

Executive Division
Street Address:
1577 Springridge Road
Raymond, Mississippi 39154

www.mstc.state.ms.us



MISSISSIPPI

STATE TAX COMMISSION

Mailing Address:
Post Office Box 22828
Jackson, Mississippi 39225

Telephone: 601-923-7400
FAX: 601-923-7423

March 28, 2007

Phil Bryant, State Auditor
Office of the State Auditor
501 North West Street
Suite 801
Jackson, MS 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, 2006, we offer the following comments:

REPORTABLE CONDITION

Procedures over Processing Individual Income Tax Refunds Should Be Strengthened

Response:

The Mississippi State 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.

Corrective Action Plan:

The policy to run an annual duplicate refund report has been implemented for both the Legacy and the Phoenix programs and examination of these reports are performed timely.

A procedural change was implemented for credit advices by changing the credit code on the credit advice to prevent it from overriding the system. However, this procedural change only applies to the Legacy system. Phoenix went into live production October 2006. It has internal control functions built into the system which prevents duplication of refunds to occur.

We have duplicate refund lists for the Legacy system. The Phoenix system is designed to prevent the duplication of refunds. We have added all duplicate refunds greater than \$100 back to the system or have accounted for them by ensuring the warrants were not cashed.

IMMATERIAL WEAKNESS IN INTERNAL CONTROL

Controls over Journal Entries Should Be Strengthened

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:

The Data Entry Department has coordinated with Information Technologies personnel to adjust the data entry process previously used. Data Entry personnel are required to balance back to the debit side of the journal entry, eliminating such entry errors. Also, a new control over journal entries has been implemented to ensure the dollar amount is entered correctly. The Sales Tax Bureau now puts a control total on the batch sheet of the journal entry and the data entry operator enters that control total when keying the batch. The system will not release the batch if the total entered does not match its control total.

IMMATERIAL NONCOMPLIANCE AND OTHER MATTERS

Agency Should Ensure Tax Diversions Comply with State Law

Response:

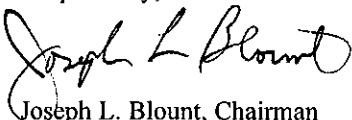
We made contact with the Mississippi Boll Weevil Foundation by telephone, making them aware of the overpayment, and have asked for a refund of the overpayment due to the General Fund. By mail, we have notified Commissioner Lester Spell with the Department of Agriculture and Jeannine Smith with the Mississippi Boll Weevil Management Corporation of this overpayment issue. We have requested repayment of the funds.

Corrective Action Plan:

To ensure that the agency is in compliance with the state law and to prevent this type of error from occurring in the future, the Accounting Bureau has designated the task to an employee who will be responsible for updating the diversion handbook which includes research of law changes made each year for every tax, levy, and fee we collect. Along with updating this handbook for yearly law changes, the employee is also assigned the task of developing and monitoring a calendar of tax diversion caps and expiration dates.

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