



**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**STACEY E. PICKERING**  
**STATE AUDITOR**

March 10, 2016

**Financial Audit Management Report**

J. Ed Morgan  
Commissioner of Revenue  
Mississippi Department of Revenue  
500 Clinton Center Drive  
Clinton, MS 39056

Dear Commissioner Morgan:

Enclosed for your review are the financial audit findings for the Mississippi Department of Revenue for the Fiscal Year 2015. In these findings, the Auditor's Office recommends the Mississippi Department of Revenue:

1. Strengthen controls over adjustments and abatements to taxpayer accounts;
2. Strengthen controls over statement and billing processes on taxpayer accounts;
3. Ensure supporting schedules for GAAP Packets are completed timely; and
4. Ensure compliance with federal mandates for the title and motor vehicle system.

Please review the recommendations and submit a plan to implement them by March 21, 2016. The enclosed findings contain more information about our recommendations.

During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Mississippi Department of Revenue'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 Mississippi Department of Revenue's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

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I hope you find our recommendations enable the Mississippi Department of Revenue to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Revenue throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Sallie Dier". The signature is fluid and cursive, with the first name "Sallie" being more prominent than the last name "Dier".

Sallie Dier, CPA

Director, Financial and Compliance Audit Division

Enclosures

## FINANCIAL AUDIT MANAGEMENT REPORT

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of the Mississippi Department of Revenue for the year ended June 30, 2015. These financial statements will be consolidated into the State of Mississippi's *Comprehensive Annual Financial Report*. 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. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Yolanda Campbell, CPA, Donna Parmegiani, CPA, Thomas Wirt, CPA, Alan Jarrett, Brianna Blair, Selena Davis, CPA, Kelly Holtsinger, Lisa Meade, Carrie Middleton, Jeremy Miller, CPA, Elevia Tate, David Ashley, CISA, CISM, CBCP, CRISC, CHP and LaDonna C. Johnson, CISA.

Our procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

### **Internal Control over Financial Reporting**

In planning and performing our audit of selected accounts included on the financial statements, we considered the Mississippi Department of Revenue'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 these accounts, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Mississippi Department of Revenue'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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, identified in this letter as items 2015-016, 2015-017, 2015-018, and 2015-019 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Mississippi Department of Revenue are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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*.

**Finding Number**      **Finding and Recommendation**

**SIGNIFICANT DEFICIENCIES**

2015-016

**Controls Should Be Strengthened over Adjustments and Abatements to Taxpayer Accounts**

*Finding:*

During our review of controls over taxpayer accounts at the Mississippi Department of Revenue, we noted that the Mississippi Automated Revenue System (MARS) has security function levels that allow users the capacity to perform certain types of activity within the system. Of the 613 users with access to MARS, 574 users, or 94 percent, with security function level 2702 have the capability to change, transfer and reverse returns in the MARS system without another user interacting with the transaction. This function relates to manually clearing computer edit exceptions during the submission of tax returns in order to initially post the returns in the system, which is a fundamental job responsibility of many agency employees who work return exceptions from work list queues tailored specifically for the employee. However, the function also allows return changes to be created after the initial posting of a return, which results in the creation of a new system version of the return. The agency created a computer change request in response to this similar finding in fiscal year 2014 which would allow electronic MARS notifications to be sent to supervisors/managers when return change transactions greater than \$5,000 are made after the original return posting (i.e., amendments); however, per review of the computer change request and discussion with agency personnel, this change was not implemented during fiscal year 2015.

In addition, we noted that 255 MARS users, or 42 percent, with security function level 2904 have the capability to request and approve transaction adjustments and abatements (tax, penalty and interest abatements) in the MARS system without another user interacting with the transaction. MARS notifications are sent to supervisors/managers when an adjustment/abatement over \$5,000 is requested. However, supervisors/managers are not required to follow up on the notifications after receiving them. They do not have to log their approval via notes on taxpayer accounts or enter the actual system approval if the person requesting has security function level 2904. Based on our testwork performed on 35 adjustment/abatement transactions, we noted in three instances, or nine percent in which transactions were requested and approved by the same individual and there were no notes in MARS to indicate whether other persons were aware of the adjustment/abatement transaction.

