



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

March 12, 2014

Single Audit Management Report

Mary Currier, MD, MPH, State Health Officer
Mississippi State Department of Health
P. O. Box 1700
Jackson, Mississippi 39215

Dear Dr. Currier:

Enclosed for your review is the single audit finding and other audit findings for the Mississippi State Department of Health for Fiscal Year 2013. In these findings, the Auditor's Office recommends the Mississippi State Department of Health:

Single Audit Finding:

1. Strengthen controls over the allowable costs/costs principles requirement for the time study system;

Other Audit Findings:

2. Strengthen controls over review of employee approval levels in the Statewide Automated Accounting System; and
3. Strengthen controls over the reporting requirement.

Please review the recommendations and submit a plan to implement them by March 21, 2014. 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 on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. The Office of the State Auditor has also issued an Information Systems Management Report on the Mississippi State Department of Health dated March 12, 2014. That report should be read in conjunction with this report.

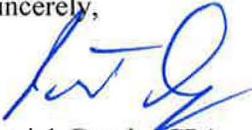
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I hope you find our recommendations enable the Mississippi State Department of Health to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi State Department of Health 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 "Patrick Dendy".

Patrick Dendy, CPA
Director, Department of Audit

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 State's major federal programs administered by the Mississippi State Department of Health for the year ended June 30, 2013. The Office of the State Auditor's staff members participating in this engagement included Jane Dussouy, CPA, Yolanda Campbell, CPA, Jeanne Julious, Lee Alford, David Stewart and Scott Swafford.

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.

Report on Compliance for Each Major Federal Program

We have audited the Mississippi State Department of Health's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the federal programs selected for audit that are administered by the Mississippi State Department of Health for the year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mississippi State Department of Health's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. However, our audit does not provide a legal determination of the Mississippi State Department of Health's compliance.

Results of Compliance Audit Procedures

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

Internal Control over Compliance

Management of the Mississippi State Department of Health is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Mississippi State Department of Health's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal controls over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mississippi State Department of Health's internal control over compliance.

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 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. 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance identified in this letter as item 2013-008 to be a significant deficiency.

In addition, we noted other deficiencies in internal control over compliance that require the attention of management that we have reported on the attached document "Other Audit Findings."

**CFDA/Finding
Number**

Finding and Recommendation

ALLOWABLE COSTS/COST PRINCIPLES

Significant Deficiency

10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
93.069	Public Health Emergency Preparedness
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
93.889	National Bioterrorism Hospital Preparedness Program

Federal Award Number and Year:	5MS700704	2012
	5MS700704	2013
	1U90TP000530-01	2013
	2U90TP416986011	2013
	05-1005-MS-5000	2013

2013-008 **Controls Should Be Strengthened over the Allowable Costs/Cost Principles for the Time Study System**

Finding:

The *Code of Federal Regulations* (2 CFR section 225) requires that allowable costs be determined in accordance with the Office of Management and Budget

(OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. OMB Circular A-87 requires that salaries and wages of employees chargeable to more than one grant program or other cost objective are required to be supported by appropriate time distribution records. The method used should produce adequate and equitable distribution of time and effort. For allocated costs, OMB Circular A-87 requires quarterly comparisons of actual costs to budgeted distributions based on the monthly activity reports. Unless quarterly comparisons show differences between budgeted and actual costs less than ten percent, adjustments should be made on a quarterly basis. If differences are less than ten percent, adjustments may be made annually.

The Mississippi State Department of Health has implemented a time study system for allocating salaries and fringe benefits to the various programs administered by the agency. The time study system is based on time study reporting forms completed by applicable employees for one week of each month. The agency budgets personnel costs to the respective programs for the forthcoming year based on the majority of time a person spent on a single program in the prior year. Reconciliations are performed between current actual time and effort reports and the actual amounts charged for payroll for each program in order to determine the salaries charged to the federal program were reasonable and the program was not overcharged. Adjustments to payroll are made based upon the results of the time study reporting.

During our review of the agency's time study process, we noted the following deficiencies related to testwork performed to verify that reconciliations between actual time and effort reports and the amount charged for payroll for major programs had been performed at least quarterly:

- The agency had not performed a reconciliation for the State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare (SSC) Program during SFY2013 until the documentation was requested by the auditor. Although the results of the reconciliation did not reveal that the federal program had been overcharged for payroll based upon the results of time study, OMB Circular A-87 requires at least a quarterly comparison to be performed for all federal programs with allocated costs.
- Of the two months of reconciliations selected for testwork for the Public Health Emergency Program (PHEP) and the National Bioterrorism Hospital Preparedness Program (HPP), we noted for the September 2012 reconciliation the amount of federal funds drawn and charged to the Bioterrorism program exceeded allowable payroll based upon time study results by \$80,968 or 12.39%. We also noted that for the June 2013 reconciliation the amount of federal funds drawn and charged to the Bioterrorism program exceeded allowable payroll based upon time study results by \$355,583.93 or 13.01%. It should be noted that the June 2013 difference is a cumulative amount for the fiscal year. A quarterly adjustment to correctly state the time and effort expended had not been made by the agency. According to agency personnel, the time study system results do not include time for select employees who appropriately charge time to the Bioterrorism program but do not complete standard time study forms.

