



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

**State of Mississippi
Department of Corrections**

Independent Auditor's Reports and
Financial Statements of Funds Selected for Audit
June 30, 2018



State of Mississippi
Department of Corrections
June 30, 2018

Contents

| | |
|---|---------------|
| Independent Auditor's Report..... | 1 |
| Financial Statements of Funds Selected for Audit | |
| Balance Sheet – Governmental Fund Type | 4 |
| Statements of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund Type | 5 |
| Notes to Financial Statements | 6 |
| 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> – Independent Auditor's Report | |
| | 13 |
| Schedule of Findings and Responses..... | 15 |

Independent Auditor's Report

Commissioner Pelicia Hall
State of Mississippi, Department of Corrections
Jackson, Mississippi

Report on the Financial Statements of Funds Selected for Audit

We have audited the accompanying financial statements of the General Support Fund, the Medical Fund, the Private Prison Fund, the Regional Prison Fund, the General Support Contingency Fund, the Inmate Welfare Fund, the Community Corrections Fund, the Capital Expense Fund and the Medical Capital Expense Fund of the State of Mississippi, Department of Corrections (Selected Funds of MDOC), which are comprised of the respective balance sheet as of June 30, 2018, and respective 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 General Support Fund, the Medical Fund, the Private Prison Fund, the Regional Prison Fund, the General Support Contingency Fund, the Inmate Welfare Fund, the Community Corrections Fund, the Capital Expense Fund and the Medical Capital Expense Fund of the State of Mississippi, Department of Corrections, as of June 30, 2018, and the respective changes in their 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 referred to above are intended to present only the respective financial position and the respective changes in financial position of the General Support Fund, the Medical Fund, the Private Prison Fund, the Regional Prison Fund, the General Support Contingency Fund, the Inmate Welfare Fund, the Community Corrections Fund, the Capital Expense Fund and the Medical 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, 2018, 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

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinions on the financial statements are not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2019, on our consideration of the Selected Funds of MDOC's internal control over financial reporting and our tests of their 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 effectiveness of the Selected Funds of MDOC's 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 the Selected Funds of MDOC's internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
February 8, 2019

State of Mississippi
Department of Corrections
Balance Sheet of Funds Selected for Audit
June 30, 2018

| | Governmental Fund Type | | | | | | | | |
|--------------------------------------|----------------------------|-----------------|---------------------------|----------------------------|---|---------------------------|----------------------------------|----------------------------|---------------------------------------|
| | 2255100000 | 2255400000 | 225550000 | 2255600000 | 3355100000 | 3356100000 | 3356600000 | 6456700000 | 6455A00000 |
| | General Support Fund | Medical Fund | Private Prison Fund | Regional Prison Fund | General Support Contingency Fund | Inmate Welfare Fund | Community Corrections Fund | Capital Expense Fund | Medical Capital Expense Fund |
| Assets | | | | | | | | | |
| Cash | \$ - | 851,813 | \$ - | \$ - | \$ 401,796 | \$ 2,375,450 | \$ - | \$ - | \$ - |
| Cash with fiscal agent | - | - | - | - | 3,590 | - | - | - | - |
| Due from other funds | - | - | - | - | 121,827 | 255,250 | - | - | - |
| Accounts receivable | - | - | - | - | 92,878 | - | - | - | - |
| Inventories | 4,269,355 | - | - | - | - | - | - | - | - |
| Total assets | \$ 4,269,355 | \$ 851,813 | \$ - | \$ - | \$ 620,091 | \$ 2,630,700 | \$ - | \$ - | \$ - |
| Liabilities and Fund Balances | | | | | | | | | |
| Liabilities | | | | | | | | | |
| Accounts payable | \$ - | \$ 16,085,179 | \$ - | \$ - | \$ 215,353 | \$ 31,894 | \$ - | \$ - | \$ - |
| Accrued wages payable | - | 8,314 | - | - | 14,485 | - | - | - | - |
| Due to other funds | - | - | - | - | 255,250 | - | - | - | - |
| Due to local governments | - | - | 3,468,535 | 3,046,912 | - | - | - | - | - |
| Total liabilities | - | 16,093,493 | 3,468,535 | 3,046,912 | 485,088 | 31,894 | - | - | - |
| Fund Balances (Deficit) | | | | | | | | | |
| Nonspendable | | | | | | | | | |
| Inventories | 4,269,355 | - | - | - | - | - | - | - | - |
| Restricted for | | | | | | | | | |
| Law, justice and public safety | - | - | - | - | 135,003 | - | - | - | - |
| Committed to | | | | | | | | | |
| Law, justice and public safety | - | - | - | - | - | 2,598,806 | - | - | - |
| Unassigned | - | (15,241,680) | (3,468,535) | (3,046,912) | - | - | - | - | - |
| Total fund balances (deficit) | 4,269,355 | (15,241,680) | (3,468,535) | (3,046,912) | 135,003 | 2,598,806 | - | - | - |
| Total liabilities and fund balances | \$ 4,269,355 | \$ 851,813 | \$ - | \$ - | \$ 620,091 | \$ 2,630,700 | \$ - | \$ - | \$ - |

