



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

March 19, 2015

Financial 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 are the financial audit findings for the Mississippi State Department of Health for the Fiscal Year 2014. In these findings, the Auditor's Office recommends the Mississippi State Department of Health:

1. Strengthen controls over the preparation and review of the GAAP Reporting Package and the Schedule of Expenditures of Federal Activity; and,
2. Strengthen controls over recording of personal leave taken by agency employees.

Please review the recommendations and submit a plan to implement them by March 25, 2015. 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 State Department of Health'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 State Department of Health'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 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

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 State Department of Health for the year ended June 30, 2014. These financial statements are 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 Yolanda Campbell, CPA, Jeanne Julious, Lee Alford, Selena Davis, CPA, Kayla McKnight, 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 State Department of Health'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 State Department of Health's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the following paragraphs, we identified certain deficiencies in internal controls that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency identified in this letter as item 2014-002 to be a material weakness.

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. We consider the deficiency identified in this letter as item 14-01 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Mississippi State Department of Health 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*.

Finding Number **Finding and Recommendation**

MATERIAL WEAKNESS

2014-002 Controls Should Be Strengthened over the Preparation and Review of the GAAP Reporting Package and the Schedule of Expenditures of Federal Activity

Finding:

The Mississippi State Department of Health is required to prepare a GAAP Reporting Package for Fund 3301 each state fiscal year. This package includes the Schedule of Expenditures of Federal Activity (Form 27.30.60). We noted the following weaknesses and errors related to the GAAP Reporting Package and Schedule of Expenditures of Federal Activity for fiscal year 2014.

- Fiscal year 2014's Immunization Direct Assistance in Lieu of Cash was incorrectly calculated and reported using the federal fiscal year immunization vaccine report resulting in a net understatement of \$28,603,947. An audit adjustment was proposed and made by agency management to properly state this amount.
- Reports used in compiling the Schedule of Expenditures of Federal Activity were not accurate or complete. We noted transactions were duplicated for September 19, 2013, and the timeframe from December 16, 2013, thru December 31, 2013, and also transactions from January 1, 2014, until January 14, 2014, were excluded from the reports. This resulted in a net overstatement of federal expenditures totaling \$7,093,854. An audit adjustment was proposed and made by agency management to properly state federal expenditures for this amount.
- Transactions on the Received Date Blank and Industry Code Not Blank report used to compile accrual expenditures were incorrectly identified as accrual or no accrual transactions. Some of the transactions identified as accruals on this report were already included as accruals on the E645G report. It was also noted that some transactions on the Received Date report were noted as accruals and should not have been accrued. This resulted in a net overstatement of accrual expenditures in the amount of \$3,073,740. An audit adjustment was proposed and made by agency management to properly state federal expenditures for this amount.
- The GAAP Reporting Package and the Schedule of Expenditures of Federal Activity were not reviewed and signed by authorized agency personnel.
- Twelve instances were noted in which total cumulative federal expenditures for a program exceeded the grant award authorization total.
- Nine instances were noted in which reporting category codes for non-federal grant funds were included in the Schedule of Expenditures of Federal Activity resulting in a net overstatement of expenditures totaling \$4,095,134. An audit adjustment was proposed and made by agency management to remove these programs from the schedule.
- Eight instances were noted in which the Catalog for Federal Domestic Assistance (CFDA) numbers reported on the Schedule of Expenditures of Federal Activity were incorrect based on an examination of supporting documentation.
- Three instances were noted in which reporting category codes 064D,

062B, and 062C's Beginning Due From (To) Granting Agency balance did not agree to the ending balance in the prior year's Schedule of Expenditures of Federal Activity. When preparing the schedule, it appears that agency personnel had made an error in recording the reporting categories on the proper line. Because the reporting categories were all within the same program, the net effect was zero.

- Two instances were noted in which current year expenditures for reporting category codes 031C and 127D per the Schedule of Expenditures of Federal Activity did not agree to Fund 3301's total expense summary report. Because these amounts were immaterial, no adjustment was considered necessary.
- One instance was noted in which a new program's (CFDA 93.548) grant award amount included on the schedule did not agree to the grant award notice. This error also results in the grant award being overexpended on the Schedule of Expenditures of Federal Activity.

