



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

February 6, 2018

Financial Audit Management Report

Drew L. Snyder
Executive Director
Mississippi Division of Medicaid
550 High Street, Suite 1000
Jackson, MS 39201

Dear Mr. Snyder:

Enclosed for your review are the financial audit findings for the Mississippi Division of Medicaid for the Fiscal Year 2017. In these findings, the Auditor's Office recommends the Mississippi Division of Medicaid:

- 1) Strengthen controls to ensure compliance with laws and regulations regarding the timely preparation of agency financial reports; and,
- 2) Strengthen controls to ensure timely deposits of hospital assessment fees into the State Treasury.

Please review the recommendations and submit a plan to implement them by February 20, 2018. The enclosed findings contain more information about our recommendations.

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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Division of Medicaid's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mississippi Division of Medicaid'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.

Mississippi Division of Medicaid

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

Sincerely,

A handwritten signature in blue ink that reads "Stephanie C. Palmertree". The signature is fluid and cursive, with the first name "Stephanie" being more prominent than the last name "Palmertree".

Stephanie C. Palmertree, CPA, CGMA
Director, Financial Audit and Compliance Division
Enclosures

FINANCIAL AUDIT MANAGEMENT REPORT

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of the Mississippi Division of Medicaid for the fiscal year ended June 30, 2017. These financial statements are consolidated into the State of Mississippi's *Comprehensive Annual Financial Report*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Office of the State Auditor's staff members participating in this engagement included Deanna White, CPA, Alan Jarrett, Lisa Meade, CPA, Richard Aultman, CPA, and Allen Case, CPA.

Our procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Financial Reporting

In planning and performing our audit of selected accounts included on the financial statements, we considered the Mississippi Division of Medicaid's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on these accounts, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Mississippi Division of Medicaid's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the following paragraphs, we identified certain deficiencies in internal controls that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency identified in this letter as item 2017-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency identified in this letter as item 2017-010 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Mississippi Division of Medicaid are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements,

noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*.

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Mississippi Division of Medicaid are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*. This matter is identified as item 2017-010 under the heading **SIGNIFICANT DEFICIENCY AND IMMATERIAL NONCOMPLIANCE AND OTHER MATTERS**.

MATERIAL WEAKNESS

Finding and Recommendation

Material Weakness

2017-001 Controls Should Be Strengthened to Ensure Compliance with Laws and Regulations Regarding the Timely Preparation of Agency Financial Reports

Repeating Finding Yes, 2016-002

Criteria *Section 27-104-4, Miss. Code Ann. (1972)* requires each state agency to prepare annual financial statements at such times as determined by the State Fiscal Officer. The State Fiscal Officer is required to combine the financial statements into a comprehensive annual financial report (CAFR) and provide it to the State Auditor for postauditing. The law further requires the CAFR be published within six months after the June 30 close of the fiscal year. In addition, the Government Finance Officers Association (GFOA) requires CAFRs to be submitted within six months of the government's fiscal year end.

Condition During our review of financial reporting at the Mississippi Division of Medicaid (DOM), we noted agency personnel did not prepare or submit their financial reports (i.e. GAAP packet) which includes a Schedule of Expenditures of Federal Awards (SEFA), in a timely manner. The deadline for turning in GAAP packets established by the Department of Finance and Administration – Office of Financial Reporting (DFA-OFR) was September 6, 2017. However, the DOM GAAP packet was not submitted until after September 6, 2017.

Cause	The agency experienced several difficulties in preparing GAAP packets including, but not limited to, interagency transfers and the utilization of the state wide accounting software, MAGIC, to gather the information.
Effect	<p>The failure of agency personnel to prepare their GAAP packet in a timely manner contributed to the CAFR not being published in accordance with state law and hindered the efficiency of the audit of the State of Mississippi's financial statements. In addition, these delays could result in the state not being awarded a Certificate of Achievement for Excellence in Financial Reporting by GFOA. Receiving GFOA's certificate increases the likelihood the credit agencies or other stakeholders may consider the state's financial statements in a positive manner. The timeliness of the CAFR being published impacts its relevance to the various users of the CAFR.</p> <p>In addition, the Single Audit Act requires the State issue the Single Audit Report within nine months of the fiscal year end, and no extensions are granted. The independent auditor's report on internal control over financial reporting and the SEFA are both required to be included in the Single Audit Report and both are an integral part of the financial audit of the State. The failure to timely complete the CAFR could also hinder the timely submission of the Single Audit Report which could result in federal discretionary drawdowns being suspended.</p>
Recommendation	We recommend the Mississippi Division of Medicaid implement procedures to ensure the timely completion of their GAAP packet in order to help ensure the CAFR is published in accordance with state law and that the audit of the State of Mississippi's financial statements is performed in an efficient manner.