State of Mississippi
Department of Corrections
Statements of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2018

| | Governmental Fund Type | | | | | | | | |
|---|----------------------------|-----------------|---------------------------|----------------------------|---|---------------------------|----------------------------------|----------------------------|---------------------------------------|
| | 2255100000 | 2255400000 | 225550000 | 2255600000 | 3355100000 | 3356100000 | 3356600000 | 6456700000 | 6455A00000 |
| | General Support Fund | Medical Fund | Private Prison Fund | Regional Prison Fund | General Support Contingency Fund | Inmate Welfare Fund | Community Corrections Fund | Capital Expense Fund | Medical Capital Expense Fund |
| Revenues | | | | | | | | | |
| State appropriation/allotment | \$ - | 58,800,750 | 63,497,738 | 40,155,159 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Federal grants | - | - | - | - | 108,885 | - | - | - | - |
| Sales of supplies | - | - | - | - | 51,773 | - | - | - | - |
| Other income | - | - | - | - | 13,699 | 536 | - | - | - |
| Total revenues | - | 58,800,750 | 63,497,738 | 40,155,159 | 174,357 | 536 | - | - | - |
| Expenditures | | | | | | | | | |
| Current | | | | | | | | | |
| Salaries | - | 254,018 | - | - | 321,414 | 226,886 | 800,000 | - | - |
| Travel | - | 4,997 | - | - | 7,842 | 3,025 | - | - | - |
| Contractuals | - | 64,175,373 | 42,397,596 | 40,027,803 | 926,291 | 639,906 | - | - | 7,111,185 |
| Commodities | - | - | - | - | 8,283 | 332,518 | - | - | - |
| Debt service | | | | | | | | | |
| Principal | - | - | 13,580,000 | - | 3,389,215 | - | - | - | - |
| Interest and other charges | - | - | 7,859,133 | - | - | - | - | - | - |
| Bond Issuance Cost | - | - | - | - | 32,926 | - | - | - | - |
| Capital outlay | - | - | - | - | 480,023 | 14,355 | - | - | - |
| Total expenditures | - | 64,434,388 | 63,836,729 | 40,027,803 | 5,165,994 | 1,216,690 | 800,000 | - | 7,111,185 |
| Excess of Revenues Over (Under) Expenditures | - | (5,633,638) | (338,991) | 127,356 | (4,991,637) | (1,216,154) | (800,000) | - | (7,111,185) |
| Other Financing Sources (Uses) | | | | | | | | | |
| Transfers in (out), net | 3,929,223 | - | - | - | (1,495,497) | 2,581,108 | (1,385,386) | - | 7,111,185 |
| Proceeds from issuance of debt | - | - | - | - | 3,856,000 | - | - | - | - |
| | 3,929,223 | - | - | - | 2,360,503 | 2,581,108 | (1,385,386) | - | 7,111,185 |
| Net Change in Fund Balances | 3,929,223 | (5,633,638) | (338,991) | 127,356 | (2,631,134) | 1,364,954 | (2,185,386) | - | - |
| Fund Balances (Deficit), Beginning of Year | 340,132 | (9,608,042) | (3,129,544) | (3,174,268) | 2,766,137 | 1,233,852 | 2,185,386 | - | - |
| Fund Balances (Deficit), End of Year | \$ 4,269,355 | \$ (15,241,680) | \$ (3,468,535) | \$ (3,046,912) | \$ 135,003 | \$ 2,598,806 | \$ - | \$ - | \$ - |

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2018

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 of MDOC), and the accompanying presentation does not purport to present the financial position and changes in financial position of MDOC.

