



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

March 20, 2012

**Single Audit Management Report**

Richard Berry, Executive Director  
Mississippi Department of Human Services  
P. O. Box 352  
Jackson, Mississippi 39205

Dear Mr. Berry:

Enclosed for your review is the single audit finding for the Mississippi Department of Human Services for the Fiscal Year 2011. In this finding, the Auditor's Office recommends the Mississippi Department of Human Services strengthen internal controls over the cost allocation process.

Please review the recommendation and submit a plan to implement it by March 27, 2012. The enclosed finding contains more information about our recommendation.

During future engagements, we may review the finding in this management report to ensure procedures have been initiated to address this finding.

This report is intended solely for the information and use of management, individuals charged with governance, 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 you find our recommendation enables the Mississippi Department of Human Services to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Human Services throughout the audit.

If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Stacey E. Pickering", is written over the typed name and title.

Stacey E. Pickering  
State Auditor

Enclosures

## SINGLE AUDIT FINDINGS

In conjunction with our audit of federal assistance received by the State of Mississippi, the Office of the State Auditor has completed its audit of the major federal programs of the Mississippi Department of Human Services for the year ended June 30, 2011. This audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Office of the State Auditor's staff members participating in this engagement included Kimberly Majure, CPA, Marilyn Purvis, Alan Jarrett, Jason Ashley, Camden Baird, Amanda Moseley-Diaz, Stacey Allman, CPA, and Emily McHan.

Our procedures and tests cannot and do not provide absolute assurance that all federal 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 Compliance

The management of the Mississippi Department of Human Services is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Mississippi Department of Human Services' internal control over compliance with requirements that could have a direct and material effect on a major federal program.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance identified in this letter as item 11-08 to be a significant deficiency.

## Compliance

Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of management. We have audited each of the major federal programs for compliance with the types of compliance requirements described in OMB Circular A-133. Our audit fieldwork included examining, on a test basis, evidence about the department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

The results of our auditing procedures disclosed no instances of noncompliance that are required to be reported by OMB Circular A-133.

### CFDA/Finding Number

### Finding and Recommendation

#### **ALLOWABLE COSTS/COST PRINCIPLES**

##### *Significant Deficiency*

10.551	Supplemental Nutrition Assistance Program
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
10.561	ARRA - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
81.042	Weatherization Assistance for Low-Income Persons
81.042	ARRA - Weatherization Assistance for Low-Income Persons
93.558	Temporary Assistance for Needy Families
93.568	Low-Income Home Energy Assistance
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.713	ARRA - Child Care and Development Block Grant
93.714	ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program
93.716	ARRA-Temporary Assistance for Needy Families (TANF) Supplemental Grants

Federal Award Number and Year: Various

### 11-08 Controls over the Cost Allocation Process Should Be Strengthened

#### *Finding:*

The terms and conditions of the grant agreements between the Mississippi Department of Human Services (MDHS) and the United States Department of Health & Human Services (HHS), United States Department of Agriculture and the United States Department of Energy require MDHS to administer grants in accordance with the *Code of Federal Regulations* (45 CFR Part 92.22, 7 CFR 3016.22 and 10 CFR 600.222, respectfully). Per these federal regulations, allowable costs should be determined in accordance with the Office of Management and Budget (OMB) Circular A-87.

OMB Circular A-87, Attachment C, requires the distribution of joint costs related to a grant program to be supported by a cost allocation plan (CAP). Further, the *Code of Federal Regulations* (45 CFR Part 95.509) requires amendments to the CAP be promptly submitted to HHS, the cognizant agency, when changes occur to make the allocation basis or procedures in the approved CAP invalid.

MDHS has developed a cost allocation system which is used to identify, measure and allocate all costs to each of the programs administered by the department. MDHS has established reporting category codes for all costs that require an allocation to more than one program. At the end of the quarter, cost pools are charged using the allocation basis described in the CAP for each cost pool. Each basis used in the cost allocation system is assigned a base code. During our review of the cost allocation system, we noted the following problems.

- Ten of the 107 cost pools with charges in the cost allocation system were not included in the CAP approved by HHS.
- The cost pools' basis type/base codes for two of the 107 cost pools with charges in the cost allocation system did not agree to the CAP approved by HHS.
- Differences between the cost allocation system and the approved CAP have not been submitted to HHS for approval.

Adequate internal controls would include a process for ensuring setup of the cost allocation system is accurate, reliable, and consistent with the approved CAP. Inadequate controls over the cost allocation system could hinder MDHS's ability to properly manage federal funds and could result in noncompliance with federal regulations. Costs charged to a cost pool in error or a cost pool not approved by the federal grantor agency could result in questioned costs. The effects of the errors noted could not be readily determined by the auditors.

*Recommendation:*

We recommend the Mississippi Department of Human Services (MDHS) strengthen controls over the review of computations and data used in the cost allocation system to ensure accurate distribution of costs to federal programs. Further, we recommend MDHS timely submit revisions of its Cost Allocation Plan for approval to the United States Department of Health & Human Services.

**End of Report**