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Mississippi Department of Human Services

Financial Statements of General Fund Selected for Audit, Schedule of Analysis of Changes in Accrued Compensated Absences, Report on Program Specific Audits Under Uniform Guidance

June 30, 2016



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INDEPENDENT AUDITORS' REPORT

Mississippi Department of Human Services Jackson, Mississippi

Report on the Financial Statements of Selected Fund

We have audited the accompanying financial statements of the General Fund 5365100000 of the Mississippi Department of Human Services (MDHS) as of and for the year ended June 30, 2016, and the related notes to the financial statements. We have also audited the schedule of federal grant expenditures of MDHS selected for audit of for the year ended June 30, 2016.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of General Fund 5365100000 referred to above present fairly, in all material respects, the financial position of General Fund 5365100000 as of June 30, 2016, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. In our opinion, the schedule of federal grant expenditures selected for audit presents fairly, in all material respects the federal grant expenditures selected for audit in conformity with accounting principles general accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of General Fund 5365100000 of MDHS present only the financial position and changes in financial position of that portion of the governmental activities of MDHS and of the State of Mississippi that is attributable to the transactions of General Fund 5365100000. They do not purport to, and do not, present fairly the financial position of MDHS or the State of Mississippi as of June 30, 2016, or the changes in financial position of each entity for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, the Schedule of Federal Grant Expenditures Selected for Audit does not present all federal grant expenditures incurred by MDHS or the State of Mississippi. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2017, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDHS's internal control over financial reporting and compliance.

Management has omitted the Management Discussion and Analysis and the Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

CARR, RIGGS & INGRAM, LLC

Can, Rigge & Ingram, L.L.C.

Ridgeland, Mississippi April 17, 2017

Mississippi Department of Human Services Balance Sheet General Fund 5365100000 Selected for Audit

56,024,484

| June 30, 2016 | |
|--|------------------|
| ASSETS | |
| Demand deposit accounts and cash equivalents | \$ 4,937,533 |
| Equity in state treasury funds | 16,814,877 |
| Total cash and cash equivalents | 21,752,410 |
| Accounts receivable | 174,832 |
| Inventories | 280,768 |
| Due from federal government | 33,026,642 |
| Due from other governments | 303,549 |
| Due from other funds | 486,283 |
| Total assets | \$ 56,024,484 |
| LIABILITIES AND FUND BALANCE (DEFICIT) | |
| Liabilities | |
| Warrants payable | \$ 1,146,475 |
| Accounts payable | 18,340,328 |
| Due to other governments | 22,639 |
| Unearned revenue from federal grants | 3,051,740 |
| Due to other funds | 8,054,348 |
| Funds held for others | 8,466,502 |
| Total liabilities | 39,082,032 |
| Contingencies and commitments (Note 6) | |
| Fund Balance | |
| Nonspendable - inventory | 280,768 |
| Fund balance - unassigned | 16,661,684 |
| Total fund balance | 16,942,452 |

Total liabilities and fund balance

Mississippi Department of Human Services Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund 5365100000 Selected for Audit

| For the year ended June 30, 2016 | |
|--|------------------|
| REVENUES | |
| License fees, permits, and registrations | \$ 10,041,757 |
| Federal sources | 298,452,066 |
| Other revenues | 1,422,592 |
| Total revenues | 309,916,415 |
| EXPENDITURES | |
| Salaries | 131,614,410 |
| Travel | 9,569,521 |
| Contractuals | 76,328,313 |
| Commodities | 12,356,570 |
| Capital outlay | 954,179 |
| Subsidies | 197,298,514 |
| Total expenditures | 428,121,507 |
| Excess of expenditures over revenues | (118,205,092) |
| OTHER FINANCING SOURCES (USES) | |
| Transfers from other funds | 126,109,496 |
| Transfers to other funds | (7,721,677) |
| Net other financing sources | 118,387,819 |
| Excess of revenues over expenditures | |
| and other financing sources | 182,727 |
| FUND BALANCE - BEGINNING, As adjusted | 16,759,725 |
| FUND BALANCE - ENDING | \$ 16,942,452 |

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying selected governmental fund financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The Mississippi Department of Human Services ("MDHS") applies all applicable GASB pronouncements.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In preparing the financial statements, management of MDHS evaluated subsequent events through April 17, 2017, the date the financial statements were available to be issued.

Financial Reporting Entity

MDHS is reported as a state agency in the State of Mississippi's Comprehensive Annual Financial Report. The selected governmental fund presented in these financial statements is part of the larger entity that comprises the Mississippi Department of Human Services. General Fund 5365100000 is related to Federal funding received through grants. In addition to paying certain administrative costs of the agency, the federal funding is used to provide services for people in need by optimizing all available resources to sustain the family unit and encourage traditional family values thereby promoting self-sufficiency and personal responsibility for all Mississippians.

Measurement Focus and Basis of Accounting

Governmental fund financial statements are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are generally included on the balance sheet. Under this method, revenues are recognized when measurable and available to finance operations of the current fiscal year. Available means collectible within the current year or soon enough after fiscal year end to liquidate liabilities existing at the end of the fiscal year. MDHS considers revenues received within 60 days after fiscal year end as available. Licenses, fees, permits and other miscellaneous revenues are recognized when received since they normally are measurable only at that time. Expenditures and related fund liabilities are recognized upon receipt of good and services.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (Continued)

The selected governmental fund for MDHS is reported as a General Fund. The General Fund accounts for transactions related to resources obtained and used for those services traditionally provided by a state government, which are not required to be accounted for in other funds. These services include, among others, general government, public safety, health and social services, social assistance, recreation and resources, transportation, and education (other than institutions of higher education). Such revenues are derived from taxes, fees, and other state sources that usually are not designated for any specific purposes.

Cash and Cash Equivalents

Cash and cash equivalents are defined by MDHS as demand deposit accounts and equity in State Treasury funds. Equity in State Treasury Funds consists of pooled cash held by the Treasurer of the State of Mississippi.

Receivables

Receivables represent amounts due to MDHS for revenues earned that will be collected sometime in the future. Receivables are reported net of allowances for uncollectible accounts where applicable.

Interfund Transfers

In the selected governmental fund financial statements, transactions for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures of the disbursing fund. Reimbursements of expenditures made by one fund for another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Inventories

Inventories are stated at cost, generally using the first-in, first-out method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Inventories of MDHS represent items held for USDA commodities.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances

MDHS presents defined fund balance categories to demonstrate the nature and extent of the constraint placed on a government's fund balances. The classifications used in the selected governmental fund financial statements are based on the following methodology:

<u>Unassigned</u> - The residual classification for the General Fund and includes all amounts not contained in the other classifications. The unassigned classification is also used to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

<u>Nonspendable</u> - This classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

<u>Restricted</u> - This classification includes amounts for which constraints have been placed on the use of the resources by law through constitutional provisions or enabling legislation.

<u>Committed</u> - This classification includes amounts that can be used only for the specific purposes determined by enabling legislation by the State legislature.

