



**State of Mississippi**  
**OFFICE OF THE STATE AUDITOR**  
PHIL BRYANT  
Auditor

August 11, 2005

**Limited Internal Control and Compliance Review Management Report**

Charles Carlisle, Director  
East Mississippi State Hospital  
P. O. Box 4128 West Station  
Meridian, Mississippi 39304-4128

Dear Mr. Carlisle:

Enclosed for your review are the limited internal control and compliance review findings for the East Mississippi State Hospital for the Fiscal Year 2004. In these findings, the Auditor's Office recommends the East Mississippi State Hospital:

1. Properly segregate duties over bank accounts;
2. Strengthen controls over bank accounts;
3. Strengthen controls over disbursements;
4. Implement controls over pharmacy inventory;
5. Strengthen controls over contractual services expenditures;
6. Strengthen controls over procurement card purchases;
7. Perform reconciliations of the collateral sufficiency analysis reports to agency records;
8. Ensure major medical leave is used in accordance with state law;
9. Ensure vendors are paid in accordance with state law;
10. Maintain surety bond coverage for security guards; and
11. Follow state regulations over reporting housing allowances.

Please review the recommendations and submit a plan to implement them by August 31, 2005. The enclosed findings contain more information about our recommendations.

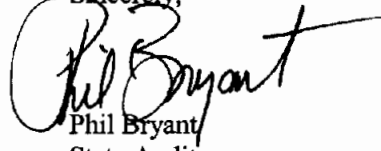
During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

This report is intended solely for the information and use of management and Members of the Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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

Sincerely,



Phil Bryant  
State Auditor

Enclosures

The Office of the State Auditor has completed its limited internal control and compliance review of the East Mississippi State Hospital for the year ended June 30, 2004. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Judy Bounds, Mike McCollough, Kim McCrory and Jay Strait.

The fieldwork for review procedures and tests was completed on April 15, 2005. These procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. Also, our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

In performing our review, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. This matter is noted under the heading **REPORTABLE CONDITION**.

In addition, we noted other matters involving the internal control over financial reporting and instances of noncompliance that require the attention of management. These matters are noted under the headings **IMMATERIAL WEAKNESSES IN INTERNAL CONTROLS** and **INSTANCES OF NONCOMPLIANCE WITH STATE LAWS AND REGULATIONS**.

## **REPORTABLE CONDITION**

### Duties over Bank Accounts Should Be Properly Segregated

#### *Finding:*

During our review of bank accounts at East Mississippi State Hospital, we noted the following weaknesses:

- For the patient activities donation account, one employee was responsible for recording the receipts in the agency's records, verifying the receipt log, deposit and books agreed, preparing the deposit to the bank, and taking the deposit to the bank. In addition, this same employee was responsible for maintaining custody of the unused checks and signing the checks. Another employee, who could also sign checks, was responsible for authorizing purchases, verifying the receipt of the goods and services, and recording the expenditures in the agency's records.

- For the clearing account, one employee was responsible for recording the receipts in the agency's records, verifying the receipt log, deposit and books agreed, preparing the deposit to the bank, taking the deposit to the bank, and signing the treasurer's receipt warrant. In addition, this same employee was responsible for maintaining custody of the unused checks and was authorized to sign and mail the checks.
- For the petty cash account, one employee was responsible for recording the receipts in the receipts log and the agency's records, verifying the receipt log, deposit and books agreed, preparing the deposit, and taking the deposit to the bank. In addition, this same employee was responsible for maintaining custody of the unused checks, signing the checks, and reconciling the bank statements to the agency's records.
- For the Weems Foundation account, one employee was responsible for authorizing purchases, signing the checks, verifying the receipt of the goods and services, and recording the expenditures in the agency's records.

Good internal controls require bank account duties be properly segregated to ensure no individual has the authority to process an entire transaction. The failure to properly segregate duties could allow errors or fraud to occur without being detected in a timely manner.

*Recommendation:*

We recommend East Mississippi State Hospital strengthen internal controls over bank accounts by segregating duties over transactions to ensure no individual has the authority to process an entire transaction.

**IMMATERIAL WEAKNESSES IN INTERNAL CONTROLS**

Controls over Bank Accounts Should Be Strengthened

*Finding:*

Testwork on bank accounts at East Mississippi State Hospital revealed the following:

- For the patient activities donation account, the clearing account, the Weems Foundation account, the garnishment account and the petty cash account, we noted the unused checks were not safeguarded in a secure environment.
- For the Weems Foundation account, two instances were noted in which checks totaling \$300 lacked a signature authorizing the expenditure.
- For the resident trustee account, 20 instances were noted in which checks totaling \$1,153 and dating back to November 2001 remained outstanding.

Good internal controls require that unused checks be safeguarded in a secure environment, all checks issued by the agency be signed by appropriate agency personnel, and reconciling items be promptly resolved. Failure to maintain adequate internal controls could result in errors or fraud occurring without being promptly detected.

*Recommendation:*

We recommend East Mississippi State Hospital strengthen internal controls over bank accounts by maintaining unused checks in a secured environment. We further recommend the agency ensure all checks issued by the agency are signed by appropriate agency personnel and the disposition of outstanding items on bank reconciliations are promptly resolved.