- A. Support Budget Authority Funds** (Funds 2255100000 – General Support Fund, 3355100000 – General Support Contingency Fund, 3356600000 – Community Corrections Fund and 6456700000 – Capital Expense Fund) are used to account for the general operations of MDOC. The Community Corrections Fund is used to supervise parolees.
- B. Medical Budget Authority Funds** (Funds 2254400000 – Medical Fund and 6455A00000 – 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.
- C. Private Prison Budget Authority Fund** (Funds 2255500000 – Private Prison Fund) is used to account for the expenditures paid to private prison entities for the management of the four (4) private prisons. During 2017, the private prison at Walnut Grove Correction Facility was closed. The closure of this prison will not impact MDOC's requirement to make debt service payments.
- D. Regional Prison Budget Authority Fund** (Funds 2255600000 – Regional Prison Fund) is used to account for the expenditures related to managing and maintaining the fifteen (15) regional facilities.
- E. Inmate Welfare Fund** (Fund 3356100000) is used to account for revenues and other sources received by MDOC through canteen and vending commissions, and related expenditures to provide for certain benefits for the inmates. Beginning in March 2016, canteen commission were deposited directly in the Inmate Welfare Fund from the third-party canteen vendor. As these payments were required to be remitted to MDOC through the Mississippi Office of the State Treasurer, the canteen commissions are reported as transfers in the accompanying statements of revenues, expenditures and changes in fund balances.

State of Mississippi Department of Corrections

Notes to Financial Statements of Funds Selected for Audit

June 30, 2018

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 (GASB).

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 of MDOC 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 (GAAP) 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.

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2018

Revenue Recognition

Revenues in the various funds are generally recognized when the revenues are received or appropriated by the State of Mississippi Legislature.

State Appropriation/Allotment

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.

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, 2018, there were no cash equivalents.

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

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 other funds" or "due to other funds." Noncurrent portions of interfund receivables/ payables, if any, are reported as "advances to other funds" or "advances from other funds."

Accounts Receivable

Accounts receivable are reported net of allowances for uncollectible accounts, where applicable. No allowance for uncollectible accounts was recorded at June 30, 2018.

Inventories

Inventories consist of armory, clothing, housekeeping and office 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 the Selected Funds of MDOC's governmental funds are displayed in five components.

State of Mississippi

Department of Corrections

Notes to Financial Statements of Funds Selected for Audit

June 30, 2018

- ***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.
- ***Committed*** – Amounts that can be used only for the specific purposes determined by a formal action of the State of 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, 2018.
- ***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. The Selected Funds of MDOC apply 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, 2018, certain funds of the Selected 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 State of Mississippi 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

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2018

pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

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 (COLA) 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 2018, 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.

In July 2018, the Board of Trustees of PERS voted to increase the employer contribution from 15.75% of payroll to 17.40% effective July 1, 2019.

Note 4: Interfund Receivables, Payables and Transfers

Interfund receivables and payables at June 30, 2018, are as follows:

| | Interfund Receivables | Interfund Payables |
|---|----------------------------------|-------------------------------|
| 3355100000 - General Support Contingency Fund | | |
| 3356100000 - Inmate Welfare Fund | | |
| State of Mississippi | \$ - | \$ 255,250 |
| | <u>121,827</u> | <u>-</u> |
| | <u>\$ 121,827</u> | <u>\$ 255,250</u> |
| 3356100000 - Inmate Welfare Fund | | |
| 3355100000 - General Support Contingency Fund | \$ 255,250 | \$ - |
| | <u>255,250</u> | <u>-</u> |