Federal Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenue when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

NOTE 2: DEPOSITS

Section 27-105-5, <u>Mississippi Code Ann.</u> (1972), authorizes the State Treasurer to implement a statewide collateral pool program which secures all state and local public funds deposits through a centralized system of pledging securities to the State Treasurer. The program requires the State Treasurer, as pledgee of all public funds, to monitor the security portfolios of approved financial institutions and ensure public funds are adequately secured. This code section also establishes the requirements for a financial institution to be approved as a qualified public funds depository. Generally, financial institutions make annual application to the State Treasurer for state funds by signing a contract and supplying the financial report as provided to its regulatory authority to assure the statutory required 5.5% primary capital to total assets ratio. When so approved by the State Treasurer, the financial institution is required to place on deposit with the State Treasurer collateral equal to at least 105% of the amount of public funds on deposit in excess of the amount insured by

NOTE 2: DEPOSITS (Continued)

the Federal Deposit Insurance Corporation ("FDIC"). Collateral may be held by a third party custodian, with approval of the State Treasurer, if conditions are met which protect the State's interests.

Custodial credit risk is the risk that in the event of the failure of a financial institution, the government will not be able to recover deposits or collateral securities that are in the possession of an outside party. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the State Treasurer on behalf of MDHS. At June 30, 2016, all cash deposits were fully collateralized in accordance with state statutes.

NOTE 3: INTERFUND TRANSFERS, RECEIVABLES AND PAYABLES

Outstanding balances between funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made. All balances are expected to be paid or collected in fiscal year 2017.

At June 30, 2016, interfund receivables and payables consisted of amounts due as follows:

| June 30, 2016 | Interfund Receivables |
|---|--|
| Mississippi Department of Education Mississippi Division of Medicaid | \$ 223,493 262,790 |
| Totals | \$ 486,283 |
| June 30, 2016 | Interfund Payables |
| MDHS Fund 3365100000 Department of Information Technology Office of the Attorney General Department of Employment Security Department of Health | \$ 5,920,059 1,048,902 772,206 24,769 79,505 |
| Department of Public Safety Office of the Governor Various agencies/funds | 39,276 40,191 129,440 |
| Totals | \$ 8,054,348 |

NOTE 3: INTERFUND TRANSFERS, RECEIVABLES AND PAYABLES (Continued)

Transfers are used to recognize flows of assets between funds of the State without equivalent flows of assets in return and without a requirement for payment. Interfund transfers consisted of the following:

| Year ended June 30, 2016 | Transfers from Other Funds |
|--|-------------------------------|
| MDHS Fund 2265100000 | \$ 122,589,362 |
| Mississippi Division of Medicaid | 2,811,727 |
| Mississippi Department of Education | 708,407 |
| Totals | \$ 126,109,496 |
| V 1 1 1 20 2015 | Transfers to |
| Year ended June 30, 2016 | Other Funds |
| MDHS Fund 3365100000 | \$ 5,920,059 |
| Mississippi Department of Health | 1,104,814 |
| Mississippi Department of Employment Security | 189,819 |
| Mississippi Department of Finance and Administration | 502,936 |
| Mississippi Division of Medicaid | 4,049 |
| Totals | \$ 7,721,677 |

NOTE 4: DUE FROM AND TO OTHER GOVERNMENTS

At June 30, 2016, due from the federal government and due from other governments consisted of the following:

June 30, 2016

| United States Department of Agriculture | \$ 3,116,673 |
|---|---------------|
| United States Department of Health and Human Services | 29,878,653 |
| Corporation for National and Community Service | 31,316 |
| Various counties in Mississippi | 303,549 |
| Totals | \$ 33,330,191 |

NOTE 4: DUE FROM AND TO OTHER GOVERNMENTS (Continued)

At June 30, 2016, due to other governments, including unearned income on federal grants, consisted of the following:

June 30, 2016

| United States Department of Health and Human Services | \$ 2,481,056 |
|---|--------------|
| United States Department of Energy | 52,505 |
| United States Department of Agriculture | 284,412 |
| Other | 233,767 |
| Totals | \$ 3,051,740 |

NOTE 5: RETIREMENT PLAN

MDHS participates in the Public Employees' Retirement System of Mississippi ("PERS"), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by law and may only be amended by the Mississippi State Legislature.

PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees Retirement System, PERS Building, 429 Mississippi Street, Jackson, Mississippi 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

The funding policy of PERS requires members to contribute 9.0% of their annual covered salary and MDHS is required to contribute at an actuarially determined rate. The current rate is 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may only be amended by the Mississippi State Legislature.

NOTE 6: CONTINGENCIES AND COMMITMENTS

Federal Grants

MDHS has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditures of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of MDHS. MDHS estimates that the ultimate disallowance pertaining to these grants, if any, will be immaterial to its overall financial condition and operations.

NOTE 6: CONTINGENCIES AND COMMITMENTS (Continued)

Litigation

MDHS is party to various legal proceedings that arise in the normal course of governmental operations. The State's legal counsel believes they will be successful in the defense of these cases. In the event they are not successful in defending such cases, management's opinion is that the ultimate disposition of these matters will not have a material adverse effect on the financial statements.

Mississippi Department of Human Services Schedule of Federal Grant Expenditures Selected for Audit Year Ended June 30, 2016

| Federal Grantor / Cluster Title / Program Name | Federal CFDA Number | Federal Expenditures |
|--|------------------------|-------------------------|
| United States Department of Agriculture (USDA) | | |
| SNAP Cluster: | | |
| Supplemental Nutrition Assistance Program (SNAP) | 10.551 \$ | 848,403,954 |
| State Administrative Matching Grants for the | | |
| Supplemental Nutrition Assistance Program | 10.561 | 27,753,399 |
| United States Department of Health and Human Services (USDHHS) | | |
| Temporary Assistance for Needy Families | 93.558 | 41,987,840 |
| Low-Income Home Energy Assistance | 93.568 | 30,034,637 |
| Child Care and Development Fund Cluster: | | |
| Child Care and Development Block Grant | 93.575 | 57,405,717 |
| Child Care Mandatory and Matching Funds of the | | |
| Child Care and Development Fund | 93.596 | 17,237,603 |
| Foster Care Program - Title IV-E | 93.658 | 24,894,826 |
| Social Services Block Grant | 93.667 | 26,617,145 |
| | \$ | 1,074,335,121 |

Mississippi Department of Human Services Notes to Schedule of Federal Grant Expenditures Selected for Audit

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule only includes the expenditures selected for audit of the Mississippi Department of Human Services relative to specific federal grants in General Funds 5365100000 and 8865400000 selected for audit received from the United States Department of Agriculture and the United States Department of Health and Human Services. The federal programs included in the accompanying schedules are accounted for by using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are generally recognized when the related liabilities are incurred. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance.

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

Significant deficiency(ies) identified

not considered to be material weakness(es)?

None noted

Noncompliance material to financial statements noted? No

Program Specific Federal Awards

Internal control over federal programs:

Material weakness(es) identified?

Significant deficiency(ies) identified

not considered to be material weakness(es)?

