycle or on official state holidays. The established work-cycle for exempt employees and certain nonexempt employees is defined as a 40-hour week. For other nonexempt employees, the established work-cycle is 160 hours in a 28-day cycle. Based on the number of hours worked and the exempt status of the employee, compensatory time is accumulated as either Agency Compensatory Leave time, Fair Labor Standards Act (FLSA) Leave time or Holiday Leave time. The State's obligation for accumulated unpaid FLSA Leave time, up to the maximum of 240 hours or 480 hours depending on established work-cycle, is payable in a lump sum upon termination of employment and is reported as "accrued compensated absences" in the accompanying schedule. The State's obligation for Agency Compensatory Leave time is only recorded to the extent future expected use is probable, as it is not payable in a lump sum upon termination of employment. The reported liability applicable to all funds includes the related fringe benefits that the State, as employer, is required to pay when the accrued compensated absences are liquidated.

Use of Estimates

The preparation of the schedule 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, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Note 2: Restatement of Accrued Compensated Absences Balance as of June 30, 2013

In prior years, MDOC recorded accrued compensated absences at the total balance accumulated. MDOC should have only accrued the amount that would reasonably be paid out to employees as

State of Mississippi
Department of Corrections
Notes to Schedule of Analysis of Changes in Long-term Obligations
June 30, 2014

either leave time, cash payment upon termination or other payout. Also during 2014, MDOC identified an error in the accumulation of compensated absence time, whereas certain hours were over-accrued for nonexempt employees. These two corrections decreased the previously reported balance of accrued compensated absences and total long-term obligations as of June 30, 2013 by \$5,137,347.

Note 3: Other Long-term Obligations

Accrued Compensated Absences

MDOC's total liability for compensated absences at June 30, 2014 is \$19,609,988 for governmental activities and \$160,723 for proprietary activities. The reported liability includes related fringe benefits and is recorded to the extent management expects to be reasonably paid out to employees as either leave time, cash payment upon termination or other payout.

Bonds and Notes Payable

At June 30, 2014, MDOC's outstanding bonds and notes payable as presented in the governmental activities are as follows:

Purpose	Outstanding Amount	Interest Rates	Final Maturity Date	Original Amount
Equipment	\$ 8,129,752	3.10% - 4.15%	April 2023	\$ 8,577,637
Buildings	201,085,000	3.62% - 5.37%	August 2027	201,085,000
	<u>209,214,752</u>			<u>209,662,637</u>
Premiums	10,093,148			13,114,663
Total bonds and notes payable, net	<u>\$ 219,307,900</u>			<u>\$ 222,777,300</u>

Refunding and Defeased Notes

In 2010, as part of an advance refunding, the net proceeds of the refunding issues were deposited in an irrevocable trust to be used solely for satisfying all future scheduled principal and interest payments on the refunded debt. Accordingly, for financial reporting purposes, the defeased notes

State of Mississippi
Department of Corrections
Notes to Schedule of Analysis of Changes in Long-term Obligations
June 30, 2014

and the related trust account are not included in the financial statements. At June 30, 2014, \$16,565,000 of outstanding notes (including prior years' refundings) is considered defeased.

Deferred Amount on Debt Refundings

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources. For the year ended June 30, 2014, \$1,244,412 of amortization was recorded, resulting in an ending balance of \$16,281,054 for deferred outflow of resources on debt refundings for the aforementioned 2010 bonds.

At June 30, 2014, future debt service requirements for bonds and notes payable as presented in the governmental activities are as follows:

Year Ending June 30	Principal	Interest
2015	\$ 919,227	\$ 10,434,914
2016	6,951,419	10,402,722
2017	13,139,747	10,075,984
2018	13,764,253	9,453,253
2019	14,439,976	8,807,526
2020-2024	81,325,130	32,207,630
2025-2028	<u>78,675,000</u>	<u>8,531,645</u>
Total debt service	<u>\$ 209,214,752</u>	<u>\$ 89,913,674</u>

Capital Lease Commitments

MDOC leases property with varying terms and options. Most leases contain a fiscal funding addendum stating that the lease shall terminate on the last day for the fiscal year if appropriated funds for the ensuing fiscal year are insufficient. However, if renewal is reasonably assured, leases requiring appropriation by the State Legislature are considered noncancellable leases for financial reporting purposes.