Good internal controls require a review and approval process to be in place over the GAAP Reporting Package to ensure that the information contained in the GAAP Reporting Package and supporting Schedule of Expenditures of Federal Activity is accurate, complete, properly classified and properly valued. Failure to properly review and approve the GAAP Reporting Package and supporting schedules may result in the improper recording of GAAP adjustments, ultimately affecting the financial position of Mississippi State Department of Health as reflected in the State's Comprehensive Annual Financial Report.

Recommendation:

We recommend the Mississippi State Department of Health strengthen controls over the preparation and review of the GAAP Reporting Package, including the Schedule of Expenditures of Federal Activity, to include a supervisory review and approval of all information prior to submission to Department of Finance and Administration to ensure accuracy, completeness, proper classification and valuation of reported information.

SIGNIFICANT DEFICIENCY

14-01

Controls Should Be Strengthened over Recording Personal Leave Taken By Agency Employees

Finding:

The Mississippi State Department of Health (MSDH) maintains an Administrative Manual detailing various policies and procedures in place at the agency, including the policies and procedures for taking personal leave. During our review of MSDH's accrued compensated absences, we selected 20 employees for testwork. Our review noted nine instances in which MSDH employees' personal leave was not being recorded timely in the Statewide Payroll and Human Resource System (SPAHRs). This resulted in a projected overstatement of \$357,466 in the accrued compensated absences liability balance on the State's Comprehensive Annual Financial Report as of June 30, 2014.

Good internal controls should be in place to ensure timely reporting of personal leave in SPAHRS to maintain accurate leave balances and properly state accrued compensated absences liability balance for GAAP financial reporting purposes. Personal leave taken not being recorded in SPAHRS timely results in an overstatement of the accrued compensated absences liability balance for GAAP financial reporting and incorrect available leave balances for employees.

Recommendation:

We recommend that Mississippi State Department of Health strengthen internal controls related to their personal leave policies and procedures. This should include establishing a process to ensure personal leave is recorded timely in the Statewide Payroll and Human Resource System (SPAHRS) to allow for accurate available leave balances as well as properly stated accrued compensated leave liability balance for GAAP financial reporting purposes.



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

March 19, 2015

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 are the single audit findings and other audit findings for the Mississippi State Department of Health for Fiscal Year 2014. In these findings, the Auditor's Office recommends the Mississippi State Department of Health:

Single Audit Findings:

1. Strengthen controls in preparing and reviewing *Federal Financial Reports* for the Immunization Program;
2. Strengthen controls to identify and report program income for the Immunization Program;
3. Ensure subawards are reported timely and accurately for the Federal Funding Accountability and Transparency Act (FFATA) Reporting requirement for the WIC and PHEP/HPP Programs;
4. Strengthen controls over preparation and review of the GAAP Reporting Package and the Schedule of Expenditures of Federal Activity;
5. Strengthen controls over the Time Study process and related tables and reconciliations;

Other Audit Findings:

6. Strengthen controls over the federal draw procedures for payroll expenditures for the WIC Program; and,
7. Strengthen controls over the eligibility certification process of the WIC Program.

Please review the recommendations and submit a plan to implement them by March 25, 2015. 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.

Mississippi State Department of Health

March 19, 2015

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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, 2014. The Office of the State Auditor's staff members participating in this engagement included Yolanda Campbell, CPA; Jeanne Julious, Thomas Wirt, CPA; Lee Alford, Selena Davis, CPA; and Elevia Tate.

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, 2014.

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

Our responsibility is to express an opinion on compliance for each of the State of Mississippi's major federal programs based on our audit of the types of compliance requirements referred to above. 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 instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are identified in this letter as items 2014-019, 2014-020 and 2014-021.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance identified in this letter as items 2014-019 and 2014-022 to be material weaknesses.

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 deficiencies in internal control over compliance identified in this letter as items 2014-020 and 2014-023 to be significant deficiencies.

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" as items Oth-09 and Oth-10.

**CFDA/Finding
Number**

Finding and Recommendation

REPORTING

Material Noncompliance

Material Weakness

93.268

Immunization Cooperative Agreements

Federal Award Number and Year: 1H23IP000790-01 2013
5H23IP000790-02 2014

Questioned Costs: None

2014-019

Controls Should Be Strengthened over the Preparation and Review of the Quarterly Federal Financial Report for the Immunization Cooperative Agreements

Finding:

The *Federal Financial Report* (FFR) (SF-425/SF-425A (OMB No. 0348-0061)) is the report used by recipients to report expenditures under federal awards, as well as, when applicable, cash status (Lines 10a, 10b, and 10c). The *Office of Management and Budget Circular A-133 Compliance Supplement* requires the submission of periodic financial reports for the Immunization Cooperative Agreements (Immunization) program to be complete, accurate, and prepared in

accordance with the required accounting basis and be properly supported by accounting records.

