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State of Mississippi
Department of Corrections

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

June 30, 2015



State of Mississippi
Department of Corrections
June 30, 2015

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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 Support Budget Authority Fund, the Medical Budget Authority Fund, the Private Prison Budget Authority Fund, the Regional Prison Budget Authority Fund, the Local Budget Authority Fund, the Inmate Welfare Fund, and the Area Supervision Fee Fund of the State of Mississippi, Department of Corrections (MDOC), which are comprised of a balance sheet as of June 30, 2015, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Support Budget Authority Fund, the Medical Budget Authority Fund, the Private Prison Budget Authority Fund, the Regional Prison Budget Authority Fund, the Local Budget Authority Fund, the Inmate Welfare Fund, and the Area Supervision Fee Fund of MDOC as of June 30, 2015, 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 Support Budget Authority Fund, the Medical Budget Authority Fund, the Private Prison Budget Authority Fund, the Regional Prison Budget Authority Fund and the Local Budget Authority 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, 2015, 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 opinions are not modified with respect to this matter.

Other Matter

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements of the funds selected for audit by the State of Mississippi, Office of the State Auditor. The combining statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2016, 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
March 31, 2016

State of Mississippi
Department of Corrections
Balance Sheets of Funds Selected for Audit
June 30, 2015

	Governmental Fund Type						
	Support Budget Authority Fund	Medical Budget Authority Fund	Private Prison Budget Authority Fund	Regional Prison Budget Authority Fund	Local Budget Authority Fund	Inmate Welfare Fund	Area Supervision Fund
Assets							
Cash	\$ 28,936,161	\$ 3,924,535	\$ 262,909	\$ 109,565	\$ 1,734,266	\$ 442,881	\$ 27,833
Cash with fiscal agent	225,862	-	-	-	-	-	-
Due from other funds	1,118,503	181,217	263,573	-	1,543	798,984	-
Accounts receivable	55,000	-	-	-	-	288,394	-
Inventories	3,957,778	-	-	-	-	-	-
Total assets	<u>\$ 34,293,304</u>	<u>\$ 4,105,752</u>	<u>\$ 526,482</u>	<u>\$ 109,565</u>	<u>\$ 1,735,809</u>	<u>\$ 1,530,259</u>	<u>\$ 27,833</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 2,017,290	\$ 1,453,539	\$ -	\$ -	\$ 45,148	\$ 87,722	\$ 1,000
Accrued wages payable	4,474,554	-	-	-	-	14,513	-
Due to other funds	357,301	344,206	-	37,020	-	165,976	26,833
Due to local governments	289,921	424,920	-	1,201,649	1,643,161	-	-
Total liabilities	<u>7,139,066</u>	<u>2,222,665</u>	<u>-</u>	<u>1,238,669</u>	<u>1,688,309</u>	<u>268,211</u>	<u>27,833</u>
Fund Balances (Deficit)							
Nonspendable							
Inventories	3,957,778	-	-	-	-	-	-
Restricted for							
Law, justice and public safety	5,547,954	-	-	-	-	1,262,048	-
Committed to							
Law, justice and public safety	-	2,407,252	526,482	39,434	7,870	-	-
Unassigned	17,648,506	(524,165)	-	(1,168,538)	39,630	-	-
Total fund balances (deficit)	<u>27,154,238</u>	<u>1,883,087</u>	<u>526,482</u>	<u>(1,129,104)</u>	<u>47,500</u>	<u>1,262,048</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 34,293,304</u>	<u>\$ 4,105,752</u>	<u>\$ 526,482</u>	<u>\$ 109,565</u>	<u>\$ 1,735,809</u>	<u>\$ 1,530,259</u>	<u>\$ 27,833</u>

State of Mississippi
Department of Corrections
Statements of Revenues, Expenditures and Changes in Fund Balances of Funds Selected for Audit
Year Ended June 30, 2015

