



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

June 6, 2018

Limited Internal Control and Compliance Review Management Report

Herb Frierson, Commissioner of Revenue
Mississippi Department of Revenue
500 Clinton Center Drive
Clinton, MS 39056

Dear Commissioner Frierson:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the Mississippi Department of Revenue for the fiscal year ended June 30, 2017. In these findings, the Auditor's Office recommends the Mississippi Department of Revenue:

1. Strengthen controls over procurement card purchases;
2. Strengthen controls over purchase orders;
3. Strengthen controls over commodity expenditures;
4. Strengthen controls over bank accounts;
5. Strengthen controls over contractual services expenditures; and
6. Strengthen controls over the disposal of capital assets.

Please review the recommendations and submit a plan to implement them June 20, 2018. 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.

This report is intended solely for the information and use of management, individuals charged with governance and Members of the Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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 that reads "Stephanie C. Palmertree". The signature is written in a cursive, flowing style.

Stephanie C. Palmertree, CPA, CGMA
Director, Financial and Compliance Audit
Enclosures

The Office of the State Auditor has completed its limited internal control and compliance review of the Mississippi Department of Revenue for the year ended June 30, 2017. The Office of the State Auditor's staff members participating in this engagement included Thomas Wirt, CPA, Derrick Garner, CPA, Selena Davis, CPA, Brianna Blair, Virginia Anderson, and Carrie Middleton.

Our procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. Also, our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be weaknesses. 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.

In performing our review, we noted certain matters involving the internal control over financial reporting and instances of noncompliance that require the attention of management. These matters are noted under the headings **OTHER CONTROL DEFICIENCIES** and **INSTANCES OF NONCOMPLIANCE WITH STATE LAW**. A control deficiency 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.

OTHER CONTROL DEFICIENCIES & INSTANCES OF NONCOMPLIANCE

Finding: Mississippi Department of Revenue Should Strengthen Controls over Procurement Card Purchases.

Executive Summary: Multiple instances were noted in which purchases made with procurement cards were not signed by the cardholder or purchaser at the agency. The *State Procurement Card Guidelines* require that purchases made with procurement cards be confirmed in writing by the cardholder.

Recommendation: We recommend that Mississippi Department of Revenue ensure compliance with the *State Procurement Card Guidelines* by having cardholders sign or initial receipts related to procurement card purchases in order to ensure that only the authorized procurement cardholder uses the procurement card.

Detailed Analysis: Section 31-7-9, Miss. Code Ann (1972) states that the Office of Purchasing, Travel and Fleet Management at the Department of Finance and Administration (DFA) may adopt purchasing regulations governing the use of procurement cards. Section II of the *State Procurement Card Guidelines* requires that a list of items purchased (either in the form of a detailed sales receipt or an order description) be reviewed and confirmed in writing by the cardholder. This list should have the cardholder's printed name and/or signature.

Based on testwork performed over twenty (20) procurement card transactions, we noted eleven instances totaling \$1,226.26 in which there was no signature on the charge slip to determine if the purchases were made by an authorized user. Failure of the cardholder to initial/sign receipts for purchases could allow improper payment to be made or purchases to be made by unauthorized personnel.

Finding: Mississippi Department of Revenue Should Strengthen Internal Controls over Purchasing.

Executive Summary: Auditors noted instances in which purchase orders were not obtained prior to the receiving of goods or services. State law mandates that purchases should be properly authorized in advance of purchases.

Recommendation: We recommend that Mississippi Department of Revenue prepare and approve purchase orders prior to receiving of goods and services.

Detailed Analysis: Section 7-7-23, Miss. Code Ann (1972), states that purchases made without the issuance of a purchase order shall not be deemed obligations of the state. Good internal controls should be in place to ensure timely securing of purchase order approval prior to receipt of goods or services.

Based on testwork performed on over thirty (30) commodity transactions and ten (10) contractual services transactions, we noted two instances in which purchase orders were prepared after the invoices were received. Failure to create and approve a purchase order prior to the date of the goods and services are received impedes the ability of the agency and the Department of Finance and Administration to maintain budgetary control over agency expenditures.

Finding: Mississippi Department of Revenue Should Strengthen Internal Controls over the Receipt, Inspection, and Approval of Goods.

Executive Summary: Multiple instances were noted in which invoices were paid for goods that were not properly documented as received and inspected prior to payment. State law mandates that goods and services should be properly inspected, approved and documented prior to remitting payment of invoices.

Recommendation: We recommend that the Mississippi Department of Revenue require persons receiving goods to date-stamp the invoices or initial and date the invoice indicating the received date of the invoice and proper receipt, inspection and approval of the goods prior to the disbursement of funds.

Detailed Analysis: Section 31-7-305, Miss. Code Ann (1972) requires a record to be kept of the date of the receipt of the invoice and dates of receipt, inspection and approval of goods or services. In addition, Subsection 29.60.51 of the Mississippi Agency Accounting Policies and Procedures (MAAPP) manual states agencies may use a stamp format placed on the packing slip, delivery ticket or invoice which should include the condition of the merchandise, quantity received, date, and signature of the employee receiving the merchandise from the vendor.

Based on testwork performed on over thirty (30) commodity transactions, we noted six (6) instances in which the invoice did not have a stamped date indicating goods were inspected and approved upon receipt nor were the invoice initialed/signed and dated. Failure to verify goods or services received could result in payment of goods or services not yet received.

Finding: Mississippi Department of Revenue Should Strengthen Internal Controls over Bank Accounts.

Executive Summary: Auditors noted that one of Mississippi Department of Revenue's bank accounts did not comply with the maximum allowed balance as required by state law. It was noted that two of accounts included signatures from unauthorized signors. Good internal control requires that only authorized employees sign checks.