During our testing of the Mississippi State Department of Health's compliance with the Financial Reporting requirements for the Immunization program during fiscal year 2014, we noted that quarterly Immunization expenditures of \$575,466 for the quarter ended December 31, 2013, were not reported as cash disbursements on the December 31, 2013 quarterly *FFR*. We further noted that the combined amount of Immunization cash disbursements reported on the March 31, 2014 quarterly *FFR* was a negative \$2,847. Per our review of the GM28 reports, \$685,245 of cash disbursements should have been reported for the quarter ended March 31, 2014. This resulted in the cash disbursements reported for Immunization being understated by \$688,092 on the March 31, 2014 quarterly *FFR*. We also noted that there was no documented approval of the quarterly December 31, 2013 *FFR* prior to submission of the report based on our review of the Internal Review/Sign-off Sheet.

Failure to properly prepare and review the quarterly *FFR*'s could result in the agency not being in compliance with federal reporting requirements by not properly reflecting cash disbursements that have been made for the program.

Recommendation:

We recommend the Mississippi State Department of Health strengthen controls in preparing and reviewing the Immunization Cooperative quarterly *Federal Financial Report* to ensure the reports are complete and accurate.

**PROGRAM INCOME
REPORTING**

*Immaterial Noncompliance
Significant Deficiency*

93.268

Immunization Cooperative Agreements

Federal Award Number and Year: 1H23IP000790-01 2013

Questioned Costs: None

2014-020

Controls Should Be Strengthened over the Identification and Reporting of Program Income for the Immunization Cooperative Agreements

Finding:

The *United States Code* (42 USC 1396s(c)(2)(C)) states grantees providing direct immunization services may generate program income from fees or donations for vaccines administered. The Immunization Cooperative Grants (Immunization) grant award for federal year 2013 states that "any program income generated under this cooperative agreement will be used in accordance with the additional cost alternative." The grant award further states "general program income

subject to this alternative shall be reported on the *Federal Financial Report* (FFR), as appropriate.”

During our review of the Mississippi State Department of Health’s (MSDH) compliance with the Program Income requirements for the Immunization program for fiscal year 2014, we noted that MSDH has policies related to charging for vaccines administered to patients in the various Health Department Clinics, but we also noted that MSDH did not report program income received on the annual *FFR* report for the federal year 2013 Immunization program. The amount that should have been reported for the period of January 1, 2013 through December 31, 2013 was \$1,068,637.

The failure to properly identify and record program income on the annual *FFR* report could result in the agency being in noncompliance with program income and federal reporting requirements.

Recommendation:

We recommend the Mississippi State Department of Health strengthen controls to identify and record program income received on the annual *Federal Financial Report* for each federal grant year for the Immunization Cooperative Agreements.

REPORTING

Immaterial Noncompliance

10.557
93.074

Special Supplemental Nutrition Program for Women, Infants, and Children
Hospital Preparedness Program (HPP) and Public Health Emergency
Preparedness (PHEP) Aligned Cooperative Agreements

Federal Award Number and Year: 5MS700704 2014
5U90TP000530-02 2014

Questioned Costs: None

2014-021

Subawards Should be Timely and Accurately Reported in Compliance with the Federal Funding Accountability and Transparency Act (FFATA) Reporting Requirements for the WIC and PHEP/HPP Programs

Finding:

The *Code of Federal Regulations* (2 CFR part 170) sets forth the reporting requirements of subawards under the Federal Funding and Accountability Transparency Act (Transparency Act). The *Office of Management and Budget* (OMB) Circular A-133 includes subaward data element definitions from *Open Government Directive – Federal Spending Transparency and Subaward and Compensation Data Reporting* (August 27, 2010) Appendix C. The obligation date is defined as the date the subaward agreement is signed, and a subaward must be reported in the Federal Funding Accountability and Transparency

Subaward Reporting System (FSRS) by the end of the month following the month in which the obligation was made.

During our testwork performed on reporting for the Transparency Act during fiscal year 2014, we noted the following weaknesses.