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 be adequately documented with the date of the review and the person approving. Failure to require a supervisory review and approval of significant and unusual adjustments to taxpayers' account balances could result in errors or fraud occurring and not being timely detected, which could result in misstatements to the taxpayers' trial balances and the agency's financial statements.

*Recommendation:*

We recommend the Mississippi Department of Revenue strengthen controls over adjustments and abatements to taxpayer accounts by ensuring significant and unusual adjustments and abatements in the Mississippi Automated Revenue System are reviewed and approved by appropriate management personnel. This review and approval should be documented for internal monitoring and audit purposes.

2015-017

Controls over Statement and Billing Processes on Taxpayer Accounts Should Be Strengthened

*Finding:*

During our review of controls over taxpayer accounts at the Mississippi Department of Revenue, we noted the Mississippi Automated Revenue System (MARS) has a functionality by which an indicator can be placed at the taxpayer, account, or period levels of a taxpayer's financial information to suspend/stop activities that include, but are not limited to, the processing and mailing of statement of accounts, assessments and bills to taxpayers by system users. Stop indicators can be created with an indefinite cease date, meaning the system will never automatically release the indicator. Our testwork revealed that 613 unique MARS user ID's, or all MARS user ID's, have the ability to place stop indicators on MARS accounts without needing approval in the system from another user.

We also noted the following instances of usage during fiscal year 2015.

- 10,603 MARS accounts had a stop statement and/or stop billing indicator placed on the account during fiscal year 2015. The vast majority of these indicators (98%) were placed on the account by the employee in the Print Shop responsible for processing returned mail, which is the primary reason stop indicators are created in MARS.
- 10,598 accounts of the 10,603 accounts noted above, or 99 percent, had a stop indicator with an indefinite cease date.

The Mississippi Department of Revenue's MARS CRM Indicators – Stop Mail, Stop Statements & Stop Billing policy states indicators without a specific end date will be routinely reviewed to ensure the indicator is valid and managers will document the review at least once each quarter. Upon inquiry, agency personnel did not perform a review of taxpayer accounts with stop indicators in place. Good internal controls require a supervisory review on taxpayer accounts in which billing and statement processes have been suspended, including, but not limited to, those with an indefinite cease date. The lack of adequate controls over statement and billing processes on taxpayer accounts could result in errors or fraud occurring and not being timely detected and the possible under-collection of taxes.

*Recommendation:*

We recommend the Mississippi Department of Revenue strengthen controls over statement and billing processes on taxpayer accounts. The agency should limit

access to add stop indicators to accounts in the Mississippi Automated Revenue System to employees who require this function in the course of their work. We further recommend that supervisory review and approval should be required when applying stop indicators to taxpayer accounts which stop and/or suspend statements, assessments, and bills. This review should not be limited to those accounts in which stop indicators do not have a specific end date, but should include all accounts with a stop indicator related to statements, assessments and billing. The review and approval should be performed in a timely manner and documented in order that controls can be monitored.

2015-018

GAAP Packet Supporting Schedules Should Be Completed in a Timely Manner

*Finding:*

The Mississippi Department of Revenue (DOR) prepares a schedule of *Un-transferred Tax Collections and Receivables* as of fiscal year-end and provides the schedule annually to the Office of the State Treasurer in order for them to compile the GAAP packet for the treasury clearing fund 3917100000. Agency personnel did not perform a timely preparation of this schedule, which resulted in the Office of the State Treasurer not preparing the 3917100000 GAAP Packet timely. The final version of the schedule was submitted to the Office of the State Treasurer on January 29, 2016. The deadline for turning in GAAP packets established by the Department of Finance and Administration – Office of Financial Reporting (DFA-OFR) was November 3, 2015.

Section 27-104-4, Miss. Code Ann. (1972) requires each state agency to prepare annual financial statements at such times as determined by the State Fiscal Officer. The State Fiscal Officer is required to combine the financial statements into a comprehensive annual financial report (CAFR) and provide it to the State Auditor for post auditing. The law further requires the CAFR be published within six months after the June 30 close of the fiscal year. In addition, the Government Finance Officers Association (GFOA) requires CAFRs to be submitted within six months of the government's fiscal year end. It should be noted that DFA-OFR obtained an extension for the CAFR from GFOA this year due to implementation of the Mississippi Accountability System for Government Information and Collaboration, or MAGIC, the new accounting system used by the State.