	Governmental Fund Type						
	Support Budget Authority Fund	Medical Budget Authority Fund	Private Prison Budget Authority Fund	Regional Prison Budget Authority Fund	Local Budget Authority Fund	Inmate Welfare Fund	Area Supervision Fund
Revenues							
State appropriation/allotment	\$ 159,678,068	\$ 65,621,078	\$ 68,435,293	\$ 46,172,682	\$ 11,254,802	\$ -	\$ -
Federal grant revenue	267,372	-	-	-	-	-	-
Sales of supplies	2,014,046	181,217	-	-	1,543	-	-
Phone commission revenue	-	-	-	-	-	1,550,448	-
Vending commission revenue	-	-	-	-	-	11,747	-
Western Union commissions	-	-	-	-	-	59,331	-
Area supervision fees	-	-	-	-	-	-	15,872,734
Other income	472,252	-	-	-	-	314,640	-
Total revenues	162,431,738	65,802,295	68,435,293	46,172,682	11,256,345	1,936,166	15,872,734
Expenditures							
Current							
Salaries	110,120,891	230,111	-	-	-	518,611	-
Travel	714,770	-	-	-	-	8,176	-
Contractuals	33,292,131	62,981,219	57,748,232	46,139,571	11,188,513	430,789	780
Commodities	17,526,705	-	-	-	-	518,141	-
Debt service							
Principal	1,536,016	-	-	-	-	-	-
Interest and other charges	61,648	-	10,154,991	-	-	-	-
Capital outlay	1,674,533	-	-	-	-	-	-
Subsidies	102,939	998,524	-	-	-	464,530	-
Total expenditures	165,029,633	64,209,854	67,903,223	46,139,571	11,188,513	1,940,247	780
Excess of Revenues Over (Under) Expenditures	(2,597,895)	1,592,441	532,070	33,111	67,832	(4,081)	15,871,954
Other Financing Sources (Uses)							
Transfers in (out), net	26,435,379	-	-	-	-	285,223	(15,871,954)
Net Change in Fund Balances	23,837,484	1,592,441	532,070	33,111	67,832	281,142	-
Fund Balances (Deficit), Beginning of Year	3,316,754	290,646	(5,588)	(1,162,215)	(20,332)	980,906	-
Fund Balances (Deficit), End of Year	\$ 27,154,238	\$ 1,883,087	\$ 526,482	\$ (1,129,104)	\$ 47,500	\$ 1,262,048	\$ -

State of Mississippi Department of Corrections

Notes to Financial Statements of Funds Selected for Audit June 30, 2015

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 governmental type funds. Multiple individual funds combine to create budget authority funds for MDOC. The following budget authority funds represent funds selected for audit by the State of Mississippi, Office of the State Auditor (collectively, Selected Funds), and the accompanying presentation does not purport to present the financial position and changes in financial position of MDOC.

- A. The Inmate Welfare Fund** (Fund 8809100000) 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.
- B. The Area Supervision Fee Fund** (Fund 8810200000) is used to account for supervision fees paid by parolees and probationers and their subsequent remittance to other designated state treasury funds.
- C. The Support Budget Authority Fund** (Funds 2255100000 – General Support Fund, 3355100000 – General Support Contingency Fund, 3356600000 – Community Corrections Fund, 5355100000 – General Support Grant Fund, and 6456700000 – Capital Expense Fund) is used to account for the general operations of MDOC. The Community Corrections Fund is used to supervise parolees.
- D. The Medical Budget Authority Fund** (Funds 2254400000 – Medical Fund, 3355300000 - Medical Contingency Fund, and 6455A00000 - Medical Capital Expense Fund) is used to account for expenditures related to yearly health care contracts, specialty health care needs and security for hospitalized inmates.
- E. The Private Prison Budget Authority Fund** (Funds 2255500000 – Private Prison Fund and 3356400000 - Private Prison Contingency Fund) is used to account for the expenditures paid to private prison entities for the management of the four (4) private prisons.
- F. The Regional Prison Budget Authority Fund** (Funds 2255600000 – Regional Prison Fund, 3356200000 – Regional Prison Contingency Fund and 6455B00000 - Regional Prison Capital Expense Fund) is used to account for the expenditures related to managing and maintaining the fifteen (15) regional facilities.
- G. The Local Budget Authority Fund** (Funds 2255700000 – Local Confinement Fund, 3355700000 – Confiscated Funds and 6455C00000 – Local Confinement Capital Expense Fund) is used to account for the expenditures related to housing inmates in local county jail facilities.

State of Mississippi Department of Corrections

Notes to Financial Statements of Funds Selected for Audit June 30, 2015

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 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.

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2015

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, 2015, there were no cash equivalents.

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

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, 2015.

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.

State of Mississippi Department of Corrections

Notes to Financial Statements of Funds Selected for Audit June 30, 2015

- **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, 2015.
- **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, 2015, 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

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2015

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 2015, 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.