- There were seven instances of PHEP/HPP subawards, which met the FFATA reporting requirements and were reported in the FSRS system; however, the obligation dates for these seven subawards were reported as the beginning effective date of the subaward instead of the date the subaward was signed, which is the obligation date as defined by FSRS.gov. This also resulted in six of these subawards not being reported in the FSRS system by the last day of the month following the obligation date.
- There were two modifications to a PHEP/HPP subaward in which both modifications met the FFATA reporting requirements but were reported as entirely separate subawards in the FSRS system instead of modifications to the originally reported subaward. This resulted in the subaward amount being overstated; an incorrect obligation (modification) date; and the modification not being filed by the last day of the month following the modification date.
- There were ten instances of WIC subawards, which met the FFATA reporting requirements were reported in the FSRS system; however, the obligation dates for these ten subawards were reported as the beginning effective date of the subaward instead of the date the subaward was signed, which is the obligation date as defined by FSRS.gov. This also resulted in nine of these subawards not being reported by the last day of the month following the obligation date.

Noncompliance with the Transparency Act requirements could result in reduced funding for applicable programs.

Recommendation:

We recommend the Mississippi State Department of Health ensure all subawards are reported timely and obligation dates are reported accurately in compliance with the Federal Funding Accountability and Transparency Act reporting requirements.

REPORTING

Material Weakness

10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
93,074 Hospital Preparedness Program (HPP) and Public Health Emergency
Preparedness (PHEP) Aligned Cooperative Agreements
93,268 Immunization Cooperative Agreements
93,777 State Survey and Certification of Health Care Providers and Suppliers (Title
XVIII) Medicare

Federal Award Number and Year: 5MS700704 2014 and 2013
5U90TP000530-02 2014
1H23IP000790-01 2013
5H23IP000790-02 2014
Pass through from Medicaid

2014-022 Controls Should be Strengthened over the Preparation and Review of the GAAP Reporting Package and the Schedule of Expenditures of Federal Activity

Finding:

The Mississippi State Department of Health is required to prepare a GAAP Reporting Package for Fund 3301 each state fiscal year. This package includes the Schedule of Expenditures of Federal Activity (Form 27.30.60). We noted the following weaknesses and errors related to the GAAP Reporting Package and Schedule of Expenditures of Federal Activity for fiscal year 2014.

- Fiscal year 2014's Immunization Direct Assistance in Lieu of Cash was incorrectly calculated and reported using the federal fiscal year immunization vaccine report resulting in a net understatement of \$28,603,947. An audit adjustment was proposed and made by agency management to properly state this amount.
- Reports used in compiling the Schedule of Expenditures of Federal Activity were not accurate or complete. We noted transactions were duplicated for September 19, 2013 and the timeframe from December 16, 2013, thru December 31, 2013, and also transactions from January 1, 2014, until January 14, 2014, were excluded from the reports. This resulted in a net overstatement of federal expenditures totaling \$7,093,854. An audit adjustment was proposed and made by agency management to properly state federal expenditures for this amount.
- Transactions on the Received Date Blank and Industry Code Not Blank report used to compile accrual expenditures were incorrectly identified as accrual or no accrual transactions. Some of the transactions identified as accruals on this report were already included as accruals on the E645G report. It was also noted that some transactions on the Received Date report were noted as accruals and should not have been accrued. This resulted in a net overstatement of accrual expenditures in the amount of \$3,073,740. The amount of overstatement was included on the Schedule of Audit Difference for consideration as an uncorrected difference.
- The GAAP Reporting Package and the Schedule of Expenditures of Federal Activity were not reviewed and signed by authorized agency personnel.

- Twelve instances were noted in which total cumulative federal expenditures for a program exceeded the grant award authorization total.
- Nine instances were noted in which reporting category codes for non-federal grant funds were included in the Schedule of Expenditures of Federal Activity resulting in a net overstatement of expenditures totaling \$4,095,134. An audit adjustment was proposed and made by agency management to remove these programs from the schedule.
- Eight instances were noted in which the Catalog for Federal Domestic Assistance (CFDA) numbers reported on the Schedule of Expenditures of Federal were incorrect based on an examination of supporting documentation.
- Three instances were noted in which reporting category codes 064D, 062B, and 062C's Beginning Due From (To) Granting Agency balance did not agree to the ending balance in the prior year's Schedule of Expenditures of Federal Activity. When preparing the schedule, it appears that agency personnel had made an error in recording the reporting categories on the proper line. Because the reporting categories were all within the same program, the net effect was zero.
- Two instances were noted in which current year expenditures for reporting category codes 031C and 127D per the Schedule of Expenditures of Federal Grant Activity did not agree to Fund 3301's total expense summary report. Because these amounts were immaterial, no adjustment was considered necessary.
- One instance was noted in which a new program's (CFDA 93.548) grant award amount included on the schedule did not agree to the grant award notice. This error also results in the grant award being over-expended on the Schedule of Expenditures of Federal Activity.

