



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
AUDITOR

March 27, 2019

Financial Audit Management Report

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

Dear Commissioner Frierson:

Enclosed for your review are the financial audit findings for the Mississippi Department of Revenue for the Fiscal Year 2018. In these findings, the Auditor's Office recommends the Mississippi Department of Revenue:

1. Strengthen controls over the reconciliation of Alcohol Beverage Control (ABC) taxes; and,
2. Strengthen controls over MAGIC's segregation of duties, business role assignments and quarterly access review.

Please review the recommendations and submit a plan to implement them by April 10, 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.

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.

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 blue ink that reads "Stephanie C. Palmertree".

Stephanie C. Palmertree, CPA CGMA
Director, Financial Audit and Compliance 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, 2018. 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 Thomas Wirt, CPA, Selena Davis, CPA, LaDonna Johnson, CISA, Virginia Anderson, Veronica Funchess, Kortney Gaddy, CPA, Shavonda Lott, Carrie Middleton, Jeremy Miller, CPA, and Elevia Tate.

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 2018-026 and 2018-027, 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*.

Findings and Recommendations

SIGNIFICANT DEFICIENCIES

2018-026 Controls Should Be Strengthened over the Reconciliation of Alcohol Beverage Control Taxes

Repeat Finding Yes – 2017-012 in 2017; 2016-007 in 2016.

Criteria The Miss. Code Ann. (1972) dictates the distribution of state tax collections. Good internal controls dictates an automated system should be reconciled to ensure files created by the system agree with agency records and the state general ledger system. Section 27-104-4, Miss. Code Ann. (1972) requires each state agency to prepare financial statements (GAAP packets) for the Department of Finance and Administration (DFA). DFA combines state agency GAAP Packets to produce the *Comprehensive Annual Financial Report* (CAFR).

Condition Since the implementation of ABC taxes into the Mississippi Automated Revenue System (MARS), the Department of Revenue (DOR) has not performed a routine reconciliation between diversions files created by MARS to DOR's transfer records and balances recorded in the Mississippi Accountability System for Government Information and Collaboration (MAGIC).

In addition, during our review of the Fund 3389500000 GAAP Packet, we noted the GAAP adjustment to accrue lapse period expenditures of \$20,450,798 was coded to the wrong cost category in MAGIC. After inquiry by auditor, the expenditure account was reclassified.

Cause The agency does not currently have a process in place to reconcile balances between agency records, MARS and MAGIC balances.

Effect Failure to reconcile files created by MARS to agency records and MAGIC could result in misstatements to the State's financial statements. In addition, failure to properly review all GAAP packet entries prior to submission to DFA could result in misstatements to the State's financial statements.

Recommendation We recommend the Mississippi Department of Revenue strengthen controls over the diversion of Alcoholic Beverage Control tax collections. Reconciliations should be performed over diversion files created by the Mississippi Automated Revenue System and agency's transfer records for taxes and balances recorded in the Mississippi Accountability System for Government Information and Collaboration. In addition, the agency should strengthen controls over the review of GAAP packet adjustments to ensure that all entries have been reviewed for propriety before submission to DFA.

2018-027 Controls Should be Strengthened over MAGIC Segregation of Duties, Business Role Assignments and Quarterly Security Certification Process