Note 4: Interfund Receivables, Payables and Transfers

Interfund receivables and payables at June 30, 2015, are as follows:

	Interfund Receivables	Interfund Payables
Inmate Welfare Fund		
Canteen Fund	\$ 788,714	\$ -
General Support Contingency Fund	-	68,820
Prison Agricultural Fund	-	96,348
Employees Cafeteria Fund	-	808
State of Mississippi	10,270	-
	\$ 798,984	\$ 165,976
Area Supervision Fee Fund		
Community Corrections Fund	\$ -	\$ 24,418
Training Revolving Fund	-	1,073
Crime Victims Compensation Fund	-	1,342
	\$ -	\$ 26,833

**State of Mississippi
Department of Corrections**

**Notes to Financial Statements of Funds Selected for Audit
June 30, 2015**

	Interfund Receivables	Interfund Payables
Support Budget Authority Fund		
General Support Fund		
State of Mississippi	\$ -	\$ 61,812
General Support Contingency Fund		
State of Mississippi	\$ 944,902	\$ -
Confiscated Funds	-	1,543
General Support Grant Fund	-	11,545
Recycle Program	-	78,169
Victims Info Notification System	-	12,814
Medical Contingency Fund	-	181,217
Prison Agricultural Fund	-	11,476
Inmate Welfare Fund	68,820	10,270
Regional Prison Contingency Fund	37,020	-
	\$ 1,050,742	\$ 307,034
Community Corrections Fund		
Area Supervision Fee Fund	\$ 24,418	\$ -
General Support Grant Fund		
General Support Contingency Fund	\$ 11,545	\$ -
State of Mississippi	43,343	-
	\$ 54,888	\$ -
Eliminations	(11,545)	(11,545)
Total Support Budget Authority Fund	\$ 1,118,503	\$ 357,301

**State of Mississippi
Department of Corrections**

**Notes to Financial Statements of Funds Selected for Audit
June 30, 2015**

	Interfund Receivables	Interfund Payables
Medical Budget Authority Fund		
Medical Fund		
State of Mississippi	\$ -	\$ 80,633
Private Prison Fund	-	263,573
	-	263,573
	\$ -	\$ 344,206
Medical Contingency Fund		
General Support Contingency Fund	\$ 181,217	\$ -
	181,217	-
	\$ 181,217	\$ 344,206
Private Prison Budget Authority Fund		
Private Prison Fund		
Medical Fund	\$ 263,573	\$ -
	263,573	-
	\$ 263,573	\$ -
Regional Prison Budget Authority Fund		
Regional Prison Contingency Fund		
General Support Contingency Fund	\$ -	\$ 37,020
	-	37,020
	\$ -	\$ 37,020
Local Budget Authority Fund		
Confiscated Funds		
General Support Contingency Fund	\$ 1,543	\$ -
	1,543	-
	\$ 1,543	\$ -

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2015

Interfund transfers for the year ended June 30, 2015, are as follows:

	Interfund Transfers Out	Interfund Transfers In
	<hr/>	<hr/>
Inmate Welfare Fund		
Prison Agricultural Enterprises Fund	\$ 542,657	\$ -
General Support Contingency Fund	387,612	-
Employee Cafeteria Fund	5,643	-
Canteen Fund	-	1,221,135
	<hr/>	<hr/>
	\$ 935,912	\$ 1,221,135
	<hr/> <hr/>	<hr/> <hr/>
Area Supervision Fee Fund		
Community Corrections Fund	\$ 14,570,729	\$ -
Crime Victims Compensation Fund	722,903	-
Training Revolving Fund	578,322	-
	<hr/>	<hr/>
	\$ 15,871,954	\$ -
	<hr/> <hr/>	<hr/> <hr/>

**State of Mississippi
Department of Corrections**

**Notes to Financial Statements of Funds Selected for Audit
June 30, 2015**

	Interfund Transfers Out	Interfund Transfers In
Support Budget Authority Fund		
General Support Fund		
General Support Contingency Fund	\$ 1,597,664	\$ -
Prison Agricultural Enterprises Fund	208,558	71,375
	\$ 1,806,222	\$ 71,375
General Support Contingency Fund		
General Support Fund	\$ -	\$ 1,597,664
State of Mississippi	-	2,001,833
	\$ -	\$ 3,599,497
Capital Expense Fund		
State of Mississippi	\$ -	\$ 10,000,000
Community Corrections Fund		
Area Supervision Fee Fund	\$ -	\$ 14,570,729
Total Support Budget Authority Fund	\$ 1,806,222	\$ 28,241,601
Medical Budget Authority Fund		
Medical Fund		
Medical Capital Expense Fund	\$ 355,392	\$ -
Medical Capital Expense Fund		
Medical Fund	\$ -	\$ 355,392
Total Medical Budget Authority Fund	\$ 355,392	\$ 355,392

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2015

Note 5: Contingencies

Indictment of Former Commissioner

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. In February 2015, the former Commissioner plead guilty to corruption charges, but final sentencing has not yet occurred.