Good internal controls require a review and approval process to be in place over the GAAP Reporting Package to ensure that the information contained in the GAAP Reporting Package and supporting Schedule of Expenditures of Federal Activity is accurate, complete, properly classified and properly valued. Failure to properly review and approve the GAAP Reporting Package and supporting schedules may result in the improper recording of GAAP adjustments, ultimately effecting the financial position of Mississippi State Department of Health as reflected in the State's Comprehensive Annual Financial Report.

Recommendation:

We recommend the Mississippi State Department of Health strengthen controls over the preparation and review of the GAAP Reporting Package, including the Schedule of Expenditures of Federal Activity, to include a supervisory review and approval of all information prior to submission to Department of Finance and Administration to ensure accuracy, completeness, proper classification and valuation of reported information.

ALLOWABLE COSTS/COST PRINCIPLES

Significant Deficiency

10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
93.074 Hospital Preparedness Program (HPP) and Public Health Emergency
Preparedness (PHEP) Aligned Cooperative Agreements
93.268 Immunization Cooperative Agreements
93.777 State Survey and Certification of Health Care Providers and Suppliers (Title
XVIII) Medicare

Federal Award Number and Year: 5MS700704 2014 and 2013
5U90TP000530-02 2014
1H23IP000790-01 2013
5H23IP000790-02 2014
Pass through from Medicaid

2014-023 Controls Should Be Strengthened over 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. Quarterly adjustments should be made if the reconciliation indicates the actual costs are greater than the budgeted costs.

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 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. Any adjustments to payroll are made based upon the results of time study.

During our testing 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.

- Eight instances in which the time study quarterly reconciliations tested did not include signatures evidencing a supervisory review of preparer's work.

- Eight instances in which the incorrect fringe rate was used in calculations of time study for all quarters and for all federal major programs tested.
- One instance in which the lab amount for time study from July 2013 to December 2013 was not recorded on the reconciliation for the Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements.
- Four instances in which the amount for the annual leave payment and the overtime payment per the reconciliations did not agree to the amount reported on the Merlin reports for federal major programs: Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program and State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare (SSC) Program (both quarterly reconciliations for both programs).
- Two instances in which the amount recorded on the second quarter reconciliation for two reporting category codes (008D and 008E) did not agree to what was reported on the COGNOS report for federal major program State Survey and Certification. This error resulted in the totals for the quarterly reconciliation for all reporting category codes to not agree to the Merlin query for the same reporting category codes as well as the reconciliation not agreeing to the COGNOS reports.
- Two instances in which amounts recorded on the second quarter reconciliation for two reporting category codes 009D and 009E did not agree to what was reported on the COGNOS report for federal major program State Survey & Certification. There was an amount recorded for salaries and fringes for reporting category code on the reconciliation that was not reported on the COGNOS report and vice versa (amount recorded on COGNOS that was not on the reconciliation). This problem area resulted in the totals for the quarterly reconciliation for all reporting category codes to not agree to the Merlin query for the same reporting category codes as well as the reconciliation not agreeing to the COGNOS reports.

During our testing, we also noted the following deficiencies related to the agency's Relative Values Table used to 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 remained uncorrected in the current year:

- One instance (service code 15) in which time 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.
- One instance in which service code 82A did not agree to the Standard Time report. A clerical error was noted on the Standard Time report which should have been listed as 82A and not 83A.
- There was no documented review of the Relative Value Table for fiscal years 2013 or 2014.

In fiscal year 2014, we further noted:

- Once instance in which service code 29 does not appear on the Standard Time Value Table in which time was recorded for nurses, nurse practitioners and doctors on the Relative Value Table.
- Once instance in which program code listed on the Standard Time Value Table for service code 99B does not agree to the program code on the relative value table. On the relative value table, it is listed as GA whereas on the Standard Time Value Table, it is listed as OT.

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. The Mississippi State Department of Health did not equally distribute the data collection weeks throughout the year.