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2018

Interfund transfers for the year ended June 30, 2018, are as follows:

| | Interfund Transfers Out | Interfund Transfers In |
|---|--|---------------------------------------|
| 2255100000 - General Support Fund | | |
| MDOC Allocated Funds | \$ - | \$ 3,929,223 |
| 3355100000 - General Support Contingency Fund | | |
| 3356100000 - Inmate Welfare Fund | - | 238,669 |
| 3356800000 - Central Mississippi Special Fund | 625,000 | - |
| 3356900000 - Parchman Special Fund | 1,050,000 | - |
| 3357000000 - South Mississippi Special Fund | 550,000 | - |
| MDOC Allocated Funds | - | 360,234 |
| State of Mississippi | - | 130,600 |
| | <u>\$ 2,225,000</u> | <u>\$ 729,503</u> |
| 3356100000 - Inmate Welfare Fund | | |
| State of Mississippi | \$ - | \$ 2,819,777 |
| 3355100000 - General Support Contingency Fund | 238,669 | |
| | <u>\$ 238,669</u> | <u>\$ 2,819,777</u> |
| 3356600000 - Community Corrections Fund | | |
| 8815000000 - Area Supervision Fee Fund | \$ - | \$ 1,044,076 |
| 3356700000 - Community Corrections Special Fund | 2,429,462 | |
| | <u>\$ 2,429,462</u> | <u>\$ 1,044,076</u> |
| 6455A00000 - Medical Capital Expense Fund | | |
| State of Mississippi | \$ - | \$ 7,111,185 |

State of Mississippi
Department of Corrections
Notes to Financial Statements of Funds Selected for Audit
June 30, 2018

Note 5: Contingencies

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, expenditures and changes in fund balances of the Selected Funds of MDOC. Additionally, under the current financial resources measurement focus and the modified accrual basis of accounting, no contingent liability would be recorded.

**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**

Independent Auditor's Report

Commissioner Pelicia Hall
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 General Support Fund, the Medical Fund, the Private Prison Fund, the Regional Prison Fund, the General Support Contingency Fund, the Inmate Welfare Fund, the Community Corrections Fund, the Capital Expense Fund and the Medical Capital Expense Fund of the State of Mississippi, Department of Corrections (the Selected Funds of MDOC), which are comprised of the respective balance sheet as of June 30, 2018, and respective 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 February 8, 2019, which contained an *Emphasis of Matter* paragraph regarding the entity reflected in the financial statements and an *Other Matter* paragraph regarding the omission of management's discussion and analysis.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MDOC's internal control over financial reporting (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 the entity'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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-004 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Selected Funds of MDOC's financial statements are free from material misstatement, we performed tests of their 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

MDOC's Response to Findings

MDOC'S response to the findings identified in our audit are described in the accompanying schedule of findings and responses. MDOC's response was not subjected to the auditing procedures applied in the audits of the financial statements, 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 Selected Funds 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 the Selected Funds of MDOC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Jackson, Mississippi
February 8, 2019

Mississippi Department of Corrections
Schedule of Findings and Responses
Year Ended June 30, 2018

| Reference Number | Findings |
|-----------------------------|--|
| 2018-004 | <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> – Calculation and other errors were identified in the underlying and supporting worksheets used in MDOC’s GAAP Package Reporting process. Additionally, the recordkeeping and organizational system of the underling calculations and worksheets used in the GAAP Package Reporting process is disorganized and not conducive to easy supervisory review and approval.</p> <p><i>Effect</i> – Audit adjustments were required to correct material misstatements identified in the Selected Funds of MDOC’s financial statements.</p> <p><i>Cause</i> – The previously designed accounting policies and procedures of MDOC didn’t provide for a sufficiently detailed level of supervisory challenge, review and approval of the underling and supporting worksheets and calculations used in GAAP Package Reporting. Additionally, the recordkeeping and organizational system of the underlying and supporting calculations and worksheets is not conducive for easy supervisory review and approval.</p> <p><i>Recommendation</i> – MDOC should implement a more detailed process for the review and approval of GAAP Package Reporting. As a part of this process, the individual underlying and supporting worksheets and calculations should be subject to independent challenge, review and approval at a sufficiently detailed level whereas calculation and other errors are prevented and detected in a timely manner. Additionally, we recommend MDOC implement a more formalized organizational system for the underlying calculations and worksheets that includes cross-references to support, detailed support for MDOC’s Agency GAAP Adjustments and reconciliations sufficient to support the balances reported.</p> |

Mississippi Department of Corrections
Schedule of Findings and Responses
Year Ended June 30, 2018

**Reference
Number**

Findings

Views of Responsible Officials and Planned Corrective Actions – MDOC will evaluate and enhance its GAAP Package Reporting process as it relates to the completion and organization of the supporting documents and the detailed level of supervisory review and approval over the underlying and supporting worksheets and calculations. Any process improvements or changes in internal control will be implemented before the 2019 GAAP Package Reporting process.