Yes

Type of auditor's report issued on compliance for the federal

programs: Adverse

Any audit findings disclosed that are required to be reported

in accordance with §200.516 Audit Findings paragraph (a)? Yes

Identification of program audited:

CFDA Number Name of Federal Program or Cluster Number

| 10.551, 10.561 | SNAP Cluster |
|----------------|---------------------|
| 93.558 | TANF Cluster |
| 93.568 | LIHEAP |
| 93.575, 93.596 | CCDF Cluster |
| 93.658 | Foster Care |
| | |

93.667 Social Services Block Grant

Section II – Financial Statement Findings

See finding #2016-29.

Section III – Federal Award Findings and Questioned Costs

See findings #2016-24, #2016-25, #2016-26, #2016-27 and #2016-28.

Finding and Recommendation

ELIGIBILITY

Immaterial Noncompliance Significant Deficiency

2016-24 Controls Should Be Strengthened Over Compliance with Eligibility and

Benefit Payment Requirements

CFDA Number 93.558 – Temporary Assistance for Needy Families

Federal Award G1602MSTANF/2016

G1502MSTANF/2015

Federal Agency U.S. Department of Health and Human Services

Pass-through Entity N/A

Questioned Costs \$924

Criteria The Mississippi Department of Human Services has published Volume III,

TANF Policy Manual, which establishes criteria for eligibility under the

Temporary Assistance for Needy Families (TANF) program.

Chapter 3, Non-Financial Criteria, requires a MDHS-EA-312, Personal Responsibility Contract, be signed by each adult in the TANF assistance unit at the time of application; all TANF children under the age of 18 must have proof of current immunizations according to the schedule recommended by the Department of Health; and a parent or other relative who accepts a TANF benefit for a child due to the continued absence of a parent must assign support rights to the State by cooperating with the Division of Child Support Enforcement. The Children for whom TANF benefits are requested must be deprived of parental care and support of at least one parent by reason of absence, disability or unemployment. If the parent or parents are absent, the reason for the absence must be

determined.

Condition

During testing of TANF benefits paid during the fiscal year 2016, we noted the following exceptions:

- One out of 40 TANF cases tested were missing deprived parent documentation for one or more children.
- Five out of 40 TANF cases tested did not have verification of immunization for a child not attending school.

The cumulative effect of the exceptions noted above resulted in \$924 of known questioned costs. Because of the lack of readily available access to all factors needed to determine the precise population, it is not practical to project known questioned costs.

Cause

Staff were either unaware or did not follow identified policies and procedures for Eligibility determinations.

Effect

Failure to maintain supporting documentation for eligibility determination could result in questioned costs and recoupment of costs by the Federal granting agency.

Recommendation

We recommend the Mississippi Department of Human Services ensure compliance with TANF Eligibility determination and benefit requirements by strengthening control procedures to ensure all supporting documentation is reviewed and maintained and benefits are paid in accordance with the *Volume III, TANF Policy Manual*.

Repeat Finding

This finding is a repeat finding from FY 2015. See finding number 2015-001 in prior year audit report.

Statistically Valid

Sample is considered statistically valid.

Views of Responsible Officials

Management at the Mississippi Department of Health and Human Services concurs with this finding. See additional comments in the Corrective Action Plan in this audit report.

Finding and Recommendation

ELIGIBILITY

Material Noncompliance Material Weakness

2016-25 Controls Should Be Strengthened to Ensure Compliance with Eligibility and

Benefit Payment Requirements of the CCDF Cluster

CFDA Number 93.575 – Child Care and Development Block Grant

93.596 - Child Care Mandatory and Matching Funds of the Child Care and

Development Fund

Federal Award G1601MSCCDF/2016

G1501MSCCDF/2015

Federal Agency U.S. Department of Health and Human Services

Pass-through Entity N/A

Questioned Costs \$14,780

Criteria

The Code of Federal Regulations (45 CFR Part 98.20) sets forth the eligibility requirements for a child to receive child care services. The Code of Federal Regulations (45 CFR Part 98.50) further states how the Child Care and Development Block Grant (CCDF) funds should be expended for issuance of child care certificates. The Mississippi Department of Human Services' Division of Early Childhood Care and Development (DECCD) has published the Mississippi Child Care Payment Program Policy Manual, based on the CCDF State Plan, which incorporates applicable Federal regulations and establishes eligibility criteria to receive child care certificate payments under the CCDF program. Specifically, Chapter 1 of this manual addresses family and child eligibility requirements, including the requirement that an eligible child be less than 13 years of age, or 18 if the eligible child has special needs. This policy manual also provides for periodic re-determination of continuing eligibility.

Condition

In performing testwork on 40 child care certificate payments related to a child's eligibility for a child care certificate based on child care provider payments made during fiscal year 2016, we noted the following weaknesses:

- Seven instances, or 17.5 percent, in which the child's eligibility for the child care certificate could not be verified due to the child care certificate application and supporting documentation not being maintained by DECCD. It was not feasible to project questioned costs associated with this exception due to insufficient information and the lack of child care applications and supporting documents.
- Nine instances, or 22.5 percent, in which the certificates were identified as being based on the initial determination of the child's eligibility for the child care certificate as a referral from the Division of Field Operations due to the parent/caretaker receiving basic TANF benefits or transitional TANF benefits, which is the first priority level for a child care certificate. However, based on auditor's review of the TANF case in MAVERICS and/or transitional TANF case in JAWS, the auditor determined that the parent/caretaker was no longer receiving any type of TANF benefits as of the child care certificate benefit date selected for testing, and; therefore should not have been continuing to receive the child care certificate benefit at the TANF priority level. In addition, in ten instances, or 25 percent, no redetermination had been conducted within the last 12 months. It was not feasible to determine or project questioned costs associated with this exception due to the possibility that the parent/caretaker may still be eligible to receive child care assistance at a different priority level based on reapplying.
- Two instances, or 5 percent, in which there were improper copay amounts based on the priority level and number of children in the family with an active child care certificate. It was not feasible to project questioned costs associated with this exception due to insufficient information and the lack of supporting documents.

The cumulative effect of the exceptions noted above resulted in \$14,780 of known questioned costs. Because of the lack of readily available access to all factors needed to determine the precise population, it is not practical to project known questioned costs.

Cause

Staff were either unaware or did not follow identified policies and procedures for eligibility determinations.

Effect Failure of DECCD to perform sufficient determination or re-determination

of a child's eligibility to ensure a child care certificate is properly issued could result improper payments to a child care provider representing questioned costs, and the possible recoupment of funds by the Federal

granting agency.

Recommendation We recommend the Mississippi Department of Human Services' Division of

Early Childhood Care and Development ensure compliance with the eligibility costs requirements of the Child Care and Development Block Grant by strengthening control procedures to ensure child care certificate rates and copays are assigned in accordance with the requirements set forth in the Code of Federal Regulations and the Mississippi Child Care

Payment Program Policy Manual.

Repeat Finding This finding is a repeat finding from FY 2015. See finding number 2015-

002 in prior year audit report.