Therefore it appears the reconciliation prepared by the agency is not properly designed to accurately identify amounts which should be adjusted.

- Of the two months of reconciliations selected for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program, the PHEP program, the HPP program, and the SSC program, we noted six instances in which the quarterly reconciliations lacked signatures evidencing a supervisory review of the preparer's work. In addition, we noted one instance in which an incorrect fringe benefit rate was used in the reconciliation between allocated costs and actual costs for the SSC program; two instances in which the PHEP/HPP reconciliation preparer reversed the overtime payment and annual leave payment amounts subtracted from the original difference between allocated over actual costs; one instance where the annual leave payments backed out due to those payments not being included in time study did not agree with the total of annual leave payments per COGNOS reports; and, one instance in which the wrong formula was used in calculating the fringe benefits expense for August 2012 for reporting category code 058C on the year end reconciliation. The salary amount for that month was added to the fringe benefits expense causing the total expenditures for 058C to be overstated by \$203,535.71. Actual fringe benefits expense should have been \$77,022.68. Although the net result of these errors did not impact the overall conclusion of these reconciliations, it suggests a lack of sufficient supervisory review.
- One instance was noted in which an incorrect program code was written on the time study form but corrected during data entry into the Raw Time Report. One instance was noted in which the incorrect activity/service code was input into the Raw Time Report as compared to the completed time study form. Time study allocates totals by federal program; therefore, there would not have been any effect on time study results for these data entry errors.
- One instance in which service code 82A was not listed on the Standard Time report.

During our review of the time study process, we also noted the following deficiencies related to the agency's relative values table used to help determine the allocation of payroll costs for services provided by nurses, nurse practitioners and doctors to various federal programs. These were deficiencies communicated to agency management in the prior year when the relative values table was originally audited and remain uncorrected in the current year:

- One instance in which time for service code 15 was entered into the Relative Value Table for services that are no longer provided in the clinics and therefore should not be allocating PC03 time.
- Two instances in which the service codes 83B and 85A could not be traced to the Standard Time report and the Relative Value Table did not agree to auditor calculation of an average of the previous few years' Relative Value tables.

Our review of the time study process also identified a deficiency in internal control related to the annual review of the standard time value table. There was no annual review or documentation of review of the standard time value table to ensure that all values were still accurate and pertinent.

Our review of the time study process also identified a lack of adherence to cognizant agency policies over time study procedures. Current year time study procedures did not comply with all of the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services' Provider Reimbursement manual requirements for conducting time studies. The manual requires the time study must encompass at least one full week per month of the cost reporting period, each week selected must be a full work week, the weeks selected must be equally distributed among the months in the cost reporting period, and no two consecutive months may use the same week for the study. Testwork showed that the Department of Health collected data for the fourth week for two consecutive months and did not equally distribute the data collection weeks throughout the year.

Failure to: perform required reconciliations; make necessary quarterly adjustments based upon appropriate documentation supporting actual levels of effort; provide an adequate level of supervisory review over the reconciliations; modify inaccurate relative values data; and adhere to cognizant agency policies for time study procedures could result in the misallocation of federal funds and questioned costs. The agency may then be subject to repaying a portion of the grants, be levied fines and penalties, and potentially lose future grant awards.

Recommendation:

We recommend the Mississippi State Department of Health strengthen internal controls to ensure time study reconciliations are properly designed, accurately and timely prepared, reviewed, and performed for all federal programs to ensure that federal programs have not been overcharged based upon actual distribution of effort. For programs which have been overcharged based on the results of the reconciliations, we recommend the agency ensure that adjustments are made in a timely manner. We further recommend that management strengthen internal controls to ensure sufficient monitoring and oversight of time study policies and procedures.

OTHER AUDIT FINDINGS

In planning and performing our audit of the federal awards received by the Mississippi State Department of Health for the year ended June 30, 2013, we considered internal control over compliance with the requirements that could have a direct and material effect on the major federal programs. Matters which require the attention of management were noted. These matters which do not have a material effect on the agency's ability to administer major federal programs in accordance with applicable laws, regulations, or provisions of contracts or grant agreements involve other control deficiencies.