The failure of agency personnel to submit required accounting schedules to the Office of the State Treasurer in a timely manner prevents the timely submission of the 3917100000 GAAP Packet to DFA-OFR and hinders the efficiency of the audit. These delays resulted in the CAFR not being published in accordance with state law and could result in the State of Mississippi not being awarded a Certificate of Achievement for Excellence in Financial Reporting by GFOA. Receiving GFOA's certificate increases the likelihood that credit agencies or other stakeholders may consider the state's financial statements in a positive manner. The timeliness of the CAFR being published impacts its relevance to various users of the CAFR.

In addition, the Single Audit Act requires the State issue the Single Audit Report within nine months of fiscal year end, and no extensions are granted. The independent auditor's report on internal control over financial reporting and the schedule of expenditures of federal awards (SEFA) are both required to be

included in the Single Audit Report and both are an integral part of the financial audit of the State. The failure to timely complete the CAFR could also hinder the timely submission of the Single Audit Report which could result in federal discretionary drawdowns being suspended.

*Recommendation:*

We recommend the Mississippi Department of Revenue implement procedures to ensure the timely completion and submission of GAAP packet supporting schedules related to treasury fund 3917100000 to the Office of the State Treasurer in order to help ensure the CAFR and Single Audit Report are both published in accordance with state and federal law.

2015-019

Agency Should Ensure Compliance with Federal Mandates for the Title and Motor Vehicle System

*Finding:*

The title and motor vehicle system currently being used by the Mississippi Department of Revenue is out of compliance with federal mandates concerning the Federal Anti-Car Theft Act of 1992 (ACT). This act calls for states to be able to provide information about vehicle ownership on a real time basis. The existing system does not meet this mandate nor can it be enhanced or improved. Also outages of the system have occurred in the past and the system is subject to failure at any time.

A failure in the system would result in the public being unable to buy or sell automobiles until the system can be recovered and subsequently titles can be issued. This would cause delays in the collection of significant amounts of ad valorem revenue to the state, counties, municipalities and local school boards. In addition, the State of Mississippi could face sanctions and fines from the federal government due to failure to comply with federal regulations. It should be noted that Mississippi is one of only three states that do not comply with this law. As of June 30, 2015 a request for proposals has been issued by management to replace this system.

*Recommendation:*

The Mississippi Department of Revenue should replace the title and motor vehicle system as soon as possible in order to avoid loss of services to the public, the delay of income to the state, counties, municipalities and local school boards, and possible sanctions and fines from the federal government. During the time that this new system is being developed and the existing title and motor vehicle system is being utilized, management should be mindful of the risks and deficiencies of the existing system and implement compensating controls accordingly.

**End of Report**



March 14, 2016

FINANCIAL AUDIT FINDINGS

Stacey E. Pickering, State Auditor  
Office of the State Auditor  
P.O. Box 956  
Jackson, MS 39205-0956

Dear Mr. Pickering:

With respect to your audit of the financial statements of the Department of Revenue for the Fiscal Year ended June 30, 2015, we offer the following comments:

**Controls Should Be Strengthened Over Adjustments And Abatements To Taxpayer Accounts**

Finding number 2015-016:

42% of users with MARS security function level 2904 have the capability to request and approve transaction adjustments and abatements (tax, penalty, and interest abatements) in the MARS system without another user interacting with the transaction. MARS notifications are sent to supervisors/managers when an adjustment/abatement over \$5000 is requested. However, supervisors/managers are not required to follow up on the notifications after receiving them. Based on test work performed on 35 transactions, we noted in three instances, or nine percent, transactions were requested and approved by the same individual and there were no notes in MARS to indicate whether other persons were aware of the adjustment/abatement transaction.

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 with the date of the review and the person approving.

Response:

We agree. 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 without adding administrative requirements that contribute to inefficiency.

Corrective Action:

MARS generated notifications for return change adjustments over the DOR threshold enhance oversight capability. Managers are instructed and agency policy states managers should place an approval note on the taxpayer account for significant and unusual adjustments/abatements. To support timely action by

managers, a report has already been developed to list notifications that have not been viewed by user. Additional notifications for return change adjustments must be created in the system and a programming request for those notifications has already been made. That request will be moved to a higher priority as soon as possible. Executive staff has addressed the importance of documenting management review and approval whenever notifications for significant and unusual adjustments and abatements are made on taxpayer trial balances.