Controls over Disbursements Should Be Strengthened.

*Finding:*

During our review of East Mississippi State Hospital, we reviewed the agency's approval levels established in the Statewide Automated Accounting System (SAAS) for transactions related to disbursements. We noted two employees had all agency approval levels required to process SAAS disbursement transactions from initiation to approval. We further noted one of the two employees also had authorization to sign purchase orders and payment vouchers. Good internal controls require duties to be properly segregated to prevent both the initiation and authorization of a transaction by a single individual. Failure to properly segregate duties increases the risk for errors or fraud to occur without being detected promptly.

*Recommendation:*

We recommend East Mississippi State Hospital strengthen internal controls over disbursements by implementing proper segregation of duties to ensure no individual has the capability to both initiate and approve an entire transaction.

Controls over Pharmacy Inventory Should Be Implemented

*Finding:*

During our review of internal controls over the pharmacy at East Mississippi State Hospital, we noted the agency did not maintain a record of the pharmacy's inventory of non-controlled substances and did not perform periodic physical inventory counts of non-controlled substances on hand. Good internal controls dictate a record of all drugs on hand in the agency's pharmacy be maintained and periodic physical inventory counts be performed. Failure to maintain an inventory record and to conduct periodic inventory counts of the agency's non-controlled substances could result in errors or fraud occurring and not being promptly detected.

*Recommendation:*

We recommend East Mississippi State Hospital implement internal controls over the pharmacy's inventory of non-controlled substances by maintaining perpetual inventory records of all drugs on hand in the pharmacy and performing periodic physical counts.

Controls over Contractual Services Expenditures Should Be Strengthened

*Finding:*

During our review of 25 contractual services expenditures at East Mississippi State Hospital, we noted the following:

- The agency entered into an agreement with an individual to provide consulting services. The agreement stated that payment would be made for up to 20 hours per week for a maximum of 80 hours per month. A payment of \$3,920 was made to the consultant; however, we noted that the contract was not signed by both parties. We also noted the consultant submitted time sheets; however, the time sheets were not signed by the consultant. We further noted that the consultant billed the agency, and was paid for, 120 hours for the month of April, 2004, which is 40 hours more than authorized by the agreement. This resulted in payment of \$1,200 above the amount authorized by the contract. While the agreement could have been amended to allow 120 hours per month, there was no evidence on file to this fact.
- The agency entered into an agreement with a nutrition company. We noted a payment made to the company in the amount of \$1,300; however, the time sheets submitted by the company were not signed by the persons performing the work.
- Two instances related to rental contracts which stated: "payable in advance on the first of each month"; however, the agency paid for two months in advance for one item, and three months in advance for the other item.

Good internal controls require that contractual agreements be signed by both parties. Time sheets should be signed by individuals performing the work. Agency personnel should compare submitted invoices to terms agreed to in the contract prior to authorizing payment. Failure to maintain signed agreements and compare invoices to contract terms could allow errors or fraud to occur without being detected promptly.

*Recommendation:*

We recommend East Mississippi State Hospital strengthen internal controls by maintaining signed contractual agreements on file. We further recommend the agency immediately implement procedures to ensure that all time sheets and invoices received from contractual employees are signed by the individual requesting payment to certify that the work was performed. Procedures should be implemented to ensure that agency personnel verify that invoiced work has been properly completed in compliance with the contract and that agency approval for payment be documented. Evidence of the review should be documented by the reviewer's initials and the date of the review.

Controls over Procurement Card Purchases Should Be Strengthened

*Finding:*

During our review of 25 procurement card purchases at East Mississippi State Hospital, we noted:

- Five instances, or 20 percent, in which purchases totaling \$1,151 were made with no evidence of an independent review of the charges.
- Two instances, or 8 percent, in which charge slips for purchases totaling \$194 were signed by someone other than the approved card holder.

The agency's procurement card procedures require both the cardholder and the team leader sign the purchasing card record certifying the legitimacy and accuracy of the listed transactions. Good internal controls also require procurement card purchases only be made by an approved cardholder and that they be reviewed by an individual independent of the purchases. Failure to require procurement card purchases to be made by an approved card holder and reviewed by an independent individual increases the potential for errors or fraud to occur without being detected promptly.

*Recommendation:*

We recommend East Mississippi State Hospital strengthen controls over procurement card purchases by adhering to established procedures which require an independent review of these purchases. We further recommend the agency ensure that procurement card purchases are made only by an approved cardholder.

Reconciliations of the Collateral Sufficiency Analysis Reports to Agency Records Should Be Performed

*Finding:*

Bank account testwork at East Mississippi State Hospital revealed three instances during fiscal year 2004 in which the agency did not reconcile the State Treasury's Collateral Sufficiency Analysis quarterly reports to agency bank records. The State Treasury monitors the collateral level for every bank holding state deposits. Quarterly, the State Treasury sends each agency a Collateral Sufficiency Analysis report which discloses actual and average daily account balances in total and by account type. Also, the agencies receive a cover letter with this report which instructs the agency to report any discrepancies in account balances to the State Treasury.