**State of Mississippi
Department of Corrections**

Independent Auditor's Reports and
Schedule of Analysis of Changes in
Bonds and Notes Payable, Net
June 30, 2018



State of Mississippi
Department of Corrections
June 30, 2018

Contents

| | |
|--|--------------|
| Independent Auditor's Report..... | 1 |
| Financial Statement | |
| Schedule of Analysis of Changes in Bonds and Notes Payable, Net..... | 3 |
| Notes to Schedule of Analysis of Changes in Bonds and Notes Payable, Net..... | 4 |
| 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> - Independent Auditor's Report..... | |
| | 7 |
| Schedule of Findings and Responses..... | 9 |

Independent Auditor's Report

Commissioner Pelicia Hall
State of Mississippi, Department of Corrections
Jackson, Mississippi

Report on the Schedule of Analysis of Changes in Bonds and Notes Payable, Net

We have audited the accompanying schedule of analysis of changes in 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, 2018, and the related notes to the Schedule.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the 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 the 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 bonds and notes payable, net, referred to above presents fairly, in all material respects, the balance of and the changes in bonds and notes payable, net, of MDOC as of and for the year ended June 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in *Note 1*, the Schedule presents only Bonds and Note Payable, net, representing the line item of the Schedule selected for audit by the State of Mississippi, Office of the State Auditor and does not purport to, and does not present fairly the Long-term Obligations of MDOC as of and for the year ended June 30, 2018 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 also have issued our report dated February 8, 2019, on our consideration of MDOC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, as related to the Schedule. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, as related to the Schedule, and not to provide an opinion on the effectiveness of MDOC's 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
February 8, 2019

State of Mississippi
Department of Corrections
Schedule of Analysis of Changes in
Bonds and Notes Payable, Net
Year Ended June 30, 2018

| Governmental Activities Liability Category | Balance as of July 1, 2017 | Additions | Deletions | Balance as of June 30, 2018 |
|---|---------------------------------------|---------------------|----------------------|--|
| Bonds and notes payable, net | <u>\$ 214,348,118</u> | <u>\$ 1,749,093</u> | <u>\$ 17,988,468</u> | <u>\$ 198,108,743</u> |

State of Mississippi
Department of Corrections
Notes to Schedule of Analysis of Changes in
Bonds and Notes Payable, Net
June 30, 2018

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 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 (GASB).

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
Bonds and Notes Payable, Net
June 30, 2018

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.

Note 2: Bonds and Notes Payable, Net

Bonds and Notes Payable

At June 30, 2018, MDOC's outstanding bonds and notes payable, net, as presented in the governmental activities are as follows:

| Purpose | Outstanding Amount | Interest Rates | Final Maturity Date | Original Amount |
|------------------------------------|---------------------------|-----------------------|----------------------------|------------------------|
| Equipment | \$ 4,721,891 | 2.39% - 3.10% | February 2023 | \$ 6,485,914 |
| Buildings | 177,025,000 | 1.10% - 5.37% | August 2027 | 208,760,000 |
| | 181,746,891 | | | 215,245,914 |
| Premiums | 16,361,852 | | | 25,099,818 |
| Total bonds and notes payable, net | <u>\$ 198,108,743</u> | | | <u>\$ 240,345,732</u> |

Refunding and Defeased Bonds and Notes

In 2018, MDOC issued a note payable of \$3,856,000 to pay off the remaining note payable balance of \$3,389,215 and to exercise the buyout option of equipment financed under notes payable.

In 2017, MDOC issued bonds (referred to as the 2016ABCD Bonds) as a partial advance refunding on outstanding bonds for private prisons, 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, 2018, outstanding notes considered defeased totaled \$100,580,000 and will be redeemed in full in August 2020.

State of Mississippi
Department of Corrections
Notes to Schedule of Analysis of Changes in
Bonds and Notes Payable, Net
June 30, 2018

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, 2018, \$1,335,709 of amortization was recorded, resulting in an ending balance of \$7,654,969 for deferred outflow of resources on debt refundings for MDOC's 2010CD and 2016ABCD bonds.