Recommendation: We recommend the Mississippi Department of Revenue ensure compliance with laws over their bank accounts. Account balances should be maintained as authorized by Department of Finance and Administration (DFA) and the Office of State Treasurer (Treasury). We also recommend strengthening internal controls over bank accounts to ensure checks drawn on the accounts are made by authorized signers.

Detailed Analysis: Section 7-9-12, Miss. Code Ann (1972) states that the State Treasurer may by regulation provide for the establishment of commercial bank accounts by any state agency, which shall serve as the depository for funds which are collected or held by state agencies and required by law to be deposited in the Treasury. Each such account established shall have a maximum balance to be fixed by the State Treasurer."

Based on testwork performed over bank accounts, auditors noted that the agency did not comply with the maximum allowed balance of \$20,000 as approved by the DFA and the Treasury. Mississippi Department's Office of Administrative Services' clearing account maintained month-ending balances that ranged from \$34,821.25 to \$183,133.67 for all twelve (12) months of fiscal year 2017. Failure to maintain bank balances as authorized by DFA and Treasury may result in a potential loss of interest income to the State. In addition, it was noted that the electronic signature for two of bank accounts was not an authorized signer. Failure to update the authorized signees on the agency's bank account could lead to theft and the unauthorized issuance of checks.

Finding: Mississippi Department of Revenue Should Strengthen Internal Controls over Contractual Expenditures.

Executive Summary: Auditors noted two instances in which payments were not made within 30 days after receipt of invoice as required by state law.

Recommendation: We recommend the Mississippi Department of Revenue strengthen controls related to contractual service expenditures to ensure that payments are made timely.

Detailed Analysis: Section 31-7-303 of the Mississippi Code of 1972 states that the requisition for payment of an invoice submitted to a public body and required by law to be filed with the State Fiscal Management Board shall be filed with the State Fiscal Management Board not later than thirty (30) days after receipt of the invoice and receipt, inspection and approval of the goods or services, except that in the case of a bona fide dispute the requisition for payment shall contain a statement of the dispute and authorize payment only in the amount not disputed.

During our review of ten (10) contractual service expenditures, we noted two instances in which the payments were not made within thirty (30) days of receipt of goods/services. Failure to submit payments within thirty days of the receipt of the invoice and receipt, inspection, and approval of the

goods and services results in untimely payments to vendors. This could also result in unnecessary expenses of interest and late fees for untimely payments of expenditures.

OTHER CONTROL DEFICIENCIES

Finding: Mississippi Department of Revenue Should Strengthen Internal Controls over the Disposal of Capital Assets.

Executive Summary: Multiple instances were noted in which the Inventory Deletion Approval Form was not signed by purchasing department personnel.

Recommendation: We recommend that Mississippi Department of Revenue strengthen the controls over the approval process for the deletion for capital assets. Asset deletions should be properly approved and documented.

Detailed Analysis: Good internal control requires administrative personnel approval before an asset is deleted.

During our review of the deletions of capital assets, we noted three instances out of five in which the Inventory Deletion Approval Form was not signed by purchasing department personnel. Failure to have proper approval before assets are deleted could result in assets being misplaced or stolen.

End of Report



COMPLIANCE REVIEW FINDINGS

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

June 18, 2018

Dear Mr. Pickering:

With respect to your compliance review of the Department of Revenue for the Fiscal Year ended June 30, 2017, we offer the following comments:

FINDINGS:

Mississippi Department of Revenue Should Strengthen Controls over Procurement Card Purchases

Response: We concur.

Corrective Action Plan:

- a. We plan to provide training of the important procurement card controls for all cardholders.
- b. Kayla McKnight
- c. December 31, 2018

Mississippi Department of Revenue Should Strengthen Internal Controls over Purchasing

Response: We concur.

Corrective Action Plan:

- a. We plan to provide training of the important purchasing controls for managers and other personnel responsible for purchasing goods and/or services.
- b. Kayla McKnight
- c. December 31, 2018

Mississippi Department of Revenue Should Strengthen Internal Controls over the Receipt, Inspection and Approval of Goods

Response: We concur.

Corrective Action Plan:

- a. We plan to provide training for all managers and other personnel responsible for receipt, inspection and approval of goods.
- b. Kayla McKnight
- c. December 31, 2018

Mississippi Department of Revenue Should Strengthen Internal Controls over Bank Accounts

Response: We concur. The bank account that did not comply with the maximum allowed balance had a high balance due to an unusual transaction for the seizure of real property in payment of tax debt. The authorized signors were updated at the bank(s) as responsible personnel were changed; however, the electronic signature applied by our system did not receive the required update.

Corrective Action Plan:

- a. We reviewed all bank accounts for the maximum balances and made the required updates by March 28, 2018. The authorized signors are being updated in our check printing system.
- b. Kayla McKnight
- c. July 15, 2018

Mississippi Department of Revenue Should Strengthen Internal Controls over Contractual Expenditures

Response: We concur.

Corrective Action Plan:

- a. We plan to provide training of the important internal controls over contractual expenditures for all managers and other personnel responsible for approval of invoices.
- b. Kayla McKnight
- c. December 31, 2018

Mississippi Department of Revenue Should Strengthen Internal Controls over the Disposal of Capital Assets.

Response: We concur.

Corrective Action Plan:

- a. We have spoken to DFA concerning the deletion form and will implement procedures to ensure the form is properly completed when an asset is deleted.
- b. Kayla McKnight
- c. December 31, 2018

Our staff is available to furnish any additional information requested or further details concerning this compliance review and the implementation of recommended changes.

Respectfully,



Herb Frierson,
Commissioner of Revenue