CFDA/Finding Number

Finding and Recommendation

ALLOWABLE COSTS/COST PRINCIPLES

Control Deficiency

10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
93.069	Public Health Emergency Preparedness
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
93.889	National Bioterrorism Hospital Preparedness Program

Federal Award Number and Year:	5MS700704	2012
	5MS700704	2013
	1U90TP000530-01	2013
	2U90TP416986011	2013
	05-1005-MS-5000	2013

Oth-09 Controls Should Be Strengthened for the Review of Employee Approval Levels in the Statewide Automated Accounting System (SAAS)

Finding:

The Mississippi Management and Reporting System (MMRS), an office of the Mississippi Department of Finance and Administration, is responsible for maintaining and supporting the Statewide Automated Accounting System (SAAS). MMRS has published and made available on its website the *SAAS Agency Manual – MMRS/SAAS System Access*, which indicates “one user should not be given authority to perform all actions for one transaction”. Each agency is responsible for establishing the SAAS authority given to its employees.

During our audit of the Mississippi State Department of Health (MSDH), we reviewed transaction approval levels established in SAAS for the state fiscal year 2013. During our review, we noted the following problems:

- Two employees had both entry and full agency approval access for revenue transactions for all four quarters; one employee had both entry and full agency approval access for revenue transactions for the first and second quarters.
- Two employees had both entry and full agency approval access for

disbursement transactions for all four quarters.

- One employee had both entry and full agency approval access for journal entry transactions for all four quarters; two employees had both entry and full agency approval access for journal entry transactions for the first and second quarters.
- Four employees had been terminated and a profile maintenance form was submitted by MSDH timely, but their SAAS access was not timely deleted by MMRS.
- One employee profile maintenance form for a terminated employee was not timely submitted by MSDH.

Failure to ensure segregation of duties by separating entry and approval authority as well as not having access timely deleted by MMRS could allow unauthorized or erroneous transactions to be recorded in SAAS and not be detected promptly.

Recommendation:

We recommend the Mississippi State Department of Health (MSDH) review employee approval levels in the Statewide Automated Accounting System (SAAS) to ensure duties are properly segregated and no one individual is assigned both input capability and all levels of agency approval. We recommend MSDH strengthen its controls over proper follow up with Mississippi Management and Reporting System (MMRS) to ensure terminated employees are timely removed from having access to SAAS. We also recommend MSDH strengthen its controls over the timely submission of Security Profile Maintenance Forms to MMRS to ensure the system access of terminated employees is timely removed.

REPORTING

Control Deficiency

10.557 Special Supplemental Nutrition Program for Women, Infants, and Children

Federal Award Number and Year: 5MS700701 2013

Oth-10 Controls Should Be Strengthened over Reporting Requirements

Finding:

The *Code of Federal Regulations* (7 CFR Part 246.25) requires state agencies to submit an annual closeout report to the Food and Nutrition Service (FNS) annually. State agencies must also submit itemized Nutrition Service and Administrative (NSA) expenditures reports annually as an addendum to the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) closeout report, as required by the *Code of Federal Regulations* (7 CFR Part 246.17(b)(2)). Per the Office of Management and Budget Circular A-133, each

state agency uses the FNS-798A, *Addendum to WIC Financial Management and Participation Report*, to report these expenditures. State agencies prepare the FNS-798A annually to report 1) NSA expenditures by function for the fiscal year being closed out; (2) the method by which NSA expenditures were charged as indirect costs; and (3) the method by which the indirect cost amount was determined. FNS uses the amounts reported in nutrition education and breast-feeding promotion and support, two of the four functional categories on the FNS-798A, to determine whether the State agencies met the statutory minimum spending level for those functions.

During our review of the Mississippi State Department of Health's FNS-798A for the annual closeout of the federal year 2012 grant for the WIC program, we noted instances in which some of the key line items on Line 5a were misstated. Between the five categories identified, three categories were overstated and two categories were understated with a zero net effect. Auditor noted that amounts recorded on supporting documentation for the annual closeout report did not agree with amounts in the supporting worksheet used to accumulate data for the report. It was determined that amounts from the prior year supporting worksheet were transferred to the current year supporting worksheet, resulting in the amounts reported on the FNS-798A being misstated.

Good internal controls require that an adequate review is performed to ensure amounts recorded on the FNS-798A report are materially correct and fairly stated. Without adequate controls in place, the agency could report amounts that are incorrect and could result in questioned costs.

Recommendation:

We recommend the Mississippi State Department of Health strengthen controls over the reporting requirement for the Special Supplemental Nutrition Program for Women, Infants, and Children by accurately reviewing the FNS-798A report, along with all supporting documentation and calculations, to ensure the report is materially correct and fairly stated.