



**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**PHIL BRYANT**  
AUDITOR

May 17, 2007

**Single Audit Management Report**

Brian W. Amy, MD, MHA, MPH, State Health Officer  
Mississippi State Department of Health  
P. O. Box 1700  
Jackson, Mississippi 39215-1700

Dear Dr. Amy:

Enclosed for your review are the single audit findings and the other audit finding for the Mississippi State Department of Health for the fiscal year 2006. In these findings, we recommend the Mississippi State Department of Health:

Single Audit Findings

1. Improve MWITS Application systems reliability;
2. Improve the time study allocation system edits and processes;
3. Strengthen controls over the time study procedures;
4. Strengthen controls over federal reporting; and

Other Audit Finding

5. Strengthen controls over (SAAS) security levels.

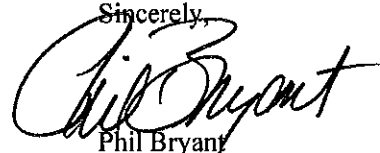
Please review the recommendations and submit a plan to implement them by June 4, 2007. The enclosed findings contain more information about our recommendations.

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, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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I hope you find our recommendations enable the Mississippi State 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,  
  
Phil Bryant  
State Auditor

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 selected federal programs of the Mississippi State Department of Health for the year ended June 30, 2006. This audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Office of the State Auditor's staff members participating in this engagement included Vicki Alvey, Judy Morrissey, Amanda Britt, Kamelia Moore, Veronica Overholt, Manny Patel, Chris Rand, Andy Salin, Toby Frazier, CISA, Mike Ferguson, CISA, and LaDonna Johnson.

The fieldwork for audit procedures and tests was completed on May 10, 2007. These 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.

### **Internal Control over Compliance**

The management of the Mississippi State Department of Health is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with requirements that could have a direct and material effect on the major federal programs.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the department's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely manner by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Reportable conditions which are material weaknesses are listed with the heading Material Weakness.

In addition, we noted a matter involving the internal control over compliance that requires the attention of management that we have reported on the attached document "Other Audit Finding". Also, as part of the limited assessment of the electronic data processing general controls and selected application controls, a management letter dated April 13, 2007, with immaterial weaknesses involving internal controls over electronic data processing was issued.

## Compliance

Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of management. We have audited each of the major federal programs for compliance with the types of compliance requirements described in OMB Circular A-133. Our audit fieldwork included examining, on a test basis, evidence about the department's compliance with those requirements and such other procedures as we considered necessary. Based on audit procedures and tests performed, we are pleased to report that no instances of noncompliance that are required to be reported by OMB Circular A-133 were noted.

**CFDA/Finding  
Number**

### **Finding and Recommendation**

## ALLOWABLE COSTS/COST PRINCIPLES

### Material Weakness

10.557

Special Supplemental Nutrition Program for Woman, Infants, and Children

**Federal Award Number and Year:** 5MS700704-009, 2005  
5MS700704-002, 2006

06-31

### MWITS Application System's Reliability Should Be Improved

*Finding:*

The Mississippi WIC inventory tracking system (MWITS) implemented by the Mississippi State Department of Health (MSDH) to track inventory purchased and issued for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) is not providing continuous reliable service. MWITS is an obsolete disk operating system (DOS) environment application system processing on an obsolete version of Novell. The significant functions of transferring inventory related transactions were designed around the file replication services of this early Novell Local Area Network (LAN) operating system. Generally, Novell file replication was not engineered with safeguards for processing transaction files but was a method of file distribution. This methodology of using a LAN as a Wide Area Network (WAN), combined with slow data lines, creates significant problems in the movement of files from local WIC warehouses to MSDH's Jackson headquarters and back. Often there is no indicator that file replication transmissions have failed. In our review of field offices, the Electronic Data Processing (EDP) Audit found in one warehouse that file replication had been failing for over a month, until repaired the day before our visit.

Although, this is a known problem, to which MSDH's Department of Health Informatics is currently working on solutions, EDP Audit is unable to attest to the reliability of this system until it is improved. As a compensating factor, the MSDH Accounting Department has developed manual methods and spreadsheets which EDP Audit believes compensates for the lack of system integrity.

MSDH with the assistance of the Mississippi Department of Information Technology Services is currently in the process of improving the network structure and line speed for WIC warehouses. The new network structure will move transmission speeds to a digital subscriber line speed and eliminate the pass-through of information through the district offices, creating a quicker and more direct data path to MSDH's Jackson headquarters. We also understand that MSDH is investigating a thin client solution to improve the reliability of the warehouse systems, and has created a request for proposal for a total system re-write and would like to progress on this long range solution.

*Recommendation:*

We believe that improved data communications and a strong monitoring process could improve the reliability factors of the current system, and assist in mitigating our findings on system integrity. We recommend that the Mississippi State Department of Health complete this project as soon as possible to improve the reliability of the Mississippi WIC inventory tracking system.

