



**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
AUDITOR**

July 30, 2019

Limited Internal Control and Compliance Review Management Report

Krista Andy, Executive Director
Mississippi Board of Tax Appeals
501 N West Street, Suite 601
Jackson, MS 39201

Dear Ms. Andy:

Enclosed for your review are the Limited Internal Control and Compliance Review findings for the Mississippi Board of Tax Appeals for the Fiscal Year 2018. In these findings, the Auditor's Office recommends the Mississippi Board of Tax Appeals (MBTA):

1. Strengthen Controls Over Reimbursement for Travel Expenditures to Ensure Compliance with State Laws;
2. Strengthen Controls to Ensure Compliance with State Purchasing Laws and Regulations

Please review the recommendations and submit a plan to implement them by August 13, 2019. 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, members of the Legislature and federal awarding agencies 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 that you find our recommendations enable MSBTA to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of MSBTA throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Stephanie C. Palmertree".

Stephanie C. Palmertree, CPA, CGMA

Director, Financial and Compliance Audit
Enclosures

The Office of the State Auditor (OSA) has completed its Limited Internal Control and Compliance Review of the Mississippi Board of Tax Appeals (MBTA) for the fiscal year ending June 30, 2018. The Office of the State Auditor's staff members participating in this engagement included Derrick Garner CPA; Clayton Southerland, CPA; and Dana McMorris.

Our procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. Also, our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be weaknesses. In accordance with Mississippi Code Annotated (1972) §7-7-211, 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.

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 *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. 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.

We identified certain deficiencies in internal control over financial reporting and instances of noncompliance that require the attention of management. These matters are noted under the headings **INSTANCES OF NONCOMPLIANCE & CONTROL DEFICIENCIES**.

INSTANCES OF NONCOMPLIANCE & CONTROL DEFICIENCIES

Finding 1: Agency Should Strengthen its Controls Over Reimbursement for Travel Expenditures to Ensure Compliance with State Laws.

Executive Summary: During our review of travel expenditures, the auditor noted three instances in which the Mississippi Board of Tax Appeals paid sales tax on hotel rooms and rental cars that were billed directly to the agency.

Recommendation: We recommend that the Mississippi Board of Tax Appeals strengthen controls over the reimbursement of travel expenditures to ensure compliance with state laws and regulations set forth by the Mississippi Department of Finance and Administration.

Detailed Analysis: During our review of 30 travel expenditures at the Mississippi Board of Tax Appeals, the auditor noted two instances of sales tax being paid on a hotel room that was direct billed to the agency, and one instance of rental sales tax being paid on a rental car that was direct billed to the agency.

Section 27-65-105, Miss. Code Ann. (1972) "The tax levied in this chapter shall not apply to the following: (a) Sales of property, labor, services or products taxable under Sections 27-65-17, 27-65-19, 27-65-23 and 27-19-26, when sold to and billed directly to and payment therefor is made directly by the United States government, the State of Mississippi and its departments, institutions, counties and municipalities or departments or school districts of said counties and municipalities.

DFA's Travel Policy Rules & Regulations Section 7.122 states "When payment for in-state lodging is made with the UMB Travel Card, Sales tax is considered an unauthorized expense and as such should not be placed on the travel card."

Failure to comply with State laws and policies could result in the agency paying higher than necessary expenditures.

Finding 2: Ensure Compliance with Mississippi State Codes and Regulations Regarding Purchasing.

Executive Summary: During our review of expenditures for contractual services at the Mississippi Board of Tax Appeals, the auditor noted four instances in which a purchase order was not created prior to the order of goods and services. State law requires the execution of a written purchase order signed by an authorized official prior to the purchase of equipment, supplies, and materials/services.

Recommendation: We recommend the Mississippi Board of Tax Appeals ensure compliance with state purchasing laws by preparing and having approved purchase orders prior to the order of goods and services.

Detailed Analysis: During our review of 30 contractual expenditures for FY2018 at the Mississippi Board of Tax Appeals, the auditor noted four instances in which a purchase order was created after goods or services were ordered.

According to *Section 7-7-23 Miss. Code Ann. (1972)*, purchases of "equipment, supplies, materials or services of whatever kind or nature for any department, officer, institution or other agency of the state, the cost of which is to be paid from funds in the State Treasury on State Fiscal Officer disbursement warrants, may be made only by written purchase orders duly signed by the official authorized so to do, on forms prescribed by the State Fiscal Officer. Purchases of such equipment, supplies, materials, or services, as specified herein, made without the issuance of such purchase orders shall not be deemed to be obligations of the state unless the State Fiscal Officer, by general rule or special order, permits certain purchases to be made without same. It shall be the duty of the proper official in each department or agency to forward the copy of each purchase order to the State Fiscal Officer on the same day the said order is issued."

Failure to comply with state purchasing laws may result in the purchase of unauthorized services, equipment, or materials.

End of Report



State of Mississippi
BOARD OF
TAX APPEALS

August 13, 2019

Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P. O. Box 956
Jackson, MS 39205-0956

RE: Compliance Review Findings Response

Dear Mr. White:

The Board of Tax Appeals appreciates the fact that Clayton Southerland met with me to discuss the compliance review conducted by your office. This meeting was helpful as it reiterated that the policies and procedures concerning the Board's operations generally followed acceptable practices, guidelines and laws.

Thank you for providing us the opportunity to respond to the findings listed within the compliance review. The response expounds on the management responses we were able to provide during the course of the review.

Review Findings

Finding 1: Ensure Compliance with State Laws over Travel

Finding 1 Response: We acknowledge that there were two instances where sales taxes were paid on hotel rooms charged to the travel credit card. These taxes were inadvertently paid. The summary credit card statement was reviewed prior to paying the invoice and it showed that no sales taxes were included on the charges. However, during the course of the compliance review it was determined that the detailed hotel receipts did include sales taxes which were not shown on the summary statement. The rental car taxes were not sales taxes but were motor vehicle and rental taxes which are not excluded items.

Corrective Action Plan for Finding 1: The Board has implemented a procedure to review all detailed receipts and not rely on the travel card statements to determine if taxes are included on the charges. This review is performed by the Executive Director when approving an invoice for payment and again by the agency's fiscal agent.

Finding 2: Ensure Compliance with State Laws over Purchasing

Finding 2 Response: This issue was based on the fact that there were four purchase orders processed after services were ordered. At the time of this review, the Department of Finance and

Administration, under Section 7-7-23 of the Mississippi Code, had exempted contractual services from requiring purchase orders.

Contracts for services are always initiated by the Board before services begin and it was the contract that established the obligation with the vendor and not the actual purchase order.

Although not required, it was the practice of the Board to use purchase orders to encumber funds based on its limited appropriation and spending authority. It was the Board's understanding that since the purchase order was an internal document, it could be entered any time after the contract was established.

Corrective Action Plan for Finding 2: Since the compliance review noted that purchase orders should be generated at the time the services are obligated, the Board will make it a practice to enter the purchase order at the time the contracts are initiated or as soon as possible once the fiscal year is opened for transaction processing. The agency's fiscal agent will be responsible for entering purchase orders.

Thank you again for providing us with this opportunity to review the internal controls of the agency.

Sincerely,



Krista S. Andy
Executive Director