Statistically Valid Sample is considered statistically valid.

Views of Responsible Officials

Management at the Mississippi Department of Health and Human Services

concurs with this finding. See additional comments in the Corrective

Action Plan in this audit report.

Finding and Recommendation

REPORTING

Immaterial Noncompliance Significant Deficiency

2016-26 Controls Should Be Strengthened Over the Submission of Required Federal

Reports

CFDA Number 10.561 – State Administrative Matching Grants for the Supplemental

Nutrition Assistance Program (SNAP)

Federal Award 12-35-2841-B15/2015

Federal Agency U.S. Department of Agriculture (SNAP)

Pass-through Entity N/A

Questioned Costs None

Criteria The Code of Federal Regulations (45 CFR Part 75.341) grants the Health

and Human Services awarding agency authority to require financial reporting for effective monitoring of Federal awards. The Federal Financial Report (FFR) is required to be completed and submitted in accordance with instructions provided by the Administration for Children and Families, and must be submitted quarterly, semiannually or annually, based on instructions from the ACF and awarding agency. Those instructions require States to submit quarterly and semi-annual reports no later than 30 days after the end of each reporting period and annual reports no later than 90 days after the end of each reporting period or grand end date.

Condition During testwork performed for reporting requirements of the

Supplemental Nutrition Assistance Program (SNAP) programs during fiscal year 2016, we noted one of six quarterly SNAP FFR-425 reports selected for testing for FY16 reports was submitted within 30 days after the end of the reporting period; however, the September 30, 2015 report was not

certified by a MDHS official until November 2, 2015.

Cause Staff were either unaware or did not follow identified policies and

procedures for reporting requirements.

Effect Good internal controls over reporting should include a timely and

independent review of information reported. Failure to timely review and submit reports could result in reporting penalties and could impact

funding determinations.

Recommendation We recommend MDHS strengthen the controls over the preparation,

review and timely submission of required performance and financial

reports prior to submission.

Repeat Finding This finding is a repeat finding from FY 2015. See finding number 2015-

004 in prior year audit report.

Statistically Valid Sample is considered statistically valid.

Views of Responsible

Officials Management at the Mississippi Department of Health and Human Services

concurs with this finding. See additional comments in the Corrective

Action Plan in this audit report.

Finding and Recommendation

SUBRECIPIENT MONITORING

Material Noncompliance Material Weakness

2016-27 Controls Should Be Strengthened Over On-Site Monitoring

CFDA Number 10.561 – State Administration Matching Grants for the Supplemental

Nutrition Assistance Program (SNAP)

93.558 – Temporary Assistance for Needy Families (TANF)

93.667 – Social Services Block Grant (SSBG)

93.575 - Child Care and Development Block Grant (CCDF)

93.596 - Child Care Mandatory and Matching Funds of the Child Care and

Development Fund (CCDF)

93.568 – Low Income Home Energy Assistance Program (LIHEAP)

Federal Award 12-35-2841-B16/2016

12-35-2841-B15/2015 12-35-2841-B14/2014 G1602MSTANF/2016 G1502MSTANF/2015 G1601MSSOR/2016 G1501MSSOR/2014 G1601MSCCDF/2016 G1501MSCCDF/2015 G16B1MSLIEA/2016 G15B1MSLIEA/2015

G14B1MSLIEA/2014

Federal Agency U.S. Department of Agriculture (SNAP)

U.S. Department of Health and Human Services (TANF, SSBG, CCDF &

LIHEAP)

Pass-through Entity N/A

Questioned Costs None

Criteria The terms and conditions of the grant agreements between MDHS and the

U.S. Department of Health and Human Services require MDHS to administer grants in compliance with the Code of Federal Regulations (45 CFR Part 92). The Code of Federal Regulations (45 CFR Part 92.40)

designates MDHS 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 to ensure performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

We evaluated MDHS's compliance with subrecipient monitoring requirements based on written policies and procedures designed by MDHS's Division of Program Integrity - Office of Monitoring (OM) to satisfy during-the-award monitoring requirements. OM procedures require an on-site monitoring review of each subgrantee contract at least once during the subgrant period. A tracking mechanism is used to ensure all subgrantee contracts are properly identified and monitored. Monitoring tools/checklists are used during each on-site monitoring review to provide guidance and to document a review was performed. The on-site monitoring workpapers are reviewed and approved by OM supervisory personnel prior to issuance of a written report, the Initial Report of Findings & Recommendations, which is used for communicating finding(s) and/or questioned costs to subgrantees. The written report should be issued within 30 working days from the date of the exit conference, which is normally held on the last day of the on-site review.

Condition

During testwork performed on subrecipient on-site monitoring for 25 subgrant contracts during state fiscal year 2016, we noted the following weaknesses:

- One contract tested, or 4 percent, was not monitored within the contract period as required by Program Integrity's Division of Monitoring procedures.
- Five contracts, or 20 percent, were noted where Corrective Actions were not received from the subrecipient within 15 working days from the date the Initial Monitoring Report (IMR) was issued.
- Fourteen contracts, or 56 percent were noted in which the Initial Monitoring Report was not issued within 60 days of the exit conference.
- Six contracts, or 24 percent, in which Questioned Costs had not been completely resolved as of the date of testwork.

- Six contracts, or 24 percent, in which at least one required element
 of the monitoring process was not performed or documented such
 as completion of the monitoring supervisor review checklist, fiscal
 monitoring tool, the program tool, test of scope of services, or test of
 cash draws.
- During our verification of the completeness of the sample population of 104, we noted six contracts that were listed on the GM18 report that had expenditures in FY2016 that were not included on the SFY2016 Subgrant Monitoring Tracking document.

Cause

Staff were either unaware or did not follow identified policies and procedures for monitoring requirements.

Effect

MDHS programmatic funding divisions rely upon OM monitoring procedures to verify compliance with program regulations and to identify potential problem areas needing corrective action. Failure to properly monitor subrecipients in a timely manner could allow noncompliance with Federal regulations to occur and go undetected, potentially resulting in questioned costs.

Recommendation

We recommend the Mississippi Department of Human Services' Division of Program Integrity — Office of Monitoring (OM) strengthen its existing internal controls over on-site monitoring to ensure all active subgrantee contracts are timely monitored during-the-award in accordance with OM policies and procedures. We also recommend that the agency ensure that the Report of Findings & Recommendations prepared as a result of the on-site monitoring be issued in a timely manner to enable immediate corrective action procedures to be initiated. We further recommend that the agency maintain all supporting monitoring tools, reports, and correspondence in the monitoring file.

Repeat Finding

This finding is a repeat finding from FY 2015. See finding number 2015-005 in prior year audit report.

Statistically Valid

Sample is considered statistically valid.

Views of Responsible Officials

Management at the Mississippi Department of Health and Human Services concurs with this finding. See additional comments in the Corrective Action Plan in this audit report.