At June 30, 2018, future debt service requirements for notes payable as presented in the governmental activities are as follows:

| Year Ending June 30 | Principal | Interest |
|----------------------------|------------------------------|-----------------------------|
| 2019 | \$ 15,686,284 | \$ 7,551,225 |
| 2020 | 16,417,273 | 6,820,621 |
| 2021 | 16,755,765 | 6,047,196 |
| 2022 | 17,499,296 | 5,173,385 |
| 2023 | 18,153,273 | 4,550,011 |
| 2024-2028 | <u>97,235,000</u> | <u>10,375,128</u> |
| Total debt service | <u><u>\$ 181,746,891</u></u> | <u><u>\$ 40,517,566</u></u> |

Notes Authorized But Not Funded

At June 30, 2018, authorized but not funded notes payable included \$8,708,500 to be used for new equipment. Funds were drawn from the lending financial institution to the escrow account associated with this note payable was funded in July 2018.

**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**

Independent Auditor's Report

Commissioner Pelicia Hall
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 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, 2018, and have issued our report thereon dated February 8, 2019, which contained an *Emphasis of Matter* paragraph regarding the item reflected in the Schedule.

Internal Control Over Financial Reporting

In planning and performing our audit of the Schedule, we considered MDOC's internal control over financial reporting (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 the entity'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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-004 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MDOC's Schedule is free from material misstatement, we performed tests of their 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

MDOC's Response to Findings

MDOC's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. MDOC'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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Jackson, Mississippi
February 8, 2019

Mississippi Department of Corrections
Schedule of Findings and Responses
Year Ended June 30, 2018

| Reference Number | Findings |
|-----------------------------|--|
| 2018-004 | <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> – Calculation and other errors were identified in the underlying and supporting worksheets used in MDOC’s GAAP Package Reporting process. Additionally, the recordkeeping and organizational system of the underling calculations and worksheets used in the GAAP Package Reporting process is disorganized and not conducive to easy supervisory review and approval.</p> <p><i>Effect</i> – Audit adjustments were required to correct material misstatements identified in MDOC’s Schedule.</p> <p><i>Cause</i> – The previously designed accounting policies and procedures of MDOC didn’t provide for a sufficiently detailed level of supervisory challenge, review and approval of the underling and supporting worksheets and calculations used in GAAP Package Reporting. Additionally, the recordkeeping and organizational system of the underlying and supporting calculations and worksheets is not conducive for easy supervisory review and approval.</p> <p><i>Recommendation</i> – MDOC should implement a more detailed process for the review and approval of GAAP Package Reporting. As a part of this process, the individual underlying and supporting worksheets and calculations should be subject to independent challenge, review and approval at a sufficiently detailed level whereas calculation and other errors are prevented and detected in a timely manner. Additionally, we recommend MDOC implement a more formalized organizational system for the underlying calculations and worksheets that includes cross-references to support, detailed support for MDOC’s Agency GAAP Adjustments and reconciliations sufficient to support the balances reported.</p> |

Mississippi Department of Corrections
Schedule of Findings and Responses
Year Ended June 30, 2018

| Reference Number | Findings |
|-----------------------------|---|
| | <i>Views of Responsible Officials and Planned Corrective Actions</i> – MDOC will evaluate and enhance its GAAP Package Reporting process as it relates to the completion and organization of the supporting documents and the detailed level of supervisory review and approval over the underlying and supporting worksheets and calculations. Any process improvements or changes in internal control will be implemented before the 2019 GAAP Package Reporting process. |

Commissioner Pelicia Hall
State of Mississippi, Department of Corrections
Jackson, Mississippi

As part of our audit of the financial statements of the following funds and schedule of the State of Mississippi, Department of Corrections (MDOC) selected for audit by the State of Mississippi Office of State Auditor as of and for the year ended June 30, 2018, we wish to communicate the following to you. All references to the financial statements herein include the schedule.

- General Support Fund
- Medical Fund
- Private Prison Fund
- Regional Prison Fund
- General Support Contingency Fund
- Inmate Welfare Fund
- Community Corrections Fund
- Capital Expense Fund
- Medical Capital Expense Fund
- Schedule of Analysis of Changes in Bonds and Notes Payable, Net

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under 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

An audit performed 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 is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

MDOC's significant accounting policies are described in *Note 1* of the audited financial statements.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

No matters are reportable.

Financial Statement Disclosures

No matters are reportable.

