



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

March 11, 2016

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 2015. In these findings, the Auditor's Office recommends the Mississippi State Department of Health:

Single Audit Findings:

1. Strengthen controls over subrecipient monitoring for the Special Supplemental Nutrition Program for Women, Infants, and Children;
2. Strengthen controls over allowable costs/ cost principles for the Time Study system;
3. Strengthen controls over the eligibility certification process for the Special Supplemental Nutrition Program for Women, Infants, and Children;

Other Audit Findings:

4. Strengthen controls over federal draw procedures to establish clearance patterns;
5. Strengthen controls over subrecipient monitoring for the Hospital Preparedness Program and Public Health Emergency Preparedness Program;
6. Ensure compliance with period of availability requirements for the Immunization Cooperative Agreements; and
7. Strengthened over Inventory for the Special Supplemental Nutrition Program for Women, Infants and Children Program.

Please review the recommendations and submit a plan to implement them by March 21, 2016. 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 11, 2016

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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 black ink, appearing to read "Sallie Dier". The signature is written in a cursive style with a large initial "S".

Sallie Dier, CPA

Director, Financial Audit and Compliance Division

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, 2015. The Office of the State Auditor's staff members participating in this engagement included Donna Parmegiani, CPA, Jeanne Julious, Sam Stewart, CPA, Dana McMorris, Elaina Jo Smith, Kelly Holtsinger, Elevelia Tate, Haley Hesdorffer, and Cheryl Johnston, CPA.

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, 2015.

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 2015-024, 2015-025, and 2015-026. In addition, we noted other instances of noncompliance that we have reported on the attached document, "Other Audit Findings."

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.

The *Code of Federal Regulations* (7 CFR 246.19(b)) states that agencies shall establish an ongoing management evaluation system which includes at least monitoring of local agency operations, the review of local agency financial and participation reports, the development of corrective action plans to resolve program deficiencies, the monitoring of the implementation of corrective action plans, and on-site reviews. These reviews must be conducted at least once every two years, including on-site reviews of a minimum of 20% of the clinics in each local agency or one clinic, whichever is greater.

We noted that seven of 13 subrecipients should have been monitored in order to be in compliance with these regulations. The failure to monitor subrecipients could allow noncompliance with federal regulations to occur and not be detected in a timely manner, potentially resulting in questioned costs.

Recommendation:

We recommend the Mississippi State Department of Health strengthen controls over subrecipient monitoring for the Special Supplemental Nutrition Program for Women, Infants, and Children to ensure monitoring procedures are performed in compliance with federal regulations for all subrecipients at least once every two years.

ALLOWABLE COSTS/COST PRINCIPLES

Significant Deficiency

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

Federal Award Number and Year: 5MS700704 2015 and 2014
5U90TP000530-03 2015
5H23IP000790-03 2015
5H23IP000790-02 2014
Pass through funds from Medicaid

Questioned Costs: None

2015-025

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 verified the reconciliations between actual time and effort reports and the amount charged for payroll for major programs had been performed at least quarterly. For one of the reconciliations tested, we noted one instance in which the amount reported for quarter ending December 2014 for the terminal leave payments, overtime and death payments per the reconciliation did not agree to the amount reported on the statewide accounting system, Mississippi's Accountability System for Government Information and Contracts (MAGIC) report for major federal program State Survey and Certification. The reconciliation shows an amount of \$11,860, and the MAGIC reports shows an amount of \$20,700, a difference of \$8,840.

Our review of the time study process also identified a lack of adherence to 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, and there were six instances where two consecutive months use the same week for the study in the cost reporting period.

We also noted data entry errors on the time study form. There was one instance 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.

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. It was a clerical error noted on the Standard Time report in which it should have been listed as 82A and not 83A.
- One 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.
- One instance in which a 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.

- There was no supervisory review of the relative value table for the last four years.

Failure to verify the accuracy of data input on the reconciliations and time study forms, modify inaccurate relative values data, and adhere to 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.