Subsequent to the indictment, Mississippi Governor Phil Bryant 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 contract review and rebidding process has been substantially completed. The effects of the contract review and rebidding process and the ultimate sentencing and restitution of the former Commissioner on these financial statements are unknown at this time.

General Litigation

MDOC is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the balance sheets and statements of revenues, expenses and changes in fund balances of MDOC. Additionally, under the current financial resources measurement focus and the modified accrual basis of accounting, no contingent liability would be recorded.

Supplementary Information

State of Mississippi
Department of Corrections
Combining Balance Sheet of Support Budget Authority Fund
June 30, 2015

	Governmental Fund Type					Eliminations	Total
	2255100000	3355100000	3356600000	5355100000	6456700000		
	General Support Fund	General Support Contingency Fund	Community Corrections Fund	General Support Grant Fund	Capital Expense Fund		
Assets							
Cash	\$ 5,589,047	\$ 7,067,593	\$ 5,780,605	\$ 78,863	\$ 10,420,053	\$ -	\$ 28,936,161
Cash with fiscal agent	-	225,862	-	-	-	-	225,862
Due from other funds	-	1,050,742	24,418	54,888	-	(11,545)	1,118,503
Accounts receivable	-	55,000	-	-	-	-	55,000
Inventories	-	3,957,778	-	-	-	-	3,957,778
Total assets	<u>\$ 5,589,047</u>	<u>\$ 12,356,975</u>	<u>\$ 5,805,023</u>	<u>\$ 133,751</u>	<u>\$ 10,420,053</u>	<u>\$ (11,545)</u>	<u>\$ 34,293,304</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 2,012,947	\$ 3,582	\$ 761	\$ -	\$ -	\$ -	\$ 2,017,290
Accrued wages payable	4,109,129	109,117	256,308	-	-	-	4,474,554
Due to other funds	61,812	307,034	-	-	-	(11,545)	357,301
Due to local governments	289,921	-	-	-	-	-	289,921
Total liabilities	<u>6,473,809</u>	<u>419,733</u>	<u>257,069</u>	<u>-</u>	<u>-</u>	<u>(11,545)</u>	<u>7,139,066</u>
Fund Balances (Deficit)							
Nonspendable							
Inventories	-	3,957,778	-	-	-	-	3,957,778
Restricted for							
Law, justice and public safety	-	-	5,547,954	-	-	-	5,547,954
Unassigned	(884,762)	7,979,464	-	133,751	10,420,053	-	17,648,506
Total fund balances (deficit)	<u>(884,762)</u>	<u>11,937,242</u>	<u>5,547,954</u>	<u>133,751</u>	<u>10,420,053</u>	<u>-</u>	<u>27,154,238</u>
Total liabilities and fund balances	<u>\$ 5,589,047</u>	<u>\$ 12,356,975</u>	<u>\$ 5,805,023</u>	<u>\$ 133,751</u>	<u>\$ 10,420,053</u>	<u>\$ (11,545)</u>	<u>\$ 34,293,304</u>

State of Mississippi
Department of Corrections
Combining Statement of Revenues, Expenditures and Changes in
Fund Balances of Support Budget Authority Funds
Year Ended June 30, 2015