Finding and Recommendation

SUBRECIPIENT MONITORING

Material Noncompliance Material Weakness

2016-28 Controls Should Be Strengthened Over Subrecipient Monitoring Related to

Uniform Guidance

CFDA Number 10.561 – State Administration Matching Grants for the Supplemental

Nutrition Assistance Program (SNAP)

93.558 – Temporary Assistance for Needy Families (TANF)

93.667 – Social Services Block Grant (SSBG)

93.575 – Child Care and Development Block Grant (CCDF)

93.596 - Child Care Mandatory and Matching Funds of the Child Care and

Development Fund (CCDF)

93.568 - Low Income Home Energy Assistance Program (LIHEAP)

Federal Award 12-35-2841-B16/2016

12-35-2841-B15/2015 12-35-2841-B14/2014 G1602MSTANF/2016 G1502MSTANF/2015 G1601MSSOR/2016 G1501MSSOR/2015 G1401MSSOR/2014 G1601MSCCDF/2016 G1501MSCCDF/2015 G16B1MSLIEA/2016 G15B1MSLIEA/2015 G14B1MSLIEA/2014

Federal Agency U.S. Department of Agriculture (SNAP)

U.S. Department of Health and Human Services (TANF, SSBG, CCDF &

LIHEAP)

Pass-through Entity N/A

Questioned Costs None

Criteria

Title 2, U.S. Code of Federal Regulations, Part 200 – Uniform Administrative Requirements for Federal Awards (Uniform Guidance) states the pass-through entity is responsible for (1) ensuring that subrecipients expending \$750,000 or more in Federal awards during their fiscal year have met the audit requirements of the Uniform Guidance and that the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issuing a management decision on findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition

During our audit of the Mississippi Department of Human Services (MDHS), we reviewed the Division of Program Integrity – Office of Monitoring (OM) audit files and Monitoring Tracking Document for MDHS Subgrantees. During our review of 25 subgrantees, we noted the following:

- Seven instances in which the Uniform Guidance audits or Subgrantee
 Audit Information Forms (SAIF) for the subgrantees were not
 received by Office of Monitoring within nine months of the
 subgrantee's fiscal year end.
- Two instances of questioned costs related to grant programs funded by MDHS were identified by the subrecipient's Independent Public Accounting firm, however there was no documented response by MDHS to investigate the finding.

Cause

Staff were either unaware or did not follow identified policies and procedures for subrecipient monitoring related to Uniform Guidance.

Effect

Failure to properly monitor subrecipients could allow noncompliance with Federal regulations to occur and go undetected, potentially resulting in questioned costs.

Recommendation

We recommend the Mississippi Department of Human Services' Division of Program Integrity – Office of Monitoring (OM) strengthen controls over subrecipient monitoring for Uniform Guidance audits to ensure recipients expending \$750,000 or more in Federal funds during their fiscal year are appropriately monitored and an Uniform Guidance audit is obtained. We also recommend that the agency follow-up more frequently with the funding divisions to ensure corrective action was taken when a subgrantee's audit report contains findings. We further recommend that

OM should ensure all subrecipients are included on the tracking report and continue to follow-up to obtain a Uniform Guidance audit or Subgrantee Audit Information Form after the demand letter is issued.

Repeat Finding This finding is a repeat finding from FY 2015. See finding number 2015-

009 in prior year audit report.

Statistically Valid Sample is considered statistically valid.

Views of Responsible Officials

Management at the Mississippi Department of Health and Human Services

concurs with this finding. See additional comments in the Corrective

Action Plan in this audit report.

Finding and Recommendation

REPORTING

Material Weakness

2016-29 Controls Should Be Strengthened Over Account Reconciliations and

Financial Reporting

CFDA Number N/A – Financial Statement Finding Only

Federal Award N/A – Financial Statement Finding Only

Federal Agency N/A – Financial Statement Finding Only

Pass-through Entity N/A

Questioned Costs None

Criteria

The Mississippi Agency Accounting Policies and Procedures (MAAPP) Manual highlights essential types of control activities including, but not limited to:

- Authorization provide reasonable assurance that all transactions are within the limits set by policy or that exceptions to policy have been granted by the appropriate officials.
- Review and approval encompass a variety of computer and manual controls that provide reasonable assurance that all accounting information has been correctly captured.
- Reconciliation provide reasonable assurance of the accuracy of financial records through the periodic comparison of source documents to data recorded in agency accounting information systems.

The information system relevant to an agency's financial reporting objectives consists of the methods and records established to identify, assemble, analyze, classify, record, and report entity transactions and to maintain accountability for the related assets and liabilities. The quality of system generated financial information affects management's ability to make appropriate decisions in managing and controlling an agency's activities.

Condition

Due to the implementation of a new statewide accounting system, Mississippi Accountability System for Government Information and Collaboration (MAGIC), in fiscal year 2015, policies and procedures for the preparation and submission of agency fund level GAAP packets were revised in order to complement the new statewide accounting system. Agency accounting personnel were tasked with completing close out GAAP packets using new reports, policies, and procedures. In order to mitigate problems faced statewide, extended deadlines and procedures were temporarily utilized during fiscal year 2015 in order to assist agencies with completing GAAP packets.

Our fiscal 2016 audit procedures resulted in audit adjustments to accounts payable, due to other governments and various transfers between agencies, some of which were a result of continuing reconciliation items related to the 2015 MAGIC implementation. Currently, accrual entries and entries involving transfers between funds and governments may sometimes be made by MDHS personnel and sometimes by personnel at the Department of Finance and Administration. Once entries are made there does not appear to be a viable review process in place to prevent and detect errors.

Our audit also resulted in material adjusting entries to the fund statements to only include receivables that are measurable and available. Available means collectible within two months (the lapse period). However, for the statement of net assets, full accrual accounting is used and an allowance should be provided to reduce receivables to net realizable value. Currently, MDHS does not have a mechanism in place to reduce receivables to amounts collected within the lapse period. Further, there is inadequate documentation in place to support the expectation of ultimate net realizable value. Expenditures should be accrued when incurred, except notes payable are recognized when due and claims and similar obligations payable are recognized when expected to be liquidated. The audit also resulted in some liabilities being written off that were related to the receivables that were not considered collectible.

Cause

The issues noted in this finding are primarily as a result of continuing refinement of processes associated with the implementation of a new statewide accounting system in the prior year. In addition, staff were either unaware or did not follow identified policies and procedures for completing account reconciliations and producing financial reports.

Effect

Failure to implement a timely and effective reconciliation process could:

- Increase the risk of fraud, waste, and mismanagement of funds.
- Affect MDHS' ability to effectively monitor budget execution.
- Affect MDHS' ability to accurately measure the full cost of its programs.
- Result in erroneous financial statements.

Recommendation

We recommend that MDHS enhance its reconciliation and closing journal entry review and approval process to fully document fiscal year ending balances, including all closing entries made by the Department of Finance and Administration. In addition, we recommend MDHS develop a process to identify and segregate balances which will not be settled in the lapse period which will aid in the preparation of year-end financial information and identify older reconciling items and take appropriate action to clear these items.

Repeat Finding

This is not a repeat finding.

