STATE OF MISSISSIPPI

OFFICE OF THE STATE AUDITOR
SHAD WHITE
STATE AUDITOR

December 17, 2019

Financial Audit Management Report

Christopher Freeze, Executive Director
Mississippi Department of Human Services
200 South Lamar St.
Jackson, MS 39201

Dear Mr. Freeze:

Enclosed for your review are the financial audit findings for the Mississippi Department of Human Services for the Fiscal Year 2019. In this finding, the Auditor's Office recommends the Mississippi Department of Human Services:

1. Strengthen controls to ensure management's "Tone at the Top" does not allow for the circumventing of policies, procedures, state law, and/or federal regulations; and
2. Strengthen controls over MAGIC segregation of duties, business role assignments and quarterly access review.

Please review the recommendation and submit a plan to implement it by January 3, 2020. The enclosed finding contains more information about our recommendation.

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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Mississippi Department of Human Services' 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 Department of Human Services' internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

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

Sincerely,

Stephanie 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 Department of Human Services for the year ended June 30, 2019. These financial statements will be 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.

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 the State of Mississippi's CAFR, we considered the Mississippi Department of Human Services' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on these accounts, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of the Mississippi Department of Human Services' internal control.

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 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 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. We consider the deficiency identified in this letter as item 2019-012 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 2019-013 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 Department of Human Services are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Finding and Recommendation

Material Weakness

2019-012 Controls Should Be Strengthened to Ensure Management's "Tone at the Top" Does Not Allow for the Circumventing of Policies, Procedures, State Law, and/or Federal Regulations

Repeat Finding No

Criteria

The *Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the *U.S. Government Accountability Office Standards for Internal Control in the Federal Government* (Green Book) specify that a satisfactory control environment is only effective when there is a commitment to integrity and ethical values. This principle of "tone at the top" management serves as the foundation of all other components of internal control.

Condition

During fiscal year 2019, the Executive Director and several members of the Executive Management Team at the Mississippi Department of Human Services (MDHS) threatened and intimidated employees regarding pervasive and widespread fraud, waste, and abuse. Employees operated under widespread fear of retaliation for questioning the legality or appropriateness of any directive from the Executive Director or his team. Employees were aware of possible fraudulent activities and inappropriate actions regarding the Temporary Assistance of Needy Families (TANF) subgrantees, and did not report such activities to federal or state auditors when questioned. When auditors inquired why individuals did not confide these suspicions to those charged with governance or auditors, employees stated that they were scared of immediate termination or additional retaliation.

Additionally, the Executive Director ceased the TANF State Plan approved method of procuring subgrantee services based on an independent scoring rubric and process and replaced the existing procurement method with a system where the director unilaterally decided when grants were awarded and for how much they were funded. Due to this change, one subgrantee's funding was increased from approximately $2 million to $20 million over three years.

The Executive Management Team in place during fiscal year 2019 did not exhibit appropriate "tone at the top" leadership. Management not only allowed, but also participated in, significant fraud, waste, and abuse of TANF funds. These practices not only severely limited resources that should have been available to those qualifying for TANF assistance, but could cause clawbacks of federal resources. Additionally, misuse of TANF funds, specifically intentional misuse of funds, can trigger penalty clauses as outlined in Uniform Grant Guidance. These penalty clauses could either be repayment of funds, or reduction in State assistance amounts in subsequent quarters.

Examples of fraud, waste and abuse include:

- Employees from the Office of Monitoring within MDHS were pulled from subgrantees when issues were discovered in order to conceal questioned costs.

- Exorbitant conferences were held for MDHS employees
- Fees and expenses for contractors were paid when contracts required contractor to pay for all expenses.
- First Class airfare and extensive travel expenses were paid for members of the Executive Management Team and non-employees.
- Subgrantees were encouraged to use specific vendors – specifically members of the Executive Director's family.

The Executive Director in place during the fiscal year under audit resigned his post in July 2019, and a new Executive Director was appointed as of August 2019. The new Executive Director replaced many members of the Executive Management Team and began implementing new policies. These new policies have not been audited as of the date of this report as they relate to the subsequent fiscal year.

Cause Executive Management at MDHS did not possess or encourage ethical business practices or appropriate grant management.

Effect Without ethical leadership and an appropriate "tone at the top", fraud, waste, and abuse can occur and lead to the intentional misuse of federal funds. The misuse of federal funds can cause a reduction in federal assistance for the State of Mississippi.

Recommendation We recommend Management at the Mississippi Department of Human Services evaluate all policies and procedures to ensure ethical and appropriate business practices. Additionally, we recommend employees and management undergo training classes on exhibiting appropriate "tone at the top" leadership and adopting an ethical work culture.

