



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

April 2, 2014

Limited Internal Control and Compliance Review Management Report

James G. Chastain, FACHE, Director
Mississippi State Hospital
P.O. Box 157
Whitfield, Mississippi 39193

Dear Mr. Chastain:

Enclosed for your review are the Limited Internal Control and Compliance Review Findings for the Mississippi State Hospital for the Fiscal Year 2013. In these findings, the Auditor's Office recommends the Mississippi State Hospital:

1. Review employee approval levels in the statewide automated accounting system;
2. Strengthen controls over contractual service expenditures;
3. Ensure educational leave policies are in accordance with state law;
4. Transfer cash receipts to state treasury timely;
5. Transfer interest to the state treasury in accordance with state law; and
6. Strengthen controls over contractual expenditures.

Please review the recommendations and submit a plan to implement them by April 25, 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.

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.

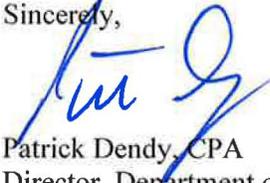
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I hope you find our recommendations enable the Mississippi State Hospital to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi State Hospital throughout the review. If you have any questions or need more information, please contact me.

Sincerely,



Patrick Dendy, CPA
Director, Department of Audit
Enclosures

The Office of the State Auditor has completed its limited internal control and compliance review of the Mississippi State Hospital for the year ended June 30, 2013. The Office of the State Auditor's staff members participating in this engagement included Amy Buller, CPA, Sallie Dier, CPA, Kelly Holtsinger, Alan Jarrett, and Cheryl Johnston, CPA.

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

A Review Should Be Performed of Employee Approval Levels in the Statewide Automated Accounting System (SAAS)

Finding:

We reviewed the approval levels established in the Statewide Automated Accounting System (SAAS) for cash disbursements, revenues, and journal vouchers at the Mississippi State Hospital. During this review we noted seven employees had the ability to enter and apply all levels of approvals for revenues and journal vouchers. Also, we noted five employees had the ability to enter and apply all levels of approvals for disbursements. Further, we noted three former employees retained SAAS access after termination.

Good internal controls provide that duties should be segregated so that no one individual has the ability to initiate, authorize, and record a transaction. Further, an employee's SAAS access should be terminated when their employment with the Mississippi State Hospital ends.

Failure to maintain adequate internal controls over SAAS access could allow errors or fraud to occur without being detected promptly.

Recommendation:

We recommend the Mississippi State Hospital 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. Also, we recommend that the Mississippi State Hospital ensure that employee access to SAAS is deleted immediately upon termination.

Controls Should Be Strengthened over Contractual Service Expenditures

Finding:

Testwork performed on 25 contractual services expenditures at the Mississippi State Hospital revealed the following problems:

- One instance was noted in which the approved contract rate differed from the rate on the invoice, purchase requisition, purchase order and payment voucher. The contract rate was \$165 a month, and the invoice, purchase requisition, purchase order, and payment voucher listed a rate of \$166.95 a month.
- One invoice totaling \$732 was noted in which medical equipment rental was not supported by a signed agreement.

Good internal controls require supporting documentation be reviewed for clerical accuracy prior to payment of invoices. Also, prudent business practice mandates execution of a written contractual agreement binding the parties in cost and duties.

Failure to review invoices for accuracy and agreement to contracts could result in an over/underpayment to the vendor. The failure to obtain a written contract for equipment rental could result in disputes between the parties as to duties and compensation.

Recommendation:

We recommend the Mississippi State Hospital strengthen controls over contractual service expenditures by ensuring payment vouchers, invoices, and contracts are reviewed for accuracy and agreement prior to payment of expenditures. We further recommend a written contract be obtained for rentals of equipment.

INSTANCES OF NONCOMPLIANCE WITH STATE LAW

Paid Educational Leave Policies Should Be in Accordance with State Law

Finding:

The Mississippi State Hospital administers a paid educational leave program in which the agency grants paid educational leave for employees' study in various health care professions. In return, individuals are required to enter into a contractual agreement with the agency which designates a minimum period of time after graduation in which he or she has to work at the agency. The agency's practice is to allow interested individuals to apply for the program before employment. If the applicant is approved, the individual begins employment, at which time a contract is executed.

Section 37-101-291, Miss. Code Ann. (1972), establishes the requirements for paid educational leave programs administered by state health institutions. One of these requirements is an applicant must be working at the state health institution at the time of application.