Statistically Valid

Sample is considered statistically valid.

Views of Responsible Officials

Management at the Mississippi Department of Health and Human Services concurs with this finding. See additional comments in the Corrective Action Plan in this audit report.

OTHER AUDIT FINDINGS

In planning and performing our audit of the Federal awards received by the Mississippi Department of Human Services for the year ended June 30, 2016, 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 an immaterial instance 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.

Finding and Recommendation

SPECIAL TESTS

Immaterial Noncompliance Control Deficiency

16-04 Controls Should Be Strengthened over Compliance with the Health and

Safety Requirements

CFDA Number 93.575 – Child Care and Development Block Grant

93.596 - Child Care Mandatory and Matching Funds of the Child Care and

Development Fund

Federal Award G1601MSCCDF/2016

G1501MSCCDF/2015

Federal Agency U.S. Department of Health and Human Services

Pass-through Entity N/A

Questioned Costs None

Criteria The Code of Federal Regulations (45 CFR 98.11) requires MDHS as the lead

agency to monitor Child Care and Matching Funds of the Child Care and

Development Funds (CCDF) programs and services.

Per Section 98.41 of the Code of Federal Regulations, MDHS must certify that monitoring and enforcement procedures are in place to verify that child care providers (unless they meet an exception) serving children who receive subsidies satisfy the requirements pertaining to preventions and control of infectious diseases, building and physical premises safety, and basic health and safety training for providers.

MDHS has published the State Plan for the Child Care and Development Fund for fiscal year 2014/2015, which establishes procedures and policy under the CCDF program. According to the State Plan, the Division of Early Child Care Development (DECCD) will rely on the Mississippi Department of Health (MDH) to ensure compliance with the health and safety requirements.

Condition

In performing testwork of compliance with health and safety requirements, we noted no documentation of communication with MDH to confirm providers are complying with the applicable health and safety requirements.

Cause

Staff were either unaware or did not follow identified policies and procedures for complying with applicable health and safety requirements.

Effect

Failure of DECCD to properly confirm providers are complying with applicable health and safety requirements could result in unlicensed providers receiving program benefits and result in questioned costs.

Recommendation

We recommend that DECCD strengthen controls related to the monitoring and enforcement of health and safety requirements for childcare providers participating in the child care certificate program.

Repeat Finding

This finding is a repeat finding from FY 2015. See finding number Oth-003 in prior year audit report.

Statistically Valid

Sample is considered statistically valid.

Views of Responsible Officials

Management at the Mississippi Department of Health and Human Services concurs with this finding. See additional comments in the Corrective Action Plan in this audit report.

Auditee Corrective Action Plan

2016-24

<u>Controls Should Be Strengthened Over Compliance with Eligibility and</u> Benefit Payment Requirements

MDHS Response: The Mississippi Department of Human Services (MDHS) agrees that controls should be strengthened over compliance with eligibility and benefit payment requirements of the Temporary Assistance for Needy Families (TANF) program. Eligibility Workers and Case Managers should be aware of the policy of which the MDHS Division of Field Operations (DFO) has in place to address the various findings revealed by this audit. For various reasons, staff did not follow policy and procedures in a complete, accurate, and timely manner in every case.

Corrective Action Plan: The Division of Field Operations will re-emphasize to its staff the importance of adherence to policy and procedures as set out in Volume III, TANF Policy Manual. Where applicable the findings have been corrected upon receipt of the findings or submitted to the appropriate staff for correction.

2016-25

<u>Controls Should Be Strengthened to Ensure Compliance with Eligibility and Benefit Payment Requirements of the CCDF Cluster</u>

MDHS Response: The CCDF program has not always been administered directly through the DECCD. The agency previously allowed designated agents across the state to determine eligibility for the program. Additionally, the DECCD has not always utilized the online database system known as CCPS. Due to the transition from designated agents to the state office, and additionally from paper files to CCPS, there are cases where initial applications and supporting documentation were not retained for clients who have been on the CCDF program for a long period of time. Current practices, which require all new applications and redetermination applications to be processed using an online system which tracks and records all activity on the case, will reduce the number of material noncompliance/material weakness issues that the agency is currently experiencing.

CCPS has an interface with the JAWS system to receive child care certificate referrals. The DECCD monitoring unit will run a monthly report to match active TANF child care certificates against the TANF active cases in JAWS. This process will help the agency to identify any errors and terminate any certificates issued in error.

Auditee Corrective Action Plan (Continued)

A major contributor to the lack of documentation is the lack of parent redeterminations. In accordance with DECCD policy, families should be redetermined as eligible for the program every 12 months. Due to complications with implementation, the agency has not conducted parent redetermination in a systematic way since 2014. However, the agency began implementation of systematic and on-going parent eligibility redeterminations in February 2017. DECCD expects that all parents eligible for redetermination (note that some priority populations are excluded) will receive a redetermination notice by July of 2017. Parents have sixty days from the notice of redetermination to complete the online application and submit supporting documentation. Failure to comply with redetermination results in the termination of child care certificates.

Corrective Action Plan: The DECCD monitoring unit has implemented a practice of pulling test cases every month and conducting an error rate review which includes a test of copayments. This practice allows the DECCD to identify errors and program controls which may have caused these errors so that the issue can be remedied as soon as possible.

2016-26 Controls Should Be Strengthened Over the Submission of Required Federal Reports

MDHS Response: MDHS concurs that the September 30, 2015 FFR-425 was not certified within 30 days after the reporting period. The report was submitted during the 30 days, however it was inadvertently not certified until November 2, 2015. Even though this is a repeat finding the Agency has made great strides in this area since the implementation of MAGIC.

Corrective Action Plan: MDHS will implement a recap of all Federal reports and update it as reports are submitted. The recap sheet will be reviewed to ensure that all reports have been submitted by deadline.

Auditee Corrective Action Plan (Continued)

2016-27 Controls Should Be Strengthened Over On-Site Monitoring

MDHS Response: The Agency concurs with the findings and controls have been strengthened over On-Site monitoring.

Corrective Action Plan: For all conditions noted, the Office of Monitoring held a training session with all supervisors and monitors. Training stressed the importance of time guidelines and proper documentation required when time limits will not be able to be met. Additional training was given to the supervisors regarding reviews, updating Smartsheet tracking and time management. Training will be held each quarter to review the monitor's progress and answer any questions that may have come to their attention.

The Office of Monitoring relies on the funding divisions to deliver all subgrants and contracts. Reliance on this process is based on spreadsheet lists being given to the Office of Monitoring Director. Each funding division in Budgets and Accounting has a folder on the "P" drive where all contracts and subgrants are downloaded. The Office of Monitoring has access to this "P" drive and will download to the Tracking document all contracts, subgrants, modifications etc. from each funding division.

Extensions that are given will be noted in the files and on the Smartsheet tracking system. One step taken during the training mentioned above is to have emails sent to the monitors when time deadlines are approaching. The tracking system is now set up to do this. Also, monitors are now required to check the tracking system twice a week. This will alert them to all upcoming deadlines. Another step taken is to place all contact with the subgrantee in the comments section of the Smartsheet as soon as contact is completed. The Office of monitoring will adhere strictly to the time deadlines.