Name: Jennifer Wentworth  
Date: 05/31/16

**Controls Over Statement and Billing Processes on Taxpayer Accounts Should Be Strengthened**

Finding number 2015-017:

All MARS (Mississippi Automated Revenue System) user ID's have the ability to place stop indicators on MARS accounts without needing approval in the system from another user. Stop indicators can be created with an indefinite cease date, meaning the system will never automatically release the indicator. Agency policy states indicators without a specific end date will be routinely reviewed to ensure the indicator is valid and managers will document the review at least once each quarter. Upon inquiry, agency personnel did not perform a review of taxpayer accounts with stop indicators in place.

Good internal controls require a supervisory review on taxpayer accounts in which billing and statement processes have been suspended, including, but not limited to, those with indefinite cease dates. The review and approval should be performed in a timely manner and documented in order that controls can be monitored. The agency should limit access to add stop indicators to accounts in MARS to employees who require this function in the course of their work.

Response:

We understand the importance of good internal controls and we agree that supervisory review of taxpayer accounts in which billing and statement processes have been suspended is required to ensure effective administration of accounts. Of the 10,603 accounts with stop billing and/or stop statement indicators applied during FY 2015, 98% were required to discontinue mail to taxpayers for returned mail received due to incorrect addresses. The agency has an automated process that searches for a good address. If a good address is found, the stop indicator is ceased.

Corrective Action:

The remaining 208 accounts with stop indicators applied will be reviewed by a manager during FY 2016 and the practice will continue as an ongoing activity for DOR management. Managers will confirm that review of taxpayer accounts with suspended billing and statement processes are completed and documented according to agency policy.

Name: DOR Associate Commissioners  
Date: June 30, 2016

**GAAP Packet Supporting Schedules Should Be Completed In a Timely Manner**

Finding number 2015-018:

The Mississippi Department of Revenue (DOR) prepares a schedule of *Untransferred Tax Collections and Receivables* as of fiscal year-end and provides the schedule annually to the Office of the State Treasurer in order for them to compile the GAAP packet for the treasury clearing fund 3917100000. Agency personnel did not perform a timely preparation of this schedule. These delays resulted in the comprehensive annual financial report (CAFR) not being published in accordance with state law.

Procedures to ensure the timely completion and submission of GAAP packet supporting schedules related to treasury fund 3917100000 to the Office of the State Treasurer should be implemented to help ensure the CAFR and Single Audit Report are both published in accordance with state and federal law.

Response:

The schedule of *Untransferred Tax Collections and Receivables* was first submitted to the Treasury on November 25, 2015. Once the Treasury began their review of the schedule, they informed DOR about additional balances within the revenue types in the fund. These balances all needed to be researched and reconciled, and correcting entries had to be prepared by DOR. That process takes time, and DOR's Accounting personnel worked extra hours every week in order to complete their day-to-day work along with the reconciliation process. With the State's previous accounting system (SAAS), these types of entries were not needed. Moving to a new accounting system over the last year has been challenging, and the completion of the Untransferred Schedule was no exception.

Corrective action:

Mississippi Department of Revenue has implemented procedures to ensure timely completion and submission of GAAP packet supporting schedules.

Name: Jennifer Wentworth

Date: 2/22/16

**Agency Should Ensure Compliance With Federal Mandates For The Title and Motor Vehicle System**

Finding number: 2015-019

The Title and Motor vehicle system currently being used by Mississippi Department of Revenue (MDOR) is out of compliance with federal mandates concerning the federal Anti-Car Theft Act of 1992 (ACT). This act calls for states to be able to provide information about vehicle ownership on a real time basis. The existing system cannot meet the mandate nor can it be enhanced or improved. Also outages of the system have occurred in the past and the system is subject to failure at any time.

The MDOR should replace the title and motor vehicle system as soon as possible in order to avoid loss of services to the public, the delay of income to the state, counties, municipalities, and local school boards, and possible sanctions and fines from the federal government.

Response:

We agree.

Corrective Action:

As of June 30, 2015 a Request for Proposal (RFP) was being developed, and the RFP was issued through ITS in October 2015.

Name: Jennifer Wentworth  
Date: June 30, 2016

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