



STATE OF MISSISSIPPI  
TREASURY DEPARTMENT

TATE REEVES  
STATE TREASURER

POST OFFICE BOX 138  
JACKSON, MISSISSIPPI 39205  
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May 2, 2008

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

Dear Mr. Pickering:

We have reviewed the financial audit findings in reference to our fiscal year 2007 audit. Listed below are our responses and plan for corrective action:

AUDIT FINDING:	Supervisory Review of Arbitrage Schedules Should Be Performed
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. A supervisor will perform a cursory review of the schedules and this review will be documented. However, the review will be limited in scope to a representative sample.



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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:

The finding pertains to one repurchase agreement where the counterparty maintains a level of collateralization just over the required 102 percent level. The volatility seen in the bond market over the last year created large changes in the market value of pledged assets resulting in more frequent under-collateralization of the repurchase agreement. It was determined that checks more frequent than the usual monthly procedure would be required for this particular repurchase agreement. The repurchase agreement is now regularly checked, and margin calls are issued if needed.

It is the opinion of this office that the focus of this finding is misplaced – the issue should not be whether or not the repurchase agreements are sufficiently collateralized. Because of fluctuations in the market value of the pledged securities, the collateralization of the repurchase agreements is ultimately beyond our control. What is important, in our view, is that when the repurchase agreement becomes under-collateralized, we take action in a timely manner by issuing a margin call to ensure additional collateral is pledged. We believe that we have effectively addressed the issues surrounding the collateralization of our repurchase agreements and will continue to monitor them closely in the future.

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

Sincerely,

Tate Reeves  
State Treasurer