During our review of the paid educational leave program at the agency, we reviewed the files of ten program participants. Nine instances were noted in which the applicant was not working at the agency at the time of application. Failure to ensure paid educational leave program participants are employees of the agency before an application is submitted results in noncompliance with state law.

Recommendation:

We recommend the Mississippi State Hospital review current paid educational leave policies to ensure program participants are employees of the agency prior to submission of applications as required by state law.

Transfer of Receipts to the State Treasury Should Be Performed in Accordance with State Law

Finding:

Testwork performed on 10 receipts at the Mississippi State Hospital revealed five instances in which receipts were not transferred to the state treasury timely. In three instances, the receipts were not transferred to the state treasury until four business days after the deposit to the clearing account. In another instance, the receipts were not transferred to the state treasury until five business days after the deposit to the clearing account. In the final instance, the receipts were not transferred to the state treasury until three business days after the deposit to the clearing account.

Section 7-9-21, Miss. Code Ann (1972), requires agencies to deposit funds into the state treasury by the end of the next business day following the day of collection. Failure to make timely transfers to the state treasury may result in the loss of investment earnings and increases the risk of theft and/or misplacement of funds while held at the agency level.

Recommendation:

We recommend the Mississippi State Hospital establish procedures to ensure receipts are transferred to the state treasury in compliance with state law.

Interest Should Be Transferred in Accordance with State Law

Finding:

Testwork performed on ten bank accounts at the Mississippi State Hospital revealed one instance in which interest earned was not deposited into the State General Fund. Section 7-9-12, Miss. Code Ann (1972), requires all accounts, excluding imprest accounts, to earn interest. The interest earned from collection/clearing and self-generated accounts is required to be deposited monthly to the State General Fund. Failure to comply with this requirement may result in the loss of investment earnings and increases the risk of theft and/or misplacement of funds while held at the agency level.

Recommendation:

We recommend the Mississippi State Hospital transfer interest earned for fiscal year ending June 30, 2013 through the present time, into the State General Fund.

Controls Should Be Strengthened over Contractual Expenditures

Finding:

Testwork performed on 25 contractual services expenditures at the Mississippi State Hospital revealed the following problems:

- Two instances were noted in which a purchase order date was subsequent to the date goods and services were provided. In one instance, the purchase order was dated August 15, 2012, and

services were provided from July 1, 2012 through August 31, 2012. In the second instance, the purchase order was dated November 13, 2012, and services were rendered from September 1, 2012 through September 30, 2012.

- Two instances were noted in which the payment voucher was dated more than 30 days after receipt of service and invoice. In one instance, the service was completed on May 2, 2013, the invoice was dated April 30, 2013, and the payment voucher was dated June 7, 2013. In the second instance, the service was completed and approved for payment on December 5, 2012, the invoice was dated November 14, 2012, and the payment voucher was dated February 14, 2013.
- We noted one instance in which sales tax was paid on the combined cost of labor, products and parts. Sales tax paid amounted to \$6.72, and the total invoice amount was \$102.72.

Mississippi Code of 1972 regulates purchases of goods and services by State Agencies as follows:

- Section 7-7-23, State Miss. Code Ann. (1992), requires that all purchases of equipment, supplies, materials or services be made only by written purchase orders and states that purchases without such purchase orders shall not be deemed obligations of the State.
- Section 31-7-303, Miss. Code Ann. (1992), requires the requisition for payment of an invoice be submitted not later than thirty (30) days after receipt of the invoice and receipt, inspection and approval of the goods or services, except in the case of a bona fide dispute in which case only the amount that is not in dispute is required to meet this criteria.
- Section 27-65-105, Miss. Code Ann. (1992), exempts the State of Mississippi from payment of sales taxes levied under the section when property, labor, services or products are sold to and billed directly to the State.

Failure to obtain purchase orders prior to obtaining goods or services, providing payment on invoices more than 30 days after the receipt of an invoice for goods and services, and the payment of sales tax on an invoice are all violations of State law. Further, the failure to submit payment vouchers within the required 30 day period could result in the State's incurring interest charges for undisputed amounts on vendor invoices.

Recommendation:

We recommend the Mississippi State Hospital strengthen its controls over the procurement of and payment for contractual services to assure that properly executed purchase orders/contracts are obtained in advance of obtaining goods/services, that payment vouchers are submitted within the required time frame and for the correct amounts in accordance with State laws.