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded

- General Support Fund
 - Reverse Mississippi Department of Finance and Administration (DFA) posted claims payable and to record the current year impact of prior claims payable adjustments not posted by DFA
 - Correct keying error in inventory worksheet
- Medical Fund
 - Accrue additional liabilities
- General Support Contingency Fund
 - Correct recording of debt issuance
 - Write off old due from other funds per DFA

- Community Corrections Fund
 - Reverse prior year cash transfer during the lapse period
- Schedule of Analysis of Changes in Bonds and Notes Payable, Net
 - Correct opening balance for keying error
 - Remove debt issued but not funded in the current year
 - Record premium amortizations
 - Adjust principal reductions to actual

Proposed Audit Adjustments Not Recorded

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

Auditor's Judgments About the Quality of the Entity's Accounting Principles

No matters are reportable.

Disagreements with Management

No matters are reportable.

Difficulties Encountered in Performing the Audit

The recordkeeping and organizational system of the underlying calculations and worksheets used in the GAAP Package Reporting process is disorganized and not conducive to the audit process.

Other Material Communication

Listed below is another material communication between management and us related to the audit:

- Management representation letter (attached)

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of MDOC as of and for the year ended June 30, 2018, 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, we considered MDOC's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies 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 of MDOC's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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 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.

We observed the following matters that we consider to be deficiencies or a material weakness.

Material Weaknesses

Refer to the 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*.

Deficiencies

MDOC Oversight of Transactions Posted to MAGIC by DFA and MDOC Stand-alone Financial Statements

On July 1, 2014, the State of Mississippi went live with MAGIC. Under this new enterprise resource planning (ERP) system, certain accounting responsibilities shifted from the individual state agencies to DFA. DFA has the ability to post journal entries and other transactions directly to the financial records of MDOC, including both year-end close-out entries and entries during the year. MDOC currently has limited oversight over these DFA entries. DFA does not provide support to MDOC for these entries.

Also, various accounting policies implemented by DFA facilitate reporting at the statewide level, but impair reporting at the individual agency level. For example, certain financial statement elements are

only reconciled at the agency-wide level and not at the fund level. Additionally, we encountered instances where support available only in the MAGIC system was not easily accessible.

We recommend MDOC seek ways to improve its oversight over the individual fund financial statements and its ability to generate reports out of the MAGIC system to prevent misstatements in the individual fund financial statements.

Accounts Payable Cutoff

During the audit, we identified additional liabilities to accrue in the Medical Fund, which resulted in a proposed audit adjustment. While MDOC prepares a tracking spreadsheet that facilitates the evaluation of the timing of the payments to local jails, we recommend MDOC further utilize that spreadsheet to calculate the accounts payable at year-end.

Other

We observed matters that we consider to be deficiencies that we communicated to management orally.

This communication is intended solely for the information and use of management, the Commissioner and others within MDOC and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

February 8, 2019



STATE OF MISSISSIPPI

DEPARTMENT OF CORRECTIONS

PELICIA E. HALL, Esq.
COMMISSIONER

February 8, 2019

BKD, LLP

Certified Public Accountants
190 East Capitol Street, Suite 500
Jackson, MS 39201-2190

We are providing this letter in connection with your audits of our financial statements of the following general funds of the Mississippi Department of Corrections: 2255100000, 2255400000, 2255500000, 2255600000, 3355100000, 3356600000, 6456700000, 6455A00000, and 3356100000 and the Schedule of Analysis of Changes in Bonds and Notes Payable, Net (the Schedule) of the State of Mississippi, Department of Corrections (MDOC) as of and for the years ended June 30, 2018.

All references to financial statements herein include the Schedule. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated July 20, 2018, as amended July 24, 2018, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for 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.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.
5. We have provided you with:
 - (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
 - (b) Additional information that you have requested from us for the purpose of the audit.
 - (c) Unrestricted access to persons within MDOC from whom you determined it necessary to obtain audit evidence.
 - (d) All minutes of meetings of the governing body held through the date of this letter, except that there are no minutes.
 - (e) All significant contracts and grants.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by MDOC procedures with respect to:
 - (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets, liabilities or net position.
8. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
9. We have no knowledge of any known or suspected:
 - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.