As long as a subgrantee/contractor is being responsive to letters, emails and calls made, the Office of Monitoring works with them. The questioned costs may be under an Initial Report, Status Report(s), or a Final Decision Letter. This was addressed in the training sessions with both the monitors and supervisors.

Not all tools are used on every monitoring review. Training was given stressing the proper protocol for placing each piece of the monitoring tool into Smartsheet as it is completed. This will help the monitors become more efficient and not have to look for information after the monitoring review is completed. Paper file use will be very limited and only on an emergency basis.

Auditee Corrective Action Plan (Continued)

2016-28 <u>Controls Should Be Strengthened Over Subrecipient Monitoring Related to</u>
Uniform Guidance

MDHS Response: The Agency concurs with the finding and controls have been strengthened over subrecipient monitoring related to Uniform Guidance.

Corrective Action Plan: The Office of Monitoring will continue to issue Initial Notice Letters, Reminder Letters, and Demand Letters to subgrantees which emphasize the importance of timely submission of an audit report or the Subgrantee Audit Information Form to document that an audit is not required.

The MDHS Funding Divisions will be provided Quarterly Updates of Unresolved Audit Findings and the Office of Monitoring will provide training and technical assistance to the Funding Divisions to ensure the audit findings are cleared by the responsible Funding Division in a timely manner.

2016-29 <u>Controls Should Be Strengthened Over Account Reconciliations and Financial Reporting</u>

<u>Audit Adjustments to accounts payable, due to other government, and various transfers between agencies</u>

MDHS Response: We concur that the adjustments needed to be performed to accounts payable, due to other governments, and various transfers between agencies, which were a continuation of reconciliation items related to 2015 MAGIC implementation. The adjustments are performed by Department of Finance and Administration according to the policies and procedures they have in place for recording the accruals for obligations to the agency. The basis of how the accruals are being performed will be continued by DFA. However, MDHS will seek assistance in making the needed adjustments related to Fiscal Year closeout and GAAP reporting. MDHS is continuing in finding the best solutions, to be effective and efficient in reviewing the entries, and to detect errors.

Auditee Corrective Action Plan (Continued)

Corrective Action Plan: The following corrective action procedures will be taken:

- MDHS will review all notifications related to GAAP.
- MDHS will request assistance with preparing GAAP Packets.
- MDHS will review the trial balances at Fiscal Year End.
- MDHS will consult with DFA regarding adjusting entries they perform.
- MDHS will continue to review DFA Policies and Procedures Related to GAAP.
- MDHS will continue to learn the functionality of MAGIC and the tools available in MAGIC.

The process of identifying how the adjustments will be corrected has not been performed in MAGIC. The adjustment will be made once DFA provide guidance on how to proceed with creating entries for the cumulative accruals and transfer between funds and government.

Audit adjusting entries to fund statements and liabilities being written off

MDHS Response: We concur with the adjustments needed to the funds balances; however, due to Federal regulations these program balances can't be written off without guidance from the program administrators. The programs claim balances are booked to account Code 21000000. These claim balances change (increase/decrease) as a result of new claims being added and/or payments being received. A journal entry is submitted to adjust the balances accordingly. The amount that appears on the trial balance is a cumulative figure. MDHS will seek assistance from the programs to be more efficient in determining what has been realized during the lapse period; to effectively make the needed adjustments.

Auditee Corrective Action Plan (Continued)

Corrective Action Plan: The following corrective action procedures will be taken:

- MDHS Accounts Receivable will seek guidance from the Program Administrators to identify a better mechanism to record receivables collected during the lapse period.
- MDHS Accounts receivable will request the Program Administrators to provide an estimated collectable schedule for the current Fiscal Year.
- MDHS Accounts receivable will seek guidance from the Program on how to proceed with claims they have identified as uncollectible.
- MDHS will review trial balances at Fiscal Year End to help identify any erroneous balance identified on the trial balance.
- MDHS will continue to seek guidance from DFA.
- MDHS will continue to learn the functionality of MAGIC and tools available in MAGIC.

No adjustment has been performed in MAGIC. The adjustment will be made once the Program Administrators have provided guidance on how to proceed with creating the entries for the cumulative balances.

16-04 <u>Controls Should Be Strengthened over Compliance with the Health and Safety</u> Requirements

MDHS Response: Per Section 98.41 CFR, the Lead Agency (MDHS) must certify that monitoring and enforcement policies are in place to verify that child care providers are following health and safety regulations.

All licensed Child Care facilities in the State of Mississippi must abide by all rules and regulations set forth by the MS State Department of Health Division of Child Care Licensure in order to receive Child Care subsidies (as *outlined in Policy Manual Section 9.1 (2))* The Child Care Provider must have a current license at all times. The MS Department of Human Services accepts proof of licensure as a certification that all health and safety regulations outlined in Federal and state law have been met within the Child Care Facility and that the facility has received yearly unannounced inspections by licensing officials. The MDHS retains current copies of facility licenses within the CCPS database. As an additional control, MDHS matches data files from MSDH to ensure that both agencies have a current list of active licenses. This match is data match is run once a quarter.

Auditee Corrective Action Plan (Continued)

At this time, MDHS allows unlicensed providers to participate in the Child Care Payment Program, however, the agency plans to phase out this allowance and require subsidized child care providers to be licensed. All unlicensed providers receive annual inspections from a DECCD Monitor for compliance with all Federal and state health and safety regulations. MDHS retains copies of all monitoring and inspection reports for unlicensed providers within CCPS.

Corrective Action Plan: The Lead Agency (MDHS) is additionally required to implement health and safety trainings for providers and caregivers that cover 12 health and safety topics as described in 98.44 CFR. The Lead Agency is currently in the process of implementing these health and safety trainings as this is a new Federal requirement. The first round of trainings was delivered in September and October of 2016. The Lead Agency is working very closely with the Community College Board to implement a strategy to deliver these training on an on-going basis. Providers and care caregivers will receive certificates of completion which will enable routine monitoring for compliance. The Lead Agency expects that this training and certification strategy will be implemented in the summer of 2017.