Repeat Finding No

Criteria	<p>The <i>Internal Control – Integrated Framework</i> published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the <i>U.S. Government Accountability Office Standards for Internal Control in the Federal Government</i> (Green Book) specify that a satisfactory control environment is only effective when control activities exist, such as proper segregation of duties. Segregation of duties is the sharing of responsibilities within a key process and dispersing the critical functions of that process to more than one person.</p> <p>Additionally, the <i>Mississippi Agency Accounting Policies and Procedures</i> (MAAPP) manual section 30.60.00 requires security roles in the Mississippi Accountability System for Government Information and Collaboration (MAGIC) to be assigned to an employee based on his or her job duties, and that security roles be reviewed quarterly by agencies to ensure duties are properly segregated. The Department of Finance and Administration (DFA) issued the <i>MAGIC Roles and Definitions</i> policy document to inform agencies of roles that should be separated to reduce conflicts.</p>
Condition	<p>The Mississippi Department of Revenue (DOR) submitted certifications to DFA quarterly during state fiscal year 2018 stating that it was in compliance with MAGIC security policies. Upon review of the security roles assigned, the agency had conflicts to assigned duties, as detailed below.</p> <p>During our review of MAGIC security roles at DOR during fiscal year 2018, we noted:</p> <ul style="list-style-type: none">• Thirteen security role conflicts between accounts payable and accounts receivable functions;• Four roles assigned to DOR personnel that are not allowed for the agency;• Two roles that were improperly assigned by the agency in error; and,• Lack of effective review of information that was certified by agency.
Cause	<p>The agency did not properly review and monitor MAGIC security roles assigned to employees.</p>
Effect	<p>Failure to properly segregate duties and limit user access among agency personnel increases the risk of misappropriation of assets, inappropriate changes to data or files, and unauthorized activity which can result in material misstatements of financial statements.</p>
Recommendation	<p>We recommend the Mississippi Department of Revenue strengthen controls over MAGIC security access and ensure that roles are properly assigned and duties are segregated.</p>

End of Report



DEPARTMENT OF
REVENUE
STATE OF MISSISSIPPI

OFFICE OF THE COMMISSIONER

FINANCIAL AUDIT FINDINGS

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

April 4, 2019

Dear Mr. White:

With respect to your audit of the financial statements of the Department of Revenue for the Fiscal Year ended June 30, 2018, we offer the following comments:

SIGNIFICANT DEFICIENCIES

2018-026 Controls Should Be Strengthened over the Reconciliation of Alcohol Beverage Control Taxes

Response: We agree. MDOR recognizes the potential impact on financial statements when good internal controls are not in place. Since all ABC funds are receipted into Fund 39895 and then flow to the other ABC funds we felt it was necessary to work first on developing a reconciliation for Fund 39895. We originally developed a monthly reconciliation for Fund 39895. However, due to the complexities of the various price elements in MARS, a daily reconciliation process was determined to be a more efficient way to identify differences; however, reconciling daily is a very time consuming process that has required hours of assistance from the MARS team that was limited due to other priority status projects. A monthly reconciliation process for Fund 33895 has been developed and differences noted are being discussed with the MARS team and ABC staff as needed. An attempt to decrease the number of manual GAAP entries required by allowing for more OFR automatic accruals resulted in a GAAP adjustment being coded to the wrong cost category in MAGIC. This error was not recognized in the review of the OFR accruals.

Corrective Action:

- A. We will continue to work to get the reconciliations current. We will strengthen controls over the review of GAAP packet adjustments.
- B. Name of person responsible for corrective action:
Drew Maddox, Chief Financial Officer
- C. Anticipated completion date for corrective action:
August 15, 2019

2018-027 Controls Should Be Strengthened over MAGIC Segregation of Duties, Business Role Assignments and Quarterly Certification Process

Response: We agree. In preparation for the implementation of MAGIC MDOR was asked to assign roles in MAGIC to our staff. At that time we did not have a thorough understanding of what the roles allowed users to do which resulted in roles being assigned that were conflicting, not allowed for our agency or improperly assigned. Many of these role assignments were not reviewed after MAGIC go live to determine if they were appropriate. Also, lack of sufficient staffing caused us to assign some roles that were security conflicts even though internally we had procedures in place for segregation of duties and therefore the user did not perform conflicting roles.

Corrective Action Plan:

- A. MDOR will implement a process where the MAGIC security roles are reviewed quarterly by the Accounting Bureau Director and the Office Director-Administrative Services.
- B. Contact person responsible for corrective action:
Frank Puryear, Office Director-Administrative Services
- C. Anticipated completion date for corrective action:
April 30, 2019

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,



Herb Frierson,
Commissioner of Revenue