10. We have no knowledge of any allegations of fraud or suspected fraud affecting MDOC received in communications from employees, customers, regulators, suppliers or others.
11. We have disclosed to you the identity of the MDOC's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; management, and members of their immediate families, component units; and any other party with which MDOC may deal if it can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with us.
12. Except as reflected in the financial statements, there are no:
 - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - (b) Material transactions omitted or improperly recorded in the financial statements.
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.
 - (e) Agreements to purchase assets previously sold.
 - (f) Restrictions on cash balances or compensating balance agreements.
 - (g) Guarantees, whether written or oral, under which MDOC is contingently liable.
13. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
14. We have no reason to believe MDOC owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.

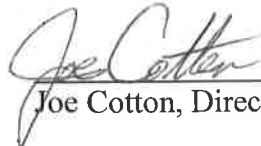
15. We have disclosed to you that there are numerous *Pro Se* (self-filed) litigation in State and Federal Court that are pending and threatened. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
16. Adequate provisions and allowances have been accrued for any material losses from:
 - (a) Uncollectible receivables.
 - (b) Reducing obsolete or excess inventories to estimated net realizable value.
 - (c) Sales commitments, including those unable to be fulfilled.
 - (d) Purchase commitments in excess of normal requirements or above prevailing market prices.
17. Except as disclosed in the financial statements, we have:
 - (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
 - (b) Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.
18. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
19. With regard to deposit and investment activities:
 - (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.
 - (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
 - (c) We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.

20. With respect to any nonattest services you have provided us during the year, including proposing adjusting or correcting journal entries and drafts of financial statements and related notes to be reviewed and approved by management:
 - (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
 - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - (d) We have evaluated the adequacy of the services performed and any findings that resulted.
21. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.
22. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.
23. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.
24. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.
25. We have a process to track the status of audit findings and recommendations.
26. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.
27. We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on compliance and other matters based on your audit of the financial statements performed in accordance with *Government Auditing Standards*.

28. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
29. Management of MDOC has elected to omit management's discussion and analysis, which is supplementary information required by the Governmental Accounting Standards Board. We understand you will include an emphasis of matter paragraph in your opinion related to this discussion.



Dell Lemley, Deputy Commissioner of
Administration and Finance



Joe Cotton, Director of Accounting

Mississippi Department of Corrections
ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

2255400000 - Medical

QUANTITATIVE ANALYSIS

| | Before Misstatements | Misstatements | Subsequent to Misstatements | % Change |
|--------------------------------------|-------------------------|---------------|--------------------------------|----------|
| Total Assets & Deferred Outflows | 851,813 | | 851,813 | |
| Total Liabilities & Deferred Inflows | (16,093,493) | | (16,093,493) | |
| Total Fund Balance | 15,241,680 | | 15,241,680 | |
| Revenues | (58,800,750) | | (58,800,750) | |
| Expenditures | 64,434,388 | 168,305 | 64,602,693 | 0.26% |
| Change in Fund Balance | 5,633,638 | 168,305 | 5,801,943 | 2.99% |

| | | | | | | | | | | | | Net Effect on Following Year | | | | | | | |
|--|-------------------------------|--|-------------------|------|------------------|------|----------|------|--------------|---------|--------------|----------------------------------|----|---------|----|------|--|--|--|
| Description | Financial Statement Line Item | Factual (F), Judgmental (J), Projected (P) | Assets & Deferred | | Liabilities & | | Revenues | | Expenditures | | Fund Balance | Change in Fund | | Fund | | | | | |
| | | | Outflows | | Deferred Inflows | | | | | | | Balance | | Balance | | | | | |
| | | | DR | (CR) | DR | (CR) | DR | (CR) | DR | (CR) | DR | (CR) | DR | (CR) | DR | (CR) | | | |
| Current year impact of prior year passed adjustment for over accrued liabilities | | F | | 0 | | 0 | | 0 | | 168,305 | (168,305) | | 0 | | 0 | | | | |
| | Fund Balance | | | | | | | | | | (168,305) | | NA | | NA | | | | |
| | Contractuals | | | | | | | | | 168,305 | | | | | | | | | |
| Total passed adjustments | | | 0 | | 0 | | 0 | | 168,305 | | (168,305) | 0 | | 0 | | | | | |
| | | | | | | | | | | | | Impact on Change in Fund Balance | | 168,305 | | | | | |
| | | | | | | | | | | | | Impact on Fund Balance | | 0 | | | | | |