We also noted data entry errors on the time study form. There were four instances in which the time information listed on the time study form did not agree to the time study information keyed into the time study system. We noted two instances in which the monthly error reports tested did not have a signature that would indicate a review. Auditor extended testwork to the remaining monthly final error reports and noted none of the error reports were signed.

Failure to verify the accuracy of data input on the reconciliations and time study forms; provide an adequate level of supervisory review over the reconciliations and error reports; 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 timely and accurately prepared, reviewed, and performed for all federal programs to ensure that federal programs have not been overcharged based upon actual distribution of effort. 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, 2014, 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.

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.

**CFDA/Finding
Number**

Finding and Recommendation

CASH MANAGEMENT

Control Deficiency

10.557

Special Supplemental Nutrition Program for Women, Infants, and Children

Federal Award Number and Year: 5MS700704 2014 and 2013

Oth-09

Controls Should Be Strengthened over Federal Draw Procedures for Payroll Expenditures for the WIC Program

Finding:

The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) exceeds the determined threshold and is therefore included in the Cash Management Improvement Act Agreement (CMIA) for the fiscal year 2014. The CMIA defines the terms for the transfer of financial assistance funds between the Federal government and the State of Mississippi prescribed under Section 5 of the Cash Management Improvement Act of 1990 (Public Law 101-453), as amended by the Cash Management Improvement Act of 1992 (Public Law 102-589), codified at 31 U.S.C. 6501 and 31 U.S.C. 6503.

During our testing of federal draws at the Mississippi State Department of Health (MSDH), we noted instances in which the federal draws for WIC payroll transactions were requested and received the next business day instead of being requested and deposited in the State's treasury account on the same day, in accordance with the established clearance pattern in the CMIA for WIC payroll expenditures.

Recommendation:

We recommend the Mississippi State Department of Health strengthen controls over the federal draw procedures for payroll expenditures for the Special Supplemental Nutrition Program for Women, Infants, and Children in order to adhere to the established clearance pattern in the Cash Management

Improvement Act Agreement as agreed upon and approved by the State of Mississippi and the United States Department of the Treasury.

ELIGIBILITY

Control Deficiency

10.557 Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

Federal Award Number and Year: 5MS700704 2014 and 2013

Oth-10 Controls Should Be Strengthened over the Eligibility Certification Process for the WIC Program

Finding:

Federal Regulation 7 CFR 246.7 stipulates the certification process of participants for the WIC program. Per 7 CFR 246.7(c)(2)(i) – at certification, the State or local agency must require each applicant to present proof of residency and proof of identify. The Mississippi State Department of Health has established the WIC Policy and Procedure Manual which provides guidelines and a list of items that can be accepted for proof of identify and residency.

Federal Regulation 7 CFR 246.7(i)(10) states the certification data for each person certified shall be recorded on a form and shall include a statement of the rights and obligations under the Program. The statement must contain a signature space, and must be read by or to the applicant, parent, or caretaker. It must contain the language as specified in the federal regulations or alternate language as approved by FNS, and be signed by the applicant, parent or caretaker after the statement is read.

During our testing of the WIC Eligibility requirements we selected 91 participants and noted the following exceptions.

- Eleven instances were noted in which there was no evidence of the participants' signatures during certification stating they had read their rights and obligations related to the WIC program and/or signatures for issuance of checks for benefits.
- Four instances were noted in which the current medical record and/or existing medical record were selected as proof of identification and/or proof of residency for a newborn. The WIC Policy and Procedure Manual states these are not valid supporting documents to verify identification or residency of a newborn.
- One instance was noted in which a participant did not submit proof of identification within 30 days after their initial certification; was issued benefits for 3 months instead of only 1 month; and continued to receive benefits without termination from the program. Program requirements only allow a participant to receive benefits for one month when no proof of identification is provided; after receipt of benefits, the participant must provide proof of identification before being allowed to continue on the program.

- One instance in which proof of identification and residency was not identified in the computerized system.

Failure to obtain and properly verify identification and residency and not obtaining the participants' signatures could result in an ineligible participant being allowed to receive benefits, which could result in questioned costs.

Recommendation:

We recommend the Mississippi State Department of Health strengthen internal controls over the eligibility certification process of the Special Supplemental Nutrition Program for Women, Infants, and Children to ensure that all required information obtained during the process is properly supported and the participants' signatures are obtained.