	Governmental Fund Type					Total
	2255100000	3355100000	3356600000	5355100000	6456700000	
	General Support Fund	General Support Contingency Fund	Community Corrections Fund	General Support Grant Fund	Capital Expense Fund	
Revenues						
State appropriation/allotment	\$ 155,496,896	\$ 4,130,248	\$ -	\$ 50,924	\$ -	\$ 159,678,068
Federal grant revenue	-	176,735	-	90,637	-	267,372
Sales of supplies	-	2,014,046	-	-	-	2,014,046
Other income	472,252	-	-	-	-	472,252
Total revenues	155,969,148	6,321,029	-	141,561	-	162,431,738
Expenditures						
Current						
Salaries	99,445,650	2,622,973	8,052,268	-	-	110,120,891
Travel	663,171	12,407	39,192	-	-	714,770
Contractuals	31,399,064	801	1,851,593	7,810	32,863	33,292,131
Commodities	17,231,653	141,487	65,423	-	88,142	17,526,705
Debt service						
Principal	-	1,536,016	-	-	-	1,536,016
Interest and other charges	-	61,648	-	-	-	61,648
Capital outlay	1,167,465	507,068	-	-	-	1,674,533
Subsidies	(139,778)	242,717	-	-	-	102,939
Total expenditures	149,767,225	5,125,117	10,008,476	7,810	121,005	165,029,633
Excess of Revenues Over (Under) Expenditures	6,201,923	1,195,912	(10,008,476)	133,751	(121,005)	(2,597,895)
Other Financing Sources (Uses)						
Transfers in (out), net	(1,734,847)	3,599,497	14,570,729	-	10,000,000	26,435,379
Net Change in Fund Balances	4,467,076	4,795,409	4,562,253	133,751	9,878,995	23,837,484
Fund Balances (Deficit), Beginning of Year	(5,351,838)	7,141,833	985,701	-	541,058	3,316,754
Fund Balances (Deficit), End of Year	\$ (884,762)	\$ 11,937,242	\$ 5,547,954	\$ 133,751	\$ 10,420,053	\$ 27,154,238

State of Mississippi
Department of Corrections
Combining Balance Sheet of Medical Budget Authority Fund
June 30, 2015

	Governmental Fund Type			Total
	2255400000	3355300000	6455A00000	
	Medical Fund	Medical Contingency Fund	Medical Capital Expense Fund	
Assets				
Cash	\$ 1,698,500	\$ 451,963	\$ 1,774,072	\$ 3,924,535
Due from other funds	-	181,217	-	181,217
Total assets	<u>\$ 1,698,500</u>	<u>\$ 633,180</u>	<u>\$ 1,774,072</u>	<u>\$ 4,105,752</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 1,453,539	\$ -	\$ -	\$ 1,453,539
Due to other funds	344,206	-	-	344,206
Due to local governments	424,920	-	-	424,920
Total liabilities	<u>2,222,665</u>	<u>-</u>	<u>-</u>	<u>2,222,665</u>
Fund Balances (Deficit)				
Committed to				
Law, justice and public safety	-	633,180	1,774,072	2,407,252
Unassigned	(524,165)	-	-	(524,165)
Total fund balances (deficit)	<u>(524,165)</u>	<u>633,180</u>	<u>1,774,072</u>	<u>1,883,087</u>
Total liabilities and fund balances	<u>\$ 1,698,500</u>	<u>\$ 633,180</u>	<u>\$ 1,774,072</u>	<u>\$ 4,105,752</u>

State of Mississippi
Department of Corrections
Combining Statement of Revenues, Expenditures and Changes in
Fund Balances of Medical Budget Authority Funds
Year Ended June 30, 2015

	Governmental Fund Type			Total
	2255400000	3355300000	6455A00000	
	Medical Fund	Medical Contingency Fund	Medical Capital Expense Fund	
Revenues				
State appropriation/allotment	\$ 65,378,535	\$ 242,543	\$ -	\$ 65,621,078
Sales of supplies	-	181,217	-	181,217
Total revenues	<u>65,378,535</u>	<u>423,760</u>	<u>-</u>	<u>65,802,295</u>
Expenditures				
Current				
Salaries	230,111	-	-	230,111
Contractuals	62,981,219	-	-	62,981,219
Subsidies	998,524	-	-	998,524
Total expenditures	<u>64,209,854</u>	<u>-</u>	<u>-</u>	<u>64,209,854</u>
Excess of Revenues Over Expenditures	<u>1,168,681</u>	<u>423,760</u>	<u>-</u>	<u>1,592,441</u>
Other Financing Sources (Uses)				
Transfers in (out), net	<u>(355,392)</u>	<u>-</u>	<u>355,392</u>	<u>-</u>
Net Change in Fund Balances	813,289	423,760	355,392	1,592,441
Fund Balances (Deficit), Beginning of Year	<u>(1,337,454)</u>	<u>209,420</u>	<u>1,418,680</u>	<u>290,646</u>
Fund Balances (Deficit), End of Year	<u>\$ (524,165)</u>	<u>\$ 633,180</u>	<u>\$ 1,774,072</u>	<u>\$ 1,883,087</u>

State of Mississippi
Department of Corrections
Combining Balance Sheet of Private Prison Budget Authority Fund
June 30, 2015