ELIGIBILITY

Significant Deficiency

10.557 Special Supplemental Nutrition Program for Women, Infants and Children

Federal Award Number and Year: 5MS700704 2015 and 2014

Questioned Costs: None

2015-026

Controls Should Be Strengthened over the Eligibility Certification Process for the Special Supplemental Nutrition Program for Women, Infants and Children

Finding:

During our testing of eligibility requirements of the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) using the Successful Partners in Reaching Innovative Technology (SPIRIT) system at the Mississippi State Department of Health, we selected 40 participants and noted the following exceptions:

- Seven instances in which there were no evidence of the participants' signatures in SPIRIT or on a manual signature form at the clinic stating they had read their rights and obligations related to the WIC program;
- Five instances in which there was no evidence of participants' signatures approving the issuance of checks for benefits during certification;
- Seven instances in which valid supporting documents were not used to verify residency of a newborn or pregnant/postpartum woman. For two newborn participants, the established medical record was selected as proof of residency instead of properly selecting the mother's medical record in the system. For five women participants, the mother's medical record was selected as proof of residency instead of properly selecting the established medical record; and
- One instance in which the hematological test (blood work) was not recorded for a child at certification.

The *Code of Federal Regulations* (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. Agency policy also requires participants' signatures approving the issuance of checks for benefits.

The *Code of Federal Regulations* (7 CFR 246.7(c) (2) (i)) also states that at certification the State or local agency must require each applicant to present proof of residency and proof of identify. The agency 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. The manual states that the current medical record must be established before using as proof of identification and residency.

The WIC Policy and Procedure Manual also state that one blood test is required between 12-24 months of age and once every 12 months from two to five years of age for children whose blood test results were within the normal range at their last certification.

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.

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, 2015, 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 immaterial instances of noncompliance and 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

PERIOD OF PERFORMANCE

Immaterial Noncompliance

93.268

Immunization Cooperative Agreements

Federal Award Number and Year: 5H23IP000790-03 2015
5H23IP000790-02 2014

Oth-08

Agency Should Ensure Compliance with Period of Availability Requirements for the Immunization Cooperative Agreements

Finding:

During our period of availability testwork at the Mississippi State Department of Health, we tested 13 items from the Immunization Cooperative Agreements program and noted an invoice for \$6,475 was received on 12/17/14 for the 2014 grant; however, the payment did not post until 06/11/2015, which is after the 90 day grace period for the close-out of grants. *The Code of Federal Regulations* (7 CFR 3016.23(b)) states all obligations incurred under the award must be liquidated no later than 90 days after the end of the funding period. The failure to spend federal funds within the period allowed per the grant agreement may jeopardize future federal funding of the program.

Recommendation:

We recommend the Mississippi State Department of Health ensure compliance with period of availability requirements for expenditures for the Immunization Cooperative Agreements program. As part of the review process for expenditures, the reporting categories should be verified to ensure the expenditure is paid within the period allowed after the end of the federal fiscal year.

SUBRECIPIENT MONITORING

Control Deficiency

93.074

Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements

Federal Award Number and Year: 5U90TP000530-03 2015

Oth-09

Controls Should Be Strengthened over Subrecipient Monitoring for the Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Program

Finding:

During our review of the Mississippi State Department of Health's controls over subrecipient monitoring requirements for the Hospital Preparedness Program (HPP) and the Public Health Emergency Preparedness (PHEP) Program during fiscal year 2015, we noted one instance out of four subrecipients tested in which the on-site monitoring report was not completed. Agency policy requires an on-site monitoring review be performed on each subgrantee during the award period, and that the monitoring report should be completed and reviewed. *The Code of Federal Regulations* (45 CFR 92.40(a)) states that grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved.

Grantee monitoring must cover each program, function or activity. The failure to properly monitor subrecipient activities could allow noncompliance with federal regulations to occur and not be detected in a timely manner and could ultimately jeopardize future program funding.

Recommendation:

We recommend the Mississippi State Department of Health strengthen controls over subrecipient monitoring to ensure all active subgrantee contracts are monitored during the award. Monitoring reports should be completed and reviewed in accordance with the agency's policies and procedures.