SIGNIFICANT DEFICIENCY AND IMMATERIAL NONCOMPLIANCE AND OTHER MATTERS

Finding and Recommendation

Significant Deficiency Immaterial Noncompliance

2017-010 Controls Should Be Strengthened to Ensure Compliance with Laws and Regulations Regarding Timely Treasury Deposits

Repeating Finding No

Criteria Good internal controls dictate cash receipts be deposited into the Treasury account promptly to reduce the likelihood of loss or theft. In addition, Section 7-9-21, Miss. Code Ann. (1972), requires agencies to deposit funds with the State Treasury by the end of the next business day following the date the funds are collected.

Condition	During our review of sixteen cash receipts for hospital assessments at the Mississippi Division of Medicaid, we noted nine instances in which funds were not deposited in a timely manner.
Cause	Unknown
Effect	The untimely deposit and transfer of funds may result in the loss of investment earnings and increase the risk of theft and/or misplacement of funds while held at the agency.
Recommendation	We recommend the Mississippi Division of Medicaid ensure that all that cash receipts deposited into Treasury are made timely and in compliance with state law.

End of Report



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

March 27, 2018

Single Audit Management Report

Drew Snyder
Interim Executive Director
Mississippi Division of Medicaid
550 High Street, Suite 1000
Jackson, MS 39201

Dear Mr. Snyder:

Enclosed for your review are the single audit findings for the Mississippi Division of Medicaid for fiscal year 2017. In these findings, the Auditor's Office recommends the Mississippi Division of Medicaid:

Single Audit Findings:

1. Segregate Expenditures by Grant Award Year in the Mississippi Accountability System for Government Information and Collaboration (MAGIC); and
2. Implement a Policy to Conduct Periodic Risk Analyses of all ADP Systems Involved in the Administration of HHS Programs.

Please review the recommendations and submit a plan to implement them by April 6, 2018. The enclosed findings contain more information about our recommendations.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

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

Sincerely,

A handwritten signature in blue ink that reads "Stephanie C. Palmertree".

Stephanie C. Palmertree, CPA, CGMA
Director, Financial and Compliance Audit Division
Enclosures

SINGLE AUDIT FINDINGS

In conjunction with our audit of federal assistance received by the State of Mississippi, the Office of the State Auditor has completed its audit of the State's major federal programs administered by the Mississippi Division of Medicaid for the year ended June 30, 2017. The Office of the State Auditor's staff members participating in this engagement included Stephanie Palmertree, CPA, Donna Parmegiani, CPA, Deanna White, CPA, Alan Jarrett, Lisa Meade CPA, Richard Aultman, CPA, and Allen Case, CPA.

Our procedures and tests cannot and do not provide absolute assurance that all federal legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Report on Compliance for Each Major Federal Program

We have audited the Mississippi Division of Medicaid's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and Uniform Guidance that could have a direct and material effect on the federal programs selected for audit that are administered by the Mississippi Division of Medicaid for the year ended June 30, 2017.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State of Mississippi's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mississippi Division of Medicaid's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. However, our audit does not provide a legal determination of the Mississippi Division of Medicaid's compliance.

Results of Compliance Audit Procedures

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with Uniform Guidance and which are identified in this letter as items 2017-033 and 2017-034.

Internal Control over Compliance

Management of the Mississippi Division of Medicaid is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Mississippi Division of Medicaid's internal control over compliance with the types of requirements that could have a direct and

material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal controls over compliance in accordance with 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 Mississippi Division of Medicaid's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance identified in this letter as items 2017-033 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 deficiency in internal control over compliance identified in this letter as item 2017-034 to be a significant deficiency.