	<u>Governmental Fund Type</u>		<u>Total</u>
	<u>225550000</u>	<u>335640000</u>	
	<u>Private Prisons Fund</u>	<u>Private Prison Contingency Fund</u>	
Assets			
Cash	\$ 262,909	\$ -	\$ 262,909
Due from other funds	263,573	-	263,573
Total assets	<u>\$ 526,482</u>	<u>\$ -</u>	<u>\$ 526,482</u>
Fund Balances			
Committed to			
Law, justice and public safety	<u>\$ 526,482</u>	<u>\$ -</u>	<u>\$ 526,482</u>
Total fund balances	<u>\$ 526,482</u>	<u>\$ -</u>	<u>\$ 526,482</u>

State of Mississippi
Department of Corrections
Combining Statements of Revenues Expenditures and Changes in
Fund Balances of Private Prison Budget Authority Fund
Year Ended June 30, 2015

	Governmental Fund Type		Total
	2255500000	3356400000	
	Private Prisons Fund	Private Prison Contingency Fund	
Revenues			
State appropriation/allotment	\$ 68,435,293	\$ -	\$ 68,435,293
Total revenues	68,435,293	-	68,435,293
Expenditures			
Current			
Contractuals	57,748,232	-	57,748,232
Debt service			
Interest and other charges	10,154,991	-	10,154,991
Total expenditures	67,903,223	-	67,903,223
Net Change in Fund Balances	532,070	-	532,070
Fund Deficit, Beginning of Year	(5,588)	-	(5,588)
Fund Balances, End of Year	\$ 526,482	\$ -	\$ 526,482

State of Mississippi
Department of Corrections
Combining Balance Sheet of Regional Prison Budget Authority Fund
Year Ended June 30, 2015

	Governmental Fund Type			Total
	2255600000	3356200000	6455B00000	
	Regional Prison			
	Regional Facilities Fund	Regional Prison Contingency Fund	Capital Expense Fund	
Assets				
Cash	\$ 33,111	\$ 37,020	\$ 39,434	\$ 109,565
Total assets	\$ 33,111	\$ 37,020	\$ 39,434	\$ 109,565
Liabilities and Fund Balances				
Liabilities				
Due to other funds	\$ -	\$ 37,020	\$ -	\$ 37,020
Due to local governments	1,201,649	-	-	1,201,649
Total liabilities	1,201,649	37,020	-	1,238,669
Fund Balances (Deficit)				
Committed to				
Law, justice and public safety	-	-	39,434	39,434
Unassigned	(1,168,538)	-	-	(1,168,538)
Total fund balances (deficit)	(1,168,538)	-	39,434	(1,129,104)
Total liabilities and fund balances	\$ 33,111	\$ 37,020	\$ 39,434	\$ 109,565

State of Mississippi
Department of Corrections
Combining Statements of Revenues Expenditures and Changes in
Fund Balances of Regional Prison Budget Authority Fund
Year Ended June 30, 2015

	Governmental Fund Type			Total
	2255600000	3356200000	3455B00000	
	Regional Facilities Fund	Regional Prison Contingency Fund	Regional Prison Capital Expense Fund	
Revenues				
State appropriation/allotment	\$ 46,172,682	\$ -	\$ -	\$ 46,172,682
Expenditures				
Current				
Contractuals	46,139,571	-	-	46,139,571
Net Change in Fund Balances	33,111	-	-	33,111
Fund Balances (Deficit), Beginning of Year	(1,201,649)	-	39,434	(1,162,215)
Fund Balances (Deficit), End of Year	\$ (1,168,538)	\$ -	\$ 39,434	\$ (1,129,104)

State of Mississippi
Department of Corrections
Combining Balance Sheet of Local Budget Authority Fund
Year Ended June 30, 2015

	Governmental Fund Type			Total
	2255700000	6455C00000	3355700000	
	Local Confinement Fund	Local Confinement Capital Expense Fund	Confiscated Fund	
Assets				
Cash	\$ 1,648,960	\$ 7,870	\$ 77,436	\$ 1,734,266
Due from other funds	-	-	1,543	1,543
Total assets	\$ 1,648,960	\$ 7,870	\$ 78,979	\$ 1,735,809
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 45,148	\$ -	\$ -	\$ 45,148
Due to local governments	1,643,161	-	-	1,643,161
Total liabilities	1,688,309	-	-	1,688,309
Fund Balances (Deficit)				
Committed to				
Law, justice and public safety	-	7,870	-	7,870
Unassigned	(39,349)	-	78,979	39,630
Total fund balances (deficit)	(39,349)	7,870	78,979	47,500
Total liabilities and fund balances	\$ 1,648,960	\$ 7,870	\$ 78,979	\$ 1,735,809