**ALLOWABLE COSTS/COST PRINCIPLES**

***Material Weakness***

10.557  
93.991

Special Supplemental Nutrition Program for Women, Infants, and Children  
Preventative Health and Health Services Block Grant

Federal Award Number and Year: 5MS700704-009, 2005  
5MS700704-002, 2006  
2005-B1-MS-PRVS-01, 2005

06-30

Time Study Allocation System Edits and Processes Should Be Improved

*Finding:*

The costing of patient encounters is accomplished through the processing of the Patient Information Management System (PIMS) information through the Time Study application's encounter allocation process. Our testwork revealed the PIMS contained incorrect encounter information due to keying errors and accepting input defaults in encounter information. The input defaults are shortcuts created during data entry for use at the clinics. Also, it appears that the editing and correction of encounter information in the PIMS is not being completed on a systematic basis.

A lack of a systematic and complete PIMS error correction process will allow bad encounter data to pass to Time Study. During our review, we noted that certain encounters were being assigned to a regional physician, or a nurse practitioner as the provider of the services, instead of the actual person who provided the encounter. This occurred because agency personnel used the input default instead of using the actual provider's name. When an invalid provider type is accepted as a default which is not a defined provider/encounter, the system does not process this data and drops the encounter record, resulting in loss of the encounter's billing opportunity.

Edit reports exist in PIMS that can help identify incorrect information and offer the opportunity to reprocess incorrect encounter information, if a stringent program of error review and correction is followed. Our review indicated that the Mississippi State Department of Health (MSDH) had modified its procedures to run PIMS edits monthly which is an improvement over quarterly runs. MSDH provided us with a copy of a PIMS edit report dated February 9, 2007. However, this report indicated there were significant prior months encounter errors in PIMS still requiring correction.

Our review also indicated that there was not a clear, distinct and defined documentation process for any system changes or modifications of the Time Study application.

MSDH is defined as a "covered entity" under the Health Insurance Portability and Accountability Act (HIPAA) so all systems are considered to be applicable to HIPAA electronic protected health information (ePHI) requirements. HIPAA requires that data integrity checks be present. The HIPAA Security Rule that governs these procedures is *164.312(c)(1) Integrity*. Systems and business owners are responsible for ensuring that the integrity and accuracy of electronic data that is collected is consistent with the original source.

*Recommendation:*

We recommend the Mississippi State Department of Health improve system edits and processes to ensure the Patient Information Management System (PIMS) information accurately reflects the actual data from the patient encounter forms. Time Study should also contain sufficient safeguards of edit reports to identify PIMS errors which could affect proper processing of encounters. The allocation monthly process cycle should be documented with sufficient run history information to identify process dates, totals, rejected errors and the correction of those errors as part of a monthly history of the application. Any changes to the application including changes of formulas, tables or budget information should be documented as authorized and when implemented. Stringent change control procedures should be in effect.

## ALLOWABLE COSTS/COST PRINCIPLES

### *Reportable Condition*

10.557 Special Supplemental Nutrition Program for Women, Infants, and Children  
93.991 Preventative Health and Health Services Block Grant

Federal Award Number and Year: SMS700704-009, 2005  
SMS700704-002, 2006  
2005-B1-MS-PRVS-01, 2005

06-29 Controls over Time Study Procedures Should Be Strengthened

### *Finding:*

The *Code of Federal Regulations* (7 CFR 3016.22) for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and (45 CFR 92.22) for the Preventive Health and Health Services Block Grant (PHHS) requires that allowable costs be determined in accordance with the Office of Management and Budget (OMB) Circular A-87. OMB Circular A-87 requires that amounts charged to grant programs for personnel services, regardless of whether treated as direct or indirect costs, be based on documented payrolls. Payrolls are required to be supported by time and attendance or equivalent records for individual employees. 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.

The Mississippi State Department of Health has implemented a time study system for allocating salaries and fringe benefits to the various programs administered by the agency. The time study system is based on reporting forms completed for one week of each month. Annually, the time spent by nurses, nurse practitioners and physicians in the various health clinics for health services performed is collected and analyzed to compute relative values. The agency uses the relative values to compute the cost of each service for each employee. 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 that the salaries amounts charged to the federal programs were reasonable and the programs were not overcharged. An adjustment to decrease/increase the amounts charged for payroll to the amounts supported by the time study data is made yearly.

During our review of the time study system and testwork performed on 40 employee time reports for fiscal year 2006, we noted the following problems.