CASH MANAGEMENT

Control Deficiency

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

Federal Award Number and Year: 5MS700704 2014 and 2015

Oth-10 Controls Should Be Strengthened over Federal Draw Procedures Related to Established Clearance Patterns

Finding:

The Cash Management Improvement Act Agreement (CMIA) defines the terms for the transfer of financial assistance funds between the Federal government and the State of Mississippi as 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. The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) exceeds the determined threshold and is therefore included in the CMIA for the State fiscal year 2015.

As established by CMIA agreement, WIC basic program costs are required to use the average clearance payment pattern of one day. The average clearance technique is a method in which the State shall request funds such that they are deposited by ACH on the dollar-weighted average day of clearance for the disbursement, in accordance with the clearance pattern specified (one day as established for WIC). Additionally, WIC Payroll costs are required to use the actual clearance, zero balance account (ZBA) same day payment pattern. The actual clearance, ZBA same day payment funding technique is a method in which the State shall request funds the same day it pays out the funds.

During our review of the Mississippi State Department of Health's (MSDH) cash management process, we noted 21 out of 40 instances in which the federal draws made for the WIC program were not received until after the clearance pattern deadlines. In addition, we noted three instances in which there was no supervisory approval on the Request for Funds on Letter of Credit prepared by the agency.

Failure to follow the clearance patterns established by the CMIA agreement could result in State funds being used to pay for federal WIC payroll and program costs until the federal funds are received by the State.

Recommendation:

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

SPECIAL TEST AND PROVISIONS

Control Deficiency

10.557 Special Supplemental Nutrition Program for Women, Infants and Children

Federal Award Number and Year: 5MS700704 2014 and 2015

Oth-11 Controls Should Be Strengthened over Inventory for the Special Supplemental Nutrition Program for Women, Infants and Children Program

Finding:

During our review of internal controls over inventory for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) at the Mississippi State Department of Health, we selected five WIC distribution centers out of ten to test inventory procedures. We noted the following exceptions as part of our testwork:

- One instance in which the quarterly inventory count was not performed for the first quarter of fiscal year 2015;
- Four instances in which the WIC Distribution centers failed to provide an explanation for the overages/shortages for amounts \$25 and greater; and
- One instance in which an overage/shortage report was not prepared and submitted to the agency.

The State Policy and Procedure Manual for the WIC program established guidelines and procedures for taking inventory at the WIC distribution centers. The manual states that a complete physical inventory must be taken weekly and at the end of each month. At least once each quarter, the district food center supervisor will assign other staff to make the required quarterly count.

The physical count work sheet must be signed by the supervisor or designee and the senior clerk and submitted to the central office. Lack of accountability and proper safeguarding of assets could result in theft occurring and not being detected in a timely manner.

Recommendation:

We recommend the Mississippi State Department of Health strengthen controls over inventory for the Special Supplemental Nutrition Program for Women, Infants and Children. All required inventory counts should be performed and overages/shortages noted during the inventory counts should be properly resolved and documented according to agency policy.

End of Report

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

Federal Award Number and Year: 5MS700704 2015 and 2014
 5U90TP000530-03 2015
 5H23IP000790-03 2015
 5H23IP000790-02 2014
 Pass through funds from Medicaid

2015-025 Controls Should Be Strengthened over Allowable Costs/Cost Principles for the Time Study System

The agency concurs with this finding. Greater care will be exercised to ensure figures are entered correctly on the reconciliation. In addition, corrections have been made to the relative value tables to ensure they are accurate and Field Services will review the table prior to implementation for the next fiscal year. Also, time study staff will ensure the weeks selected for time study are equally distributed. The agency is still in the process of developing the activities reporting portion of the KRONOS Time Keeping system which should diminish the marginal data entry errors. At this point there is no implementation date set. Until such time it has been implemented, data entry forms will be dually checked to assure correction and accuracy in data collection.