State of Mississippi
Department of Corrections
Notes to Schedule of Analysis of Changes in Long-term Obligations
June 30, 2014

At June 30, 2014, assets recorded under capital leases are as follows:

	Governmental Activities	Proprietary Activities
Machinery and equipment	\$ 2,745,045	\$ 1,540,106
Accumulated depreciation	<u>(1,057,058)</u>	<u>(551,873)</u>
	<u>\$ 1,687,987</u>	<u>\$ 988,233</u>

At June 30, 2014, future minimum commitments under capital leases are as follows:

Year Ending June 30	Governmental Activities
2015	\$ 681,754
2016	681,238
2017	680,703
2018	371,092
2019	<u>221,351</u>
	2,636,138
Less amount representing interest	<u>(158,593)</u>
Present value of minimum lease payments	<u>\$ 2,477,545</u>

Note 4: Contingencies and Subsequent Events

In November 2014, the former Commissioner of MDOC resigned after a 49 count indictment, alleging the Commissioner was the recipient of bribes and kickbacks in exchange for favorable treatment in the awarding of MDOC contracts, was returned by a federal grand jury. Mississippi Governor Phil Bryant has subsequently directed MDOC to review all contracts for necessity and cost efficiency. The Governor required all contracts associated with the indictment be rebid, and he also created a task force to oversee the review of MDOC vendor contracts and the rebidding process of those contracts associated with the indictment. The effects of the contract review and rebidding process on these financial statements are unknown at this time.

**Independent Auditor's 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**

Commissioner Marshall Fisher
State of Mississippi, Department of Corrections
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 schedule of analysis of changes in long-term obligations (the schedule) of the State of Mississippi, Department of Corrections (MDOC) as of and for the year ended June 30, 2014, and have issued our report thereon dated January 27, 2015, which contained an *emphasis of matter* paragraph for the correction of an error.

Internal Control Over Financial Reporting

Management of MDOC is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered MDOC's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the schedule, but not for the purpose of expressing an opinion on the effectiveness of MDOC's internal control. Accordingly, we do not express an opinion on the effectiveness of MDOC's internal control.

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

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 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. 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 schedule 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 2014-002 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MDOC's schedule is 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 schedule 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2014-001.

MDOC's Responses to Findings

MDOC's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Management's responses were not subjected to the auditing procedures applied in the audit of the schedule and, accordingly, we express no opinion on them.

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 MDOC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDOC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Jackson, Mississippi
January 27, 2015

**State of Mississippi
Department of Corrections
Schedule of Findings and Responses
Year Ended June 30, 2014**

<i>Reference Number</i>	<i>Finding</i>	<i>Questioned Costs</i>
2014-001	<p><i>Criteria or Specific Requirement</i> – Management is responsible for compliance with provisions of laws, regulations, contracts and grant agreements and preventing abuse.</p> <p><i>Condition</i> – The former Commissioner of MDOC resigned after a 49 count indictment, alleging the Commissioner was the recipient of bribes and kickbacks in exchange for favorable treatment in the awarding of MDOC contracts, was returned by a federal grand jury.</p> <p><i>Effect</i> – Potential noncompliance with laws, regulations and abuse have occurred.</p> <p><i>Cause</i> – Alleged misuse of an official’s position has occurred for personal gain. An investigation is ongoing, and the potential cause will be determined at its conclusion.</p> <p><i>Recommendation</i> – Management should comply with the Governor’s directive to review contracts and rebid where appropriate. Also, we recommend management reevaluate MDOC’s controls surrounding the procurement process to deter future potential issues.</p> <p><i>Views of Responsible Officials and Planned Corrective Actions</i> – MDOC is in the process of rebidding all contracts mentioned in the Governor’s directive. MDOC will engage a CPA firm to assist in developing an internal control plan for MDOC, which will include processes and procedures related to all procurements.</p>	Unknown

State of Mississippi
Department of Corrections
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2014

<i>Reference Number</i>	<i>Finding</i>	<i>Questioned Costs</i>
2014-002	<p>Criteria or Specific Requirement – 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 material misstatements in the financial reporting of all funds.</p> <p>Condition – MDOC did not have procedures in place to ensure that the Agency Compensatory Leave portion of the reported accrued compensated absences was only recorded for the portion of the earned leave that would reasonably be expected to be paid out to employees through the future use of leave.</p> <p>Effect – As a result, the beginning balance of accrued compensated absences was restated from the prior year for the correction of an error.</p> <p>Cause – MDOC’s designed internal control procedures for identifying and recording of accrued compensated absences did not evaluate Agency Compensatory Leave that may go unused and may be unpaid.</p> <p>Recommendation – MDOC should implement a process, whereas accrued compensated absences are considered for the portion that will reasonably be used by employees.</p> <p>View of Responsible Officials and Planned Corrective Actions – Management will implement more thorough procedures in future periods to ensure only the portion of the accrued Agency Compensatory Leave time that will reasonably be expected to be paid out to employees through the future use of leave is recorded as a liability.</p>	None