- The agency collected the fiscal year 2006 data necessary to compute the relative values for services performed. However, the agency did not calculate and enter the relative values for fiscal year 2006 into the time study system. The agency erroneously used the fiscal year 2005 relative values to calculate the actual time and effort costs for fiscal year 2006. Therefore, the amounts charged to payroll for services performed were not based on accurate data. The auditor requested the agency recalculate the actual time and effort costs for fiscal year 2006 using the correct relative values to determine the effect on costs charged to federal programs. A reconciliation between the revised current actual time and effort reports and the actual amount charged for payroll revealed that salaries charged to the WIC program exceeded salaries documented per the time study system by \$148,918 and by \$47 for the PHHS program.
- One of 40 time reports requested could not be located. The missing form did appear to have been entered in the system but could not be located by the agency.
- One instance occurred in which the weekly time report was entered into the time study system but no supervisory review of the time report was documented.
- Two weekly time reports did not contain an activity code and one weekly time report did not contain valid program codes. The program codes used were not included on the program code table in the administrative manual.
- Six instances occurred on time sheets in which the program code, activity code, or the employees' hours were not entered correctly in the time study system from the time reporting form.
- One of the four Time Study Error Reports requested could not be located.

Good internal controls would dictate that adequate controls be in place to ensure that the amounts entered in the time study system are accurate and reliable. Inadequate controls over the time study system could hinder the agency's ability to manage federal funds effectively and to comply with federal regulations.



*Recommendation:*

We recommend the Mississippi State Department of Health strengthen controls to ensure time study information is reliable and accurate. Also, forms and reports should be maintained as supporting documentation, contain a documented supervisory review, and any changes made to a form entered into the system should include a documentary notation. The program code table in the administrative manual should be updated to include all codes currently used. Greater care should be taken to ensure the relative values for services performed data in the time study system is updated yearly with current values. We further recommend the agency make an adjustment to decrease the amounts charged for payroll to the amount supported by the revised time study data.

**REPORTING**

*Reportable Condition*

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

Federal Award Number and Year: SMS700704-009, 2005

06-28 Controls over Reporting Should Be Strengthened

*Finding:*

The *Code of Federal Regulations* (7 CFR 246.17 and 246.25(b)) requires the Mississippi State Department of Health to submit monthly and final closeout financial and program performance (participation) data for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) to the U.S. Department of Agriculture (USDA) Food and Nutrition Service (FNS). FNS uses the amounts reported on the WIC Financial Management and Participation Report (FNS-798) to monitor current fiscal year's performance and to project funding needs. Further guidance from the USDA requires State agencies to prepare an Addendum to the WIC Financial Management and Participation (FNS-798) closeout report. State agencies prepare the Addendum (FNS-798A) to report (1) food and nutrition services and administration (NSA) expenditures by function for the fiscal year close out; (2) the method used to charge NSA expenditures as indirect costs; and (3) the method by which the indirect cost amount was determined. FNS uses the amounts reported for nutrition education and breast feeding promotion and support to determine whether the State agencies met the statutory minimum spending level for those functions.

Testwork performed on the September 2005 FNS-798 report revealed an addition error occurred when calculating the amount for Outstanding Food Obligations. This error understated the \$3,195,596 amount reported as Outstanding Food Obligations by \$1,657,971. Testwork performed on the Addendum to the FNS-798 closeout report also revealed calculation errors based on supporting documentation. The agency overstated the \$3,278,570 amount reported as local level nutrition education expenditures by \$29,700 and the agency understated the \$8,273,281 amount reported as local level client services expenditures by \$29,700.

Good internal controls require an adequate supervisory review be performed to ensure federal reports are accurate and complete prior to submission to the federal grantor. Failure to provide the federal granting agency with accurate report figures could impede federal oversight of the program.

*Recommendation:*

We recommend the Mississippi State Department of Health strengthen procedures over the preparation of federal reports for the Special Supplemental Nutrition Program for Women, Infants, and Children to ensure federal reports are properly prepared and agree with supporting documentation.

## OTHER AUDIT FINDING

In planning and performing our audit of the federal awards received by the Mississippi State Department of Health for the year ended June 30, 2006, we considered internal control over compliance with requirements that could have a direct and material effect on the major federal programs. A matter which requires the attention of management was noted. This matter which does 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 involves an internal control weakness.

**CFDA/Finding  
Number**

### **Finding and Recommendation**

### *Immaterial Weakness*

10.557  
93,991

**Special Supplemental Nutrition Program for Women, Infants, and Children  
Preventative Health and Health Services Block Grant**

Federal Award Number and Year: 5MS700704-009, 2005  
5MS700704-002, 2006  
2005-B1-MS-PRVS-01, 2005

Oth-7

## Controls over SAAS Security Levels Should Be Strengthened

*Finding:*

During our audit of the Mississippi State Department of Health, we reviewed the agency's authorized approval levels established in the Statewide Automated Accounting System (SAAS) for disbursements. We noted one employee had both input capability and all agency levels of approval to process SAAS disbursement transactions.

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 adequately segregate duties in an on-line system increases the risk for errors or fraud to occur without being detected promptly.

**Recommendation:**

We recommend the Mississippi State Department of Health review assigned input and approval levels over disbursements in the Statewide Automated Accounting System and ensure no individual has the capability to both initiate and approve an entire transaction.