Good internal controls dictate the agency prepare quarterly reconciliations to the Collateral Sufficiency Analysis reports to ensure account balances on the reports are accurate. Failure to perform quarterly reconciliations could result in an incorrect balance on the report and in the deposits not being properly collateralized.

*Recommendation:*

We recommend East Mississippi State Hospital prepare quarterly reconciliations to the Collateral Sufficiency Analysis reports. Any differences noted should be investigated and reported to the State Treasury.

**INSTANCES OF NONCOMPLIANCE WITH STATE LAWS AND REGULATIONS**

Major Medical Leave Should Be Used in Accordance with State Law

*Finding:*

Testwork performed on 25 leave records at East Mississippi State Hospital revealed the following:

- Two instances, or 8 percent, in which employees did not use one day of personal or compensatory leave prior to utilizing major medical leave, and there was no advance certification from a physician of a chronic illness on file.
- Two instances, or 8 percent, in which employees charged 32 hours of combined personal and major medical leave due to an illness without certification from the attending physician on file.

Section 25-3-95, Miss. Code Ann. (1972), requires that major medical leave may be used for an illness or injury only after the employee has used one day of accrued personal or compensatory leave for each absence due to an illness. However, major medical leave may be used, without prior use of personal leave, to cover regularly scheduled visits to a doctor's office or a hospital for the continuing treatment of a chronic illness, as certified in advance by a physician, or for a death in the employee's immediate family. Section 25-3-95, Miss. Code Ann. (1972), also requires that major medical leave be authorized only when certified by the attending physician for each absence due to illness of 32 consecutive working hours (combined personal and major medical leave).

Failure to comply with state law could result in employees maintaining an inflated leave balance which, upon termination, could result in additional expense to the agency through termination benefits. In addition, failure to comply with state law could result in errors or irregularities in employee time reports and agency leave records.

*Recommendation:*

We recommend East Mississippi State Hospital implement procedures to ensure major medical leave is used in compliance with state law.



Vendors Should Be Paid in Accordance with State Law

*Finding:*

Testwork performed on contractual services expenditures at East Mississippi State Hospital revealed two instances out of 25 items tested, or 8 percent, in which the agency failed to remit payment to the vendor within 45 days after the receipt of the invoice. Section 31-7-303, Miss. Code Ann. (1972), states that requisition for payment of an invoice should be filed with the State Fiscal Management Board "not later than thirty (30) days after receipt of the invoice and receipt, inspection and approval of the goods or services." The statute further requires the warrant to be mailed or otherwise delivered by the public body not later than 15 days after filing of the requisition for payment. Failure to remit payment within 45 days could result in additional expense being incurred by the agency through finance charges.

*Recommendation:*

We recommend East Mississippi State Hospital comply with state law by ensuring payment is remitted to vendors within 45 days after receipt of the invoice and receipt, inspection and approval of the goods and services.

Surety Bond Coverage Should Be Maintained for Security Guards

*Finding:*

A review of surety bond coverage for 24 security guards at East Mississippi State Hospital revealed the following:

- Eight instances, or 33 percent, in which the agency failed to obtain or pay the premium on a surety bond for security guards employed during fiscal year 2004.
- Two instances, or 8 percent, in which the annual bond coverage overlapped two months resulting in an overpayment of \$28.

Section 41-4-23, Miss. Code Ann. (1972), requires the director of any mental health facility to designate certain employees as security guards. Each person designated as a security guard must be covered, at a minimum, by a \$10,000 surety bond, at the expense of the mental health facility. Failure to obtain proper bond coverage could result in the agency suffering unrecoverable losses.

*Recommendation:*

We recommend East Mississippi State Hospital ensure employee surety bond coverage is maintained and the premiums for the bonds are paid for security guards as required by state law.

State Regulations over the Reporting of Housing Allowances Should Be Followed

*Finding:*

During our review of employer-provided housing allowances for employees at East Mississippi State Hospital, we noted the following:

- The former agency director was receiving \$1,125 per month as a non-cash housing allowance benefit; however, after being reassigned as a staff physician in May 2004, this employee should have been receiving \$750 per month as a non-cash housing allowance benefit.
- The current agency director was receiving \$1,125 per month as a non-cash housing allowance benefit; however, the current agency director has not lived in agency housing on the campus of East Mississippi State Hospital since appointment as agency director in May 2004. Therefore, the director should not have housing allowance benefits recorded.

The Public Employees' Retirement System (PERS) regulations allow for a non-cash housing allowance to be included in the retirement wage base for heads of state institutions and other personnel of state institutions. Section 401 of Part IV of the PERS regulations states the monthly maximum maintenance allowance for a given position or recipient. The failure to follow these regulations could result in errors in the employee's retirement benefits information which is submitted to PERS.

*Recommendation:*

We recommend East Mississippi State Hospital accurately record housing allowance benefits for employees. Non-cash benefits should be reported to the Public Employees Retirement System in accordance with the applicable regulations.

**End of Report**