



STATE OF MISSISSIPPI
TREASURY DEPARTMENT

TATE REEVES
STATE TREASURER

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

May 8, 2007

Honorable Phil Bryant
State Auditor
State of Mississippi
8th Floor, Woolfolk Building
Jackson, Mississippi 39201

Dear Mr. Bryant:

We have reviewed the financial audit findings in reference to our fiscal year 2006 audit. Listed below are our responses and plan for corrective action:

AUDIT FINDING:	Controls over Collateralization of Repurchase Agreements Should Be Strengthened
Response:	We concur with the audit finding and took steps to correct the problems surrounding adequate collateralization of the repurchase agreements in question.
Corrective Action:	Proper training was given to staff on the mechanics of repurchase agreements and the obligations of both the buyer and seller in the agreement. Additional training on the QED software was conducted to enable the staff to be fully capable of running collateral sufficiency tests and ensuring that the information was accurate on the system. Procedures were put in place to issue margin calls to the repurchase agreement counterparties when repurchase agreement collateral is deemed insufficient. These procedures were not in place previously because it was believed that our custodian was handling the margin calls on Treasury's behalf. Once it was determined that the custodian would not provide that service, procedures were put in place internally to ensure that these margin calls were done promptly upon discovering insufficient collateralization. Additional procedures were put in place whereby monthly reconciliations are delivered to the Chief Investment Officer for review and signature before being given to the Internal Auditor for review and signature. Previous procedures had the reconciliations going directly to the Internal Auditor – this change provides another layer of oversight in this area.



**STATE OF MISSISSIPPI
TREASURY DEPARTMENT**

**TATE REEVES
STATE TREASURER**

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

AUDIT FINDING: Controls Over Arbitrage Calculations Should be Strengthened

Response: We concur with this finding.

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

AUDIT FINDING: Collateral Sufficiency Analysis Reports Should Be Reconciled to Agency Records

Response: We concur with the audit finding and have already implemented new procedures to address the lack of timely reconciliations related to the collateral sufficiency analysis for bank deposits of the State.



STATE OF MISSISSIPPI
TREASURY DEPARTMENT

TATE REEVES
STATE TREASURER

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

Corrective Action:

Staff was educated as to the purpose and importance of the reconciliation to ensure that the Investment and Collateral divisions within the Treasury had the same amount of deposits on record as of each quarter-end date. Steps were also taken to align the Investment and Collateral database codes to make the reconciliation less cumbersome and time-consuming for the staff to conduct. Staff will check the balances on the Investment system against those provided by collateral – the accuracy of the balances on the Investment systems is ensured by the Inventory reconciliation conducted monthly by the Investment staff. Discrepancies will be researched and addressed on a case-by-case basis and will be noted in the reconciliations.

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

Sincerely,

Tate Reeves
State Treasurer