State of Mississippi
Department of Corrections
Combining Statements of Revenues Expenditures and Changes in
Fund Balances of Local Budget Authority Fund
Year Ended June 30, 2015

	Governmental Fund Type			Total
	2255700000	6455C00000	3355700000	
	Local Confinement Fund	Local Confinement Capital Expense Fund	Confiscated Fund	
Revenues				
State appropriation/allotment	\$ 11,216,084	\$ -	\$ 38,718	\$ 11,254,802
Sales of supplies	-	-	1,543	1,543
Total revenues	11,216,084	-	40,261	11,256,345
Expenditures				
Current				
Contractuals	11,190,273	(1,760)	-	11,188,513
Net Change in Fund Balances	25,811	1,760	40,261	67,832
Fund Balances (Deficit), Beginning of Year	(65,160)	6,110	38,718	(20,332)
Fund Balances (Deficit), End of Year	\$ (39,349)	\$ 7,870	\$ 78,979	\$ 47,500

**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 Support Budget Authority Fund, the Medical Budget Authority Fund, the Private Prison Budget Authority Fund, the Regional Prison Budget Authority Fund and the Local Budget Authority Fund of the State of Mississippi, Department of Corrections (MDOC), which are comprised of a balance sheet as of June 30, 2015, 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 March 31, 2016, 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 of the financial statements, 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.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

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 2015-001.

We also noted certain matters that we reported to MDOC's management in a separate letter dated March 31, 2016.

MDOC's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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, LLC

Jackson, Mississippi
March 31, 2016

**State of Mississippi
Department of Corrections
Schedule of Findings and Responses
Year Ended June 30, 2015**

<i>Reference Number</i>	<i>Finding</i>	<i>Questioned Costs</i>
2015-001	<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. The former Commissioner plead guilty to corruption charges in February 2015.</p> <p><i>Effect</i> – Potential noncompliance with laws, regulations and abuse has 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 continue to comply with the Governor’s directive to review contracts and rebid where appropriate. Also, we recommend management continue to evaluate 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 has rebid substantially all contracts mentioned in the Governor’s directive. MDOC has engaged 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

Independent Auditor's Reports and
Schedule of Analysis of Changes in Accrued Compensated Absences,
Capital Lease Obligations and Bonds and Notes Payable, Net
June 30, 2015



**State of Mississippi
Department of Corrections**

June 30, 2015

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Independent Auditor's Report

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

Report on the Schedule of Analysis of Changes in Accrued Compensated Absences, Capital Lease Obligations and Bonds and Notes Payable, Net

We have audited the accompanying schedule of analysis of changes in accrued compensated absences, capital lease obligations and bonds and notes payable, net (the Schedule) of the State of Mississippi, Department of Corrections (MDOC) as of and for the year ended June 30, 2015, and the related notes to the schedule.

Management's Responsibility for the Schedule

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 accrued compensated absences, capital lease obligations and bonds and notes payable, net, 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, 2015, in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2016, 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
March 31, 2016

State of Mississippi
Department of Corrections
Schedule of Analysis of Changes in Accrued Compensated Absences,
Capital Lease Obligations and Bonds and Notes Payable, Net
Year Ended June 30, 2015

Governmental Activities Liability Category	Balance as of June 30, 2014	Additions	Deletions	Balance as of June 30, 2015
Accrued compensated absences	\$ 19,609,988	\$ 13,455,230	\$ 14,082,061	\$ 18,983,157
Capital lease obligations	2,477,545	-	616,789	1,860,756
Bonds and notes payable, net	<u>219,307,900</u>	<u>-</u>	<u>1,690,678</u>	<u>217,617,222</u>
	<u>\$ 241,395,433</u>	<u>\$ 13,455,230</u>	<u>\$ 16,389,528</u>	<u>\$ 238,461,135</u>

State of Mississippi
Department of Corrections
Notes to Schedule of Analysis of Changes in
Accrued Compensated Absences, Capital Lease Obligations
and Bonds and Notes Payable, Net
June 30, 2015

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 accrued compensated absences, capital lease obligations and bonds and notes payable, net (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.

