



DEPARTMENT OF
REVENUE
STATE OF MISSISSIPPI

Office of the Commissioner

May 11, 2015

Stacey E. Pickering, State Auditor
Office of the State Auditor
501 North West Street
Suite 801
Jackson, MS 39201

RE: Financial Audit Findings

Dear Mr. Pickering:

With respect to your audit of the financial statements of the Department of Revenue for the Fiscal Year ended June 30, 2014, we offer the following comments:

Controls Should be Strengthened to Ensure Proper Computation of the Estimate for Income Tax Refunds Payable by Tax Type at Fiscal Year-end

Finding:

In preparing the GAAP Reporting Packet for fund 3851, the Mississippi Department of Revenue (MDOR) calculated and recorded an accrual for estimated Income Tax Refunds Payable at fiscal year-end 2014. Audit adjustments were proposed and made by agency management to properly separate individual income tax and corporate income/franchise taxes. In addition, the amount of total estimated income tax refunds payable was reduced by \$14,000,000. Controls to ensure proper calculation of estimated tax refunds by tax type and underlying transactions relevant to the appropriate fiscal period should be strengthened.

Response:

We agree.

The MDOR recognizes the importance of good internal controls and the impact on financial statements.

Corrective Action:

To strengthen accounting controls, a new revenue code was added during October 2014 to include corporate income and franchise taxes. Procedures exist to review prior year accrual entries and any corrections to ensure appropriate fiscal period transactions are recorded.

Name: Jennifer Wentworth

Date: 5/8/15

Controls Should Be Strengthened Over the Diversion of Tax Collections

Finding:

During implementation of the Mississippi Automated Revenue System (MARS), MDOR has not performed a routine reconciliation of the month ending un-transferred collection balances of tax types managed in MARS as compared to the amounts reported in the agency's monthly accounting records. No audit trail was provided to the auditor to support the un-transferred tax collections in fund 9171 at month-end.

Based on test work performed, we noted the following problems:

- A system error occurred in June 2014 which caused an untimely transfer of withholding collections held for refunds in Treasury Clearing Fund 9171 to the State General Fund 2999 totaling \$10,492,257.
- Collections were diverted by the system to the State General fund 2999 when MARS generated an estimated tax assessment for delinquent Insurance Premium (ISP) taxpayers. Taxpayers remitted payment without filing returns. The amount owed to the State General Fund 2999 was double calculated, resulting in an excess diversion totaling \$310,286.

Potential errors in the automated processing of the various tax diversions may go uncorrected, and therefore misstate the state's financial statements as well as impact other agencies, cities, or counties within the state. MDOR should strengthen controls over the diversion of tax collections.

Response:

We agree.

Corrective Action:

The DOR Accounting department has developed a process to reconcile the ending un-transferred collections balances for MARS tax types. That process will be used on each of the tax types, beginning with the significant tax types.

Procedures have been established to detect system and human errors that could cause improper transfers of funds.

Name: Jennifer Wentworth
Date: 12/31/15

Controls Should Be Strengthened Over Adjustments and Abatements to Taxpayer Accounts

Finding:

22% of users with MARS access have the capability to request and approve adjustments and abatements without any type of approval from other personnel. MARS will send tax managers electronic notifications when DOR staff request an adjustment/abatement over \$5000. The notifications are only generated for adjustments/abatements entered via the adjustment tab on a filing period. The notifications

are not sent for any return change adjustments when a new version of a return is created, including return changes after the initial posting.

Good internal controls require a supervisory review and approval of significant and unusual adjustments and abatements made to taxpayer trial balances. The review and approval should be performed in a timely manner and adequately documented to identify the date of the review and the person approving.

Response:

We somewhat agree. The majority of taxes administered by the DOR now have improved oversight of transactions entered on taxpayer accounts. Tracking and event monitoring functionality has improved with conversion to MARS. Tax return processing and corrective actions, required to properly administer tax returns, are important services the agency performs for the citizens of Mississippi. The quality of our work must be exceptional and the quantity of returns processed must be balanced to accomplish our mission. Tax return processing should continue as currently designed without adding administrative requirements that contribute to inefficiency.

Corrective Action:

To strengthen controls over adjustments and abatements made to taxpayer trial balances, MARS generated notifications for return change adjustments over the MDOR threshold amount (when a new version of a return is created) will be added to the manager's oversight capability. Managers are instructed to open system generated notifications and to place an approval note on the taxpayer account for significant and unusual adjustments/abatements. To support timely action by managers, a MARS report will be developed to list notifications that have not been viewed by user (SQR 19623). The report will be monitored by senior staff.

Name: Jennifer Wentworth

Date: 10/31/15

Controls Should be Strengthened Over the Process of Applying Cease Dates on Taxpayer Accounts

Finding:

MARS is designed with an automated delinquency function that assesses an estimated tax liability if a tax return is not filed by the billing date of the month following the month of the filing period due date. Failure to adequately apply cease dates and any related indicators may result in incorrect tax assessments being generated by MARS and ultimately affect the taxpayer's account and financial statements of the MDOR.

Response:

We agree. Information posted to taxpayer accounts must be accurate and timely. Our agency believes MARS user training is very important. MDOR provides job specific training by MARS consultants, DOR trainers and Subject Matter Experts (SME). Computer based training and real time help features are available to MARS users that should minimize errors and omissions whenever taxpayer accounts require updating information such as cease dates and indicators on returns filed and posted.

Corrective Action:

Training materials, online manuals and online help entries contain proper procedures for cease date entries and account maintenance procedures. Employees were reminded of the importance of accurate cease date entries and account maintenance procedures after these errors were noted.

Name: Terry Smith
Date: 5/8/15

Controls Should be Strengthened Over the Review of Stop Indicators with Indefinite Cease Dates on Taxpayer Accounts

Finding:

The MDOR MARS CRM Indicators – Stop Mail, Stop Statements, and Stop Billing policy states that indicators without a specific end date will be routinely reviewed to ensure the indicator is valid and that managers document their review at least quarterly. The majority of the indicators did have a reason selected or an indicator note posted, including all Stop billing indicators which had an indicator note posted. The majority were for returned mail, in which a MDOR billing statement was returned to MDOR due to an invalid mailing address. Based on inquiry with management, and, even though required by policy, no review was performed over stop indicators applied with indefinite cease dates in Fiscal year 2014.

Response:

We agree. MDOR policy was approved during May 2014. This late implementation date did not provide adequate time for managers to comply before fiscal year end on June 30.

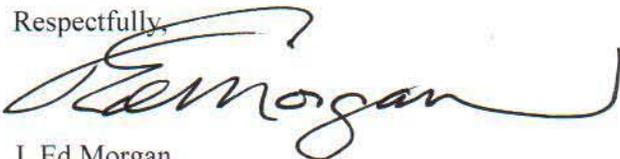
Corrective action:

Agency managers understand the importance of good system controls and compliance to agency policy. Managers will be reminded of the quarterly review requirement in the MDOR MARS CRM Indicators – Stop Mail, Stop Statements, and Stop Billing policy.

Name: Charles Fairchild
Date: 5/8/15

Our staff is available to furnish any additional information requested or further details concerning this audit of our financial statements and the implementation of suggested changes.

Respectfully,



J. Ed Morgan,
Commissioner of Revenue