Finding and Recommendation

PERIOD OF PERFORMANCE

Material Noncompliance

Material Weakness

2017-033	<u>Agency Should Segregate Expenditures by Grant Award Year in the Mississippi Accountability System for Government Information and Collaboration (MAGIC)</u>
CFDA Number	93.767 - Children's Health Insurance Program (CHIP)
Federal Award	1605MS5021/2016 1705MS0301/2017
Federal Agency	U.S. Department of Health and Human Services
Pass-through Entity	U.S. Department of Health and Human Services
Questioned Costs	None

Criteria	Per the Compliance Supplement (dated July 2017) Part 4, HHS CHIP, Section H Period of Performance): "The availability of amounts for FY 2009 and each fiscal year thereafter, shall remain available for expenditure by the State through the end of the succeeding fiscal year (i.e. the year of award and one subsequent fiscal year) (42 USC 1397dd(e))."
Condition	<p>During testing of period of performance for the CHIP grant, we noted expenditures were not segregated by grant year in the Mississippi Accountability System for Government Information and Collaboration (MAGIC); therefore, it could not be determined whether expenditures were charged to the CHIP grants either before or after the applicable Period of Performance.</p> <p>In MAGIC, all grants are coded to the same grant number and internal order without any identifying grant information. Grant revenue is spent using the "first in first out" method rather than appropriately matching revenue and expenditures in a grant period.</p>
Cause	Management determined it was not beneficial to separate expenditures by grant year in MAGIC.
Effect	Failure to properly segregate expenditures by grant year could result in expenditures made to a federal award/grant either before or beyond its Period of Performance, resulting in questioned costs. Additionally, without proper evidence that grant expenditures are paid by a specific federal grant, allowability of costs cannot be easily or readily determined.
Recommendation	We recommend the agency implement a system to separate expenditures by grant award year in its accounting system to ensure transactions are charged to the correct federal award and within the award's Period of Performance.
Repeat Finding	Yes, 2016-030
Statistically Valid	Not statistically valid.

SPECIAL TESTS

Significant Deficiency

2017-034 Agency should Implement Policy to Conduct Periodic Risk Analyses of all ADP Systems Involved in the Administration of HHS Programs

CFDA Number 93.778 - Medical Assistance Program (Medicaid: Title XIX)
93.777 - State Survey and Certification of Health Care Providers and Suppliers (Title XVIII Medicare)
93.775 - State Medicaid Fraud Control Unit

Federal Award	1705MS0301/2017	1605MS5ADM/2016
	1705MS5MAP/2017	1705MSIMPL/2017
	1705MS5ADM/2017	1605MS5MAP/2016
	1605MS5021/2016	1705MSINCT/2017
	1605MS5001/2016	1605MSIMPL/2016

1505MS50001/2016 1605MSINCT/2016
1505MSBIPP/2015

Federal Agency	U.S. Department of Health and Human Services
Pass-through Entity	U.S. Department of Health and Human Services
Questioned Costs	None
Criteria	The <i>Code of Federal Regulations</i> (45 CFR 95.621) requires that state agencies shall, "Establish and Maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies shall review the ADP system security installations involved in the administration of HHS programs on a biennial basis. At minimum, the reviews shall include an evaluation of the physical and data security, operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews."
Condition	Mississippi Division of Medicaid provided no evidence of a biennial risk analysis of all ADP Systems involved in the administration of HHS programs. The agency did submit a risk analysis for Mod MEDS, a newly installed, subsystem of MMIS in compliance with MARS-E v.2 Security and Privacy Controls framework. The Mississippi Division of Medicaid is not in compliance with <i>45 CFR 95.621</i> and its own Risk Analysis Policy; each requires a Risk Analysis Report be produced every 2 years.
Cause	Unknown
Effect	Failure to properly establish and maintain a process for conducting periodic risk analyses could result in the compromise of the confidentiality, integrity and reliability of the data associated with HHS programs.
Recommendation	We recommend Mississippi Division of Medicaid conduct a risk analysis of all ADP systems involved in the administration of HHS programs and produce a risk analysis report.
Repeat Finding	Yes, 2016-033
Statistically Valid	Not statistically valid.

End of Report