State of Mississippi
Department of Corrections
Notes to Schedule of Analysis of Changes in
Accrued Compensated Absences, Capital Lease Obligations
and Bonds and Notes Payable, Net
June 30, 2015

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 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 schedule and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

State of Mississippi
Department of Corrections
Notes to Schedule of Analysis of Changes in
Accrued Compensated Absences, Capital Lease Obligations
and Bonds and Notes Payable, Net
June 30, 2015

Note 2: Other Accrued Compensated Absences, Capital Lease Obligations and Bonds and Notes Payable, Net

Accrued Compensated Absences

MDOC's total liability for compensated absences at June 30, 2015 is \$18,983,157 for governmental activities and \$159,619 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, 2015, 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	\$ 7,210,525	3.10% - 4.15%	April 2023	\$ 8,577,637
Buildings	201,085,000	3.62% - 5.37%	August 2027	201,085,000
	<u>208,295,525</u>			<u>209,662,637</u>
Premiums	9,321,697			13,114,663
Total bonds and notes payable, net	<u>\$ 217,617,222</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 and the related trust account are not included in the schedule. At June 30, 2015, \$8,450,000 of outstanding notes (including prior years' refundings) is considered defeased.

State of Mississippi
Department of Corrections
Notes to Schedule of Analysis of Changes in
Accrued Compensated Absences, Capital Lease Obligations
and Bonds and Notes Payable, Net
June 30, 2015

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, 2015, \$1,244,412 of amortization was recorded, resulting in an ending balance of \$15,036,642 for deferred outflow of resources on debt refundings for the aforementioned 2010 bonds.

At June 30, 2015, future debt service requirements for bonds and notes payable as presented in the governmental activities are as follows:

Year Ending June 30	Principal	Interest
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	15,166,962	8,110,332
2021-2025	84,308,168	27,751,298
2026-2028	<u>60,525,000</u>	<u>4,877,644</u>
Total debt service	<u>\$ 208,295,525</u>	<u>\$ 79,478,759</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
Accrued Compensated Absences, Capital Lease Obligations
and Bonds and Notes Payable, Net
June 30, 2015

At June 30, 2015, assets recorded under capital leases are as follows:

	Governmental Activities	Proprietary Activities
Machinery and equipment	\$ 2,836,970	\$ 1,540,106
Accumulated depreciation	<u>(1,725,463)</u>	<u>(663,413)</u>
	<u>\$ 1,111,507</u>	<u>\$ 876,693</u>

At June 30, 2015, future minimum commitments under capital leases are as follows:

Year Ending June 30	Governmental Activities
2016	\$ 681,238
2017	680,703
2018	371,092
2019	<u>221,351</u>
	1,954,384
Less amount representing interest	<u>(93,628)</u>
Present value of minimum lease payments	<u>\$ 1,860,756</u>

Note 3: Contingencies

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. In February 2015, the former Commissioner plead guilty to corruption charges, but final sentencing has not yet occurred.

State of Mississippi
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Notes to Schedule of Analysis of Changes in
Accrued Compensated Absences, Capital Lease Obligations
and Bonds and Notes Payable, Net
June 30, 2015

Subsequent to the indictment, Mississippi Governor Phil Bryant 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 contract review and rebidding process has been substantially completed. The effects of the contract review and rebidding process and the ultimate sentencing and restitution of the former Commissioner on this schedule is 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 accrued compensated absences, capital lease obligations and bonds and notes payable, net (the Schedule) of the State of Mississippi, Department of Corrections (MDOC) as of and for the year ended June 30, 2015, and have issued our report thereon dated March 31, 2016.

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 of the schedule, 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.

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 schedule will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

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 2015-001.

We noted certain matters that we reported to MDOC's management in a separate letter dated March 31, 2016.

MDOC's Responses to Findings

MDOC's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the schedule and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDOC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLC

Jackson, Mississippi
March 31, 2016

**State of Mississippi
Department of Corrections
Schedule of Findings and Responses
Year Ended June 30, 2015**

<i>Reference Number</i>	<i>Finding</i>	<i>Questioned Costs</i>
2015-001	<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. The former Commissioner plead guilty to corruption charges in February 2015.</p> <p><i>Effect</i> – Potential noncompliance with laws, regulations and abuse has 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 continue to comply with the Governor’s directive to review contracts and rebid where appropriate. Also, we recommend management continue to evaluate 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 has rebid substantially all contracts mentioned in the Governor’s directive. MDOC has engaged 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