ELIGIBILITY

Significant Deficiency

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

Federal Award Number and Year: 5MS700704 2015 and 2014

2015-026 Controls Should Be Strengthened over the Eligibility Certification Process for the Special Supplemental Nutrition Program for Women, Infants and Children

The agency concurs with this finding. WIC coordinators will reinforce appropriate procedures and policies with staff regarding proof of residency, collection of bloodwork and use of selections in SPIRIT when bloodwork is not collected, and collecting signatures at each certification and check issuance.


 Mary Currier, M.D., M.P.H.
 State Health Officer

Federal Award Number and Year: 5U90TP000530-03 2015

Oth-09

Controls Should Be Strengthened over Subrecipient Monitoring for the Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Program

The agency concurs with the finding. Greater care will be exercised to ensure monitoring procedures are performed in accordance with agency policy.

CASH MANAGEMENT

Control Deficiency

CFDA #10.557

Special Supplemental Nutrition Program for Women, Infants, and Children

Federal Award Number and Year: 5MS700704 2014 and 2015

Oth-10

Controls Should Be Strengthened over Federal Draw Procedures Related to Established Clearance Patterns

The agency concurs that clearance pattern deadlines were not met in FY 2015. This was the result of the implementation of MAGIC and the inability to receive accurate reports from the system to determine the amount of funds to draw. The agency has now determined which standard MAGIC report to use for the draw down process. In addition, greater care will be exercised to ensure supervisory approval is documented on all request for funds.

SPECIAL TEST AND PROVISIONS

Control Deficiency

10.557

Special Supplemental Nutrition Program for Women, Infants and Children

Federal Award Number and Year: 5MS700704 2014 and 2015

Oth-11

Controls Should Be Strengthened over Inventory for the Special Supplemental Nutrition Program for Women, Infants and Children Program

The agency concurs with the finding. WIC Central Office staff will ensure quarterly inventories are performed. In addition, WIC Central Office will strengthen procedures to ensure overage/shortage reports are obtained and any necessary explanations are obtained.


Mary Currier, M.D., M.P.H.
State Health Officer



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

March 11, 2016

Financial Audit Management Report

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

Dear Dr. Carrier:

Enclosed for your review are the financial audit findings for the Mississippi State Department of Health for the Fiscal Year 2015. In these findings, the Auditor's Office recommends the Mississippi State Department of Health:

1. Should perform a network security assessment; and
2. Should implement a formal change management process

Please review the recommendations and submit a plan to implement them by March 21, 2016. 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 black ink that reads "Sallie Dier".

Sallie Dier, CPA
Director, Financial and Compliance Audit Division

Enclosures

FINANCIAL AUDIT MANAGEMENT REPORT

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of the Mississippi State Department of Health for the year ended June 30, 2015. 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 Donna Parmegiani, CPA, Jeanne Julious, Sam Stewart, CPA, Dana McMorris, Elaina Jo Smith, Kelly Holtsinger, Elevia Tate, Haley Hesdorffer, and Cheryl Johnston, CPA, David Ashley, CISA, CISM, CBCP, CRISC, CHP, and Ladonna Johnson, CISA.

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 Department of Health's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In addition, we noted certain control deficiencies involving internal control that require the attention of management. These matters are listed under the heading **OTHER CONTROL DEFICIENCIES** as items 15-01 and 15-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Mississippi 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

OTHER CONTROL DEFICIENCIES

15-01

The Mississippi State Department of Health Should Perform a Network Security Assessment

Finding:

Factors noted during the Information Technology General Control (ITGC) assessment at MSDH indicate a network assessment is warranted.

Best business practices as well as standards for information technology provide various guidelines for frequency and criteria for performing network reviews. The Mississippi Enterprise Security Policy requires network reviews be performed, at minimum, every three years or more frequently whenever business situations change that might raise the level of risk for unauthorized access to an entity's data assets. Examples of such change criteria would be:

- A major change in the network topology
- Implementation of new financial applications
- Length of time since the last network review
- Recent network penetration or malware infection (and possible data loss) due to the activity of unauthorized parties
- Changes in support levels for hardware and software
- Lack of security event monitoring
- Insufficient anti-virus

Network reviews should include vulnerability scans as well as penetration tests. A vulnerability scan or assessment looks for known vulnerabilities in your systems and reports potential exposures, many times in the form of a risk assessment. A penetration test is designed to actually exploit weaknesses in the architecture of systems.