Mississippi Department of Human Services Schedule of Prior Findings and Questioned Costs Year Ended June 30, 2016

Prior Findings and Questioned Costs

| Finding Numbers | Status of Prior Audit Findings | | | | | |
|-----------------|---|--|--|--|--|--|
| 2014-012 | MDHS indicated the finding is fully corrected. No similar findings were noted in the current audit. | | | | | |
| 2014-013 | MDHS indicated the finding is fully corrected. No similar findings were noted in the current audit. | | | | | |
| 2015-001 | MDHS indicated the finding is partially corrected. Finding 2016-24 was written to report current year problems noted. | | | | | |
| 2015-002 | MDHS indicated the finding is partially corrected. Finding 2016-25 was written to report current year problems noted. | | | | | |
| 2015-003 | MDHS indicated the finding is fully corrected. No similar findings were noted in the current audit. | | | | | |
| 2015-004 | MDHS indicated the finding is partially corrected. Finding 2016-26 was written to report current year problems noted. | | | | | |
| 2015-005 | MDHS indicated the finding is not corrected. Finding 2016-27 was written to report current year problems noted. | | | | | |
| 2015-006 | MDHS indicated the finding is fully corrected. No similar findings were noted in the current audit. | | | | | |
| 2015-007 | MDHS indicated the finding is fully corrected. No similar findings were noted in the current audit. | | | | | |
| 2015-008 | MDHS indicated the finding is fully corrected. No similar findings were noted in the current audit. | | | | | |
| 2015-009 | MDHS indicated the finding is not corrected. Finding 2016-28 was written to report current year problems noted. | | | | | |
| 2015-010 | MDHS indicated the finding is fully corrected. No similar findings were noted in the current audit. | | | | | |

Mississippi Department of Human Services Schedule of Prior Findings and Questioned Costs Year Ended June 30, 2016

Prior Findings and Questioned Costs

| Finding Numbers | Status of Prior Audit Findings | |
|-----------------|--|--------------------------------|
| 2015-011 | MDHS indicated the finding is fully corrected. in the current audit. | No similar findings were noted |
| 2015-012 | MDHS indicated the finding is fully corrected. in the current audit. | No similar findings were noted |



INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF ANALYSIS

OF CHANGES IN ACCRUED COMPENSATED ABSENCES

To the Board of Commissioners

Mississippi Department of Human Services
Jackson, Mississippi

Carr, Riggs & Ingram, LLC 282 Commerce Park Drive Ridgeland, MS 39157

Mailing Address: P.O. Box 2418 Ridgeland, MS 39158-2418

(601) 853-7050 (601) 853-9331 (fax) www.cricpa.com

Report on the Schedule of Analysis of Changes in Long-term Obligations

We have audited the accompanying schedule of analysis of changes in accrued compensated absences of the Mississippi Department of Human Services ("MDHS") as of and for the year ended June 30, 2016. This schedule is presented for the purpose of assisting the State of Mississippi in preparation of its annual financial report and is not a required part of the fund financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinion on this schedule based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the schedule of analysis of changes in accrued compensated absences referred to above presents fairly, in all material respects, the balance of and the changes in accrued compensated absences of MDHS as of and for the year ended June 30, 2016, in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2017, on our consideration of MDHS's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDHS's internal control over financial reporting and compliance.

CARR, RIGGS & INGRAM, LLC

Can, Rigge & Ingram, L.L.C.

Ridgeland, Mississippi April 17, 2017

Mississippi Department of Human Services Schedule of Analysis of Changes in Accrued Compensated Absences Year Ended June 30, 2016

| | Salance as of une 30, 2015 | Additions | Balance as of Deletions June 30, 2016 | | |
|------------------------------|-------------------------------|--------------|---------------------------------------|----|------------|
| Accrued compensated absences | \$ 10,041,847 | \$ 5,166,641 | \$ 5,093,933 | \$ | 10,114,555 |

Mississippi Department of Human Services Notes to Schedule of Analysis of Changes in Accrued Compensated Absences

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accrued Compensated Absences

State law authorizes payment for a maximum of 30 days accrued personal leave in a lump sum upon termination of employment. No payment is authorized for accrued major medical leave, unless employees present medical evidence that their physical condition is such that they can no longer work in a capacity of state government. The state's obligation for accumulated unpaid personal leave, up to the maximum of 30 days per employee, is reported as accrued compensated absences in the accompanying schedule of analysis of changes in long-term obligations. The state uses the last-in, first-out method of recognizing use of compensated absences. The reported liability applicable to all funds includes the related fringe benefits that the state, as employer, is required to pay when the accrued compensated absences are liquidated. Accumulated unpaid major medical leave is not accrued, because it is not probable that the compensation will be paid in a lump sum other than in the event of severe illness.

NOTE 2: OTHER LIABILITIES

Compensated Absences

MDHS's liability for accrued compensated absences at June 30, 2016, is \$10,114,555 for governmental activities. The reported liability includes related fringe benefits and excludes any obligations related to leave accumulations in excess of 30 days per employee.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mississippi Department of Human Services Jackson, Mississippi

We have audited, in accordance with the 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 financial statements of General Fund 5365100000 of the Mississippi Department of Human Services (the "Department"), which comprise the balance sheet as of June 30, 2016, and the related statements of revenues, expenditures and changes in fund balances as of and for the year ended June 30, 2016, and the related notes to the financial statements and have issued our report thereon dated April 17, 2017.

We have also audited the schedule of analysis of changes in accrued compensated absences (the "Schedule") as of and for the year ended June 30, 2016, and issued our report thereon dated April 17, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements and the Schedule, we considered the Department'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 the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department'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 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 accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses. This finding has been identified as item 2016-29.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements of General Fund 5365100000 and the Schedule are free from 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*.

Response to Findings

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 Department'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.

CARR, RIGGS & INGRAM, LLC

Cau, Rigge & Ingram, L.L.C.

Ridgeland, Mississippi April 17, 2017



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR SPECIFIC FEDERAL PROGRAMS AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE WHEN USING THE PROGRAM-SPECIFIC AUDIT OPTION TO SATISFY THE UNIFORM GUIDANCE AUDIT REQUIREMENTS

Mississippi Department of Human Services Madison, Mississippi

Report on Compliance for Programs Selected for Audit

We have audited the Mississippi Department of Human Services (the "Department") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the following programs: The SNAP Cluster, the TANF program, the Low Income Home Energy Assistance program, the CCDF cluster, the Foster Care program and the Social Services Block Grant program ("the Programs") for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Department's 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the Programs occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each of the Programs. However, our audit does not provide a legal determination of the Department's compliance.

Basis for Adverse Opinion on SNAP Cluster, TANF Program, Low Income Home Energy Assistance Program, and CCDF Cluster

As described in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding the SNAP cluster, the TANF program, the Low Income Home Energy Assistance program, the CCDF cluster and the Social Services Block Grant program as described in findings numbered 2016-25 for Eligibility and 2016-27 and 2016-28 for Subrecipient Monitoring. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

Adverse Opinion on SNAP Cluster, TANF Program, Low Income Home Energy Assistance Program, and CCDF Cluster

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the Department did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the SNAP Cluster, the TANF Program, the Low Income Home Energy Assistance program, the CCDF cluster and the Social Services Block Grant program for the year ended June 30, 2016.

Unmodified Opinion on Foster Care Program

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Foster Care program identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-24, 2016-26 and 16-04. Our opinion on each major federal program is not modified with respect to these matters.

The Department's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Department 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 Department'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 control over compliance in accordance with the Uniform Guidance, 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 the Department'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 described in the accompanying schedule of findings and questioned costs as items 2016-25, 2016-27, and 2016-28 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 described in the accompanying schedule of findings and questioned costs as items 2016-24 and 2016-26 to be significant deficiencies.

The Department's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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Ridgeland, Mississippi April 17, 2017