SIGNIFICANT DEFICIENCY

2019-013 Controls Should Be Strengthened over MAGIC Segregation of Duties, Business Role Assignments and Quarterly Security Certification Process

Repeat Finding Yes, 2018-34 in 2018

Criteria The *Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the *U.S. Government Accountability Office Standards for Internal Control in the Federal Government* (Green Book) specify that a satisfactory control environment is only effective when control activities exist, such as proper segregation of duties. Segregation of duties is the sharing of responsibilities within a key process and dispersing the critical functions of that process to more than one person.

Additionally, the *Mississippi Agency Accounting Policies and Procedures* (MAAPP) manual section 30.60.00 requires security roles in the Mississippi Accountability System for Government Information and Collaboration (MAGIC) to be assigned to an employee based on his or her job duties, and that security roles be reviewed quarterly by agencies to ensure duties are properly segregated. The Department of Finance and Administration (DFA) issued the *MAGIC Roles and Definitions* policy document to inform agencies of roles that should be separated to reduce conflicts as well as other role requirements.

Condition The Mississippi Department of Human Services (MDHS) submitted certifications to the Department of Finance and Administration (DFA) quarterly during state fiscal year 2019 stating that it was in compliance with MAGIC security policies. Upon review of the security roles assigned, the agency had conflicts to assigned duties, as detailed below.

During our review of MAGIC security roles at MDHS during fiscal year 2019, we noted:

- Thirty-two security role conflicts between accounts payable and accounts receivable functions;
- Sixteen instances of roles assigned to MDHS personnel that have no matching security role;
- Seven instances of roles assigned to MDHS personnel that are not allowed for the agency;
- Seven instances in which roles were assigned to MDHS personnel without the required oversight roles being assigned;
- One instances in which roles were still assigned to employees after their employment ended with the agency; and,
- Lack of effective review of information that was certified by agency.

Cause The agency did not properly review and monitor MAGIC security roles assigned to employees.

Effect Failure to properly segregate duties and limit user access among agency personnel increases the risk of misappropriation of assets, inappropriate changes to data or files, and unauthorized activity which can result in material misstatements of financial statements.

Recommendation We recommend the Mississippi Department of Human Services strengthen controls over MAGIC security access and ensure that roles are properly assigned, duties are segregated, and separated employees have their access removed in a timely manner.

End of Report

STATE OF MISSISSIPPI
Phil Bryant, Governor
DEPARTMENT OF HUMAN SERVICES
Christopher Freeze
Executive Director

Shad White, State Auditor
Office of the State Auditor
State of Mississippi
P.O. Box 956
Jackson, Mississippi 39205-0956

January 14, 2020

Dear Mr. White:

Enclosed for your review is the agency's official response and correlating corrective action plans to the financial audit finding in the "Financial Audit Management Report" as outlined in the Mississippi Department of Human Services financial audit performed for the Fiscal Year 2019.

FINANCIAL AUDIT FINDINGS

2019-012 **Controls Should Be Strengthened to Ensure Management's "Tone at the Top" Does Not Allow for the Circumventing of Policies, Procedures, State Law, and/or Federal Regulations.**

MDHS Response: MDHS agrees that controls should be strengthened to ensure a "Tone at the Top" style does not allow for circumventing policies, procedures, State Law and/or Federal regulations.

Corrective Action Plan: MDHS is in agreement that during the audit period, the prior Executive Director and a few supervisors under the prior Executive Director's direction did not exhibit appropriate "tone at the top" leadership. We agree the culture created and promulgated by the prior Executive Director led to Temporary Assistance of Needy Families (TANF) monies being unilaterally and arbitrarily distributed without proper oversight or review. In order to maintain this posture, the prior Executive Director terminated or retaliated against employees which furthered the problems.

However, senior members of the Executive Management team were also responsible for bringing the prior Executive Director's actions to light in June 2019. Since the prior Executive Director's actions had been on-going during his tenure, had the senior members of the team not brought his actions to light, the probability was high the waste and abuse of funds would not have been discovered during routine audits or reviews. The MDHS Executive Leadership currently in place has worked closely with OSA on this matter in order to ensure a complete and thorough examination.

After the prior Executive Director left MDHS employment, a new Executive Director was appointed and leadership changes were made to address the "tone at the top" culture as well as the effective and efficient use of state and federal funds. Specifically, MDHS no longer employs the select individuals implicated in this matter, has released and awarded Request for Proposals concerning the TANF block grant, and has revised the subgrant manual to ensure additional measures of internal controls are in place to prevent such from occurring the future. All of these actions have increased the transparency and accountability at MDHS.