Hacks into networks, especially internet facing networks, are a common occurrence in today's information technology environment. Data breaches can cost breached entities fines, regulatory oversight, bad public relations, customer distrust and personnel time to correct issues caused by unauthorized access. Consequences can be both short-term (e.g., notification of breached parties) and long-term (e.g., lawsuits).

Planning resulting from such assessments should include consideration of breach management, especially as it relates to regulation concerning the reporting of breaches, identity theft monitoring and possible litigation resulting from particular types of breaches.

Recommendation:

It is recommended that MSDH perform a network security assessment as soon as possible. All factors that might increase the risk of unauthorized access to an entity's data assets should be considered when determining the exact scope of the network review to be performed. This review should consist of risk assessments, vulnerability scans and penetration tests. These type tests should be conducted by qualified personnel that specialize in such assessments.

Note: Although the agencies can use any qualified vendor for security assessment services, they also have the option of utilizing Request for Proposal (RFP) #3735 that was negotiated by Mississippi Information Technology Services (ITS) for security assessment services. Use of this RFP will prevent MSDH from going through the RFP process and allow them to take advantage of the negotiated rates for network security assessment services.

The Mississippi State Department of Health Should Implement a Formal Change Management Process

Finding:

Proper controls on program changes are important to maintain assurances that only program changes authorized by management are placed into production. This principle is supported by CobiT BAI06 Manage Changes which states, "All changes, including emergency maintenance and patches, relating to infrastructure and applications within the production environment are formally managed in a controlled manner."

Our review revealed MSDH has no formal policies governing change management for important changes to the network, firewall and application systems. Although changes are usually made with the verbal approval of management, there are no written procedures to manage the changes.

Recommendation:

We recommend that the Mississippi State Department of Health develop written policies and procedures to govern the change management process for the network, firewall and all application systems. In the evaluation of controls surrounding the application systems, MSDH should also implement best practice program change controls that would include the following practices:

- Document changes in a formal manner.
- Achieve a higher segregation of duties in the programming process.
- Provide for sign-off where appropriate for assignment and completion of program change steps.
- Provide for separate quality assurance from the Information Technology programmer making the changes.



MISSISSIPPI STATE DEPARTMENT OF HEALTH

March 21, 2016

FINANCIAL AUDIT FINDINGS

Stacey E. Pickering, State Auditor
Office of the State Auditor
State of Mississippi
P. O. Box 956
Jackson, MS 39205-0956

Dear Mr. Pickering:

Enclosed for your review are the responses and corrective action plans for the Financial Audit Findings for the Mississippi State Department of Health for the Fiscal Year ended 2015.

AUDIT FINDINGS:

15-01 The Mississippi State Department of Health Should Perform a Network Security Assessment

The agency partially concurs with this finding. The agency (MSDH) enlisted the services of Integrated Computer Solutions (ICS) to perform a security assessment that was completed in June 2014. It was believed to be a full security assessment but was later found it did not include a penetration test. MSDH has contacted Information Technology Services (ITS) and they indicated MSDH could conduct a standalone penetration test to include with the security assessment completed in June of 2014. MSDH will secure services for the standalone penetration test to be performed before the end of June 2016. MSDH will schedule another full security assessment (including another penetration test) to be completed before June 2017 to be compliant with ITS requirements.

15-02 The Mississippi State Department of Health Should Implement a Formal Change Management Process

The agency concurs with the finding. While network, firewall, and system changes are documented via e-mail from the appropriate level of authorization and documents reflecting these changes are either filed or placed on the agency's shared drives, MSDH acknowledges the need for a more formal process and will work towards implementation of best practice change controls.


Mary Currier, M.D., M.P.H.
State Health Officer