Joseph L. Blount, *Chairman and Commissioner of Revenue*

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March 22, 2006

Phil Bryant, State Auditor
Office of the State Auditor
501 North West Street
Suite 801
Jackson, Mississippi 39201

RE: Financial Audit Findings

Dear Mr. Bryant:

With respect to your audit of the financial statements of the Mississippi State Tax Commission for the Fiscal Year ended June 30, 2005, and your findings and recommendations, we offer the following comments:

REPORTABLE CONDITION

Procedures over Processing Individual Income Tax Refunds Should Be Strengthened

Response:
The Mississippi State Tax Commission agrees good internal controls are vital to ensure accuracy and that agency personnel must follow policies and procedures. The duplicate refunds cited in the audit findings were issued because tax department personnel recorded what was thought to be a lost return on a credit advice. This method was utilized only after sufficient time had lapsed without evidence of the taxpayer's original return appearing in the system and was intended to provide justified relief to the taxpayer. During the processing time of the credit advice, the original return posted to the taxpayer's account triggering a refund. The duplicate payment resulted when the credit advice subsequently posted to the account overriding the original return.

It should be noted that a majority of items that appear on the duplicate refund list are not true duplicate refunds, but are, in fact, correct. These refunds generate because a taxpayer amends the same line item with identical data on two year's returns thus creating identical refund amounts in the same accounting period. It should also be noted that extraordinary circumstances were present during the 2004 tax year that delayed original returns from entering the system in a more timely fashion.

Corrective Action Plan:
The policy to run an annual duplicate refund report will be adhered to and examination of that report will take place on a timely basis.

A procedure change has been implemented that will prevent a credit advice from overriding a return posting.

The prudent and correct use of the credit advice has been discussed with appropriate personnel.

Controls over Keypunch of Journal Entries Should Be Implemented

Response:
The Mississippi State Tax Commission recognizes the necessity for rigorous controls over data processing of journal entries. At the same time, the volume of journal entries prohibits continual review by supervisory personnel. All items listed in this year's audit resulted from human error and have been corrected.

Corrective Action Plan:
A new control over journal entries has been implemented to ensure the dollar amount is keypunched correctly. Sales Tax now puts a control total on the batch sheet of the journal entry and the operator enters that control total when keypunching the batch. The system will not release the batch if the total entered does not match its control total.

For the entries where the debit side of the journal entry was credited and the credit side of the journal entry was debited, the keypunch operators will be identified and retrained. As these journal entries are offsetting, they have no financial impact on Tax Commission revenue and delinquent accounts will remain delinquent. The field agent assigned to the account will be alerted to the delinquency and given an opportunity to bring the keypunch error to the forefront.

Immaterial Weaknesses in Internal Control:

Policies and Procedures Concerning Delinquent Sales Tax Accounts Should Be Followed

Response:
The Mississippi State Tax Commission is ever committed to the improvement of its policies and procedures for protecting the State's interests and therefore takes conscientious note of audit recommendations regarding procedures for out-of-state delinquent accounts. We do wish, at this time, to clarify the sixty day policy referenced in the report. The sixty day time frame for recording tax liens for delinquent sales tax is from an instructional memo rather than an agency policy statement. This memo was directed to Revenue Officers collecting in-state liabilities in 2003. Because out-of-state accounts are collected differently than in-state accounts, this instruction was never intended to apply to out-of-state accounts.

Corrective Action Plan:
Efforts to more timely record liens on delinquent out-of-state accounts have been underway since the Spring of 2005 with additional emphasis since September 2005 to record liens on out-of-state delinquent accounts more similarly to in-state accounts.

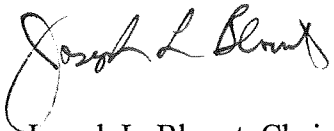
Controls over Expenditures Should Be Strengthened (ABC)

Response:
The Mississippi State Tax Commission Alcoholic Beverage Control Division agrees that internal control procedures over vendor price quotes should be strengthened. In addition, we recognize the need to broaden procedures so that available technology can be utilized without sacrificing internal control.

Corrective Action Plan:
The Procurement Department staff will verify that each price quote submitted to the ABC has an authorized signature. Any price quote received without this signature will be returned to the vendor for the proper signature. In the case of electronically transmitted price quotes, the Procurement Department will require the vendor's authorized representative's name and e-mail address appear on the quote in the area designated for the signature. If a price quote is received electronically without the correct information the form will be returned electronically with instructions for its proper completion.

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,



Joseph L. Blount, Chairman
And Commissioner of Revenue

JLB/kw