Additionally, the TANF state plan, which governs all program expenditures as approved by the Administration for Children and Families and was the controlling document during State Fiscal Year 2019 did not require a competitive procurement be conducted. Further, the TANF state plan encouraged the use of subgrantees in the administration of TANF dollars and service of MDHS clients in need of assistance.

The TANF State Plan is currently under revision as part of the State's Workforce Innovation Opportunity Act State Plan, in which TANF is a core partner, and a procurement process is being written into the new state plan that will be submitted in March of 2020. The state plan will incorporate the lessons learned as part of the prior Executive Director's inappropriate activities.

2019-013 **Controls Should Be Strengthened over MAGIC Segregation of Duties, Business Role Assignments and Quarterly Security Certification Process.**

MDHS Response: MDHS is in agreement that it should strengthen its' policies and procedures to ensure that duties and business role assignments in MAGIC are segregated.

Corrective Action Plan: MDHS currently reviews the role assignments quarterly to ensure segregation of duties and has made significance progress over prior year's audit findings. Additionally, MDHS reviews employees that are no longer associated with the agency. MDHS will also notate individuals that have multiple roles and explain the rationale for same.

We appreciate the courtesy and professionalism demonstrated by Emily Mathis and her field staff throughout the audit. Should you have any questions regarding our responses or corrective action plan, please do not hesitate to contact Hadley Eisenberger, Inspector General, at 601-359-4939.

Respectfully,

DocuSigned by:

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Christopher Freeze, Executive Director

CF: HE

pc: Jacob Black
David Barton
Hadley Gable Eisenberger

STATE OF MISSISSIPPI

OFFICE OF THE STATE AUDITOR

SHAD WHITE

April 22, 2020

Single Audit Management Report

Robert Anderson, Executive Director
Mississippi Department of Human Services
200 South Lamar St.
Jackson, MS 39201

Dear Mr. Anderson:

Enclosed for your review are the single audit findings and other audit findings for the Mississippi Department of Human Services for Fiscal Year 2019. In these findings, the Auditor's Office recommends the Mississippi Department of Human Services:

Single Audit Findings:

1. Strengthen controls to ensure compliance with subrecipient allowable cost activities of the SNAP, CCDF, TANF and SSBG programs;
2. Strengthen controls in order to verify expenditures are allowable and appropriate for Supplemental Nutrition Assistance Program (SNAP);
3. Strengthen controls over compliance with allowable cost requirements of the TANF program;
4. Strengthen controls over compliance with allowable cost requirements of the CCDF Cluster;
5. Strengthen controls over review of computations and data for Allowable Cost activity used in the manual cost allocation process and review of indirect costs allocated to federal programs;
6. Strengthen controls over compliance with cash management requirements of the Temporary Assistance for Needy Families (TANF) program;
7. Strengthen controls over compliance with eligibility and benefit payment requirements of the CCDF Cluster;
8. Strengthen controls to ensure compliance with the matching requirements of the CCDF Cluster;
9. Strengthen controls to ensure compliance with the award's Period of Availability/Period of Performance for the CCDF program;
10. Strengthen controls over procurement policies and awarding subgrants for the TANF program;
11. Strengthen controls over procurement policies relating to subrecipients for Supplemental Nutrition Assistance Program (SNAP);
12. Strengthen controls over submission of required federal reports of the TANF program;
13. Strengthen controls over on-site monitoring for the Supplemental Nutrition Assistance Program (SNAP), Child Care and Development Block Grant (CCDF), Temporary Assistance for Needy Families (TANF), Social Services Block Grant (SSBG) and Low Income Home Energy Assistance (LIHEAP) Programs;
14. Strengthen controls over subrecipient monitoring of OMB Uniform Guidance Audits for the Temporary Assistance for Needy Families (TANF), Child Care and Development Block Grant (CCDF), Low Income Home Energy Assistance Program (LIHEAP), and Social Services Block Grant (SSBG) Programs; and

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15. Strengthen controls over the review of Foster Care maintenance payment rates and the calculation of Foster Care maintenance payments for the Title IV-E Foster Care program.

Other Audit Finding:

16. Strengthen controls over the removal of MAVERICS User Login Profiles for the TANF Program.

Please review the recommendations and submit a plan to implement them by April 29, 2020. The enclosed findings contain more information about our recommendations.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB 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 Department of Human Services to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Human Services throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

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 Department of Human Services for the year ended June 30, 2019.

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, *Mississippi Code Annotated* (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 Department of Human Services' compliance with the types of compliance requirements described in the *OMB Uniform Guidance Compliance Supplement* that could have a direct and material effect on the federal programs selected for audit that are administered by the Mississippi Department of Human Services for the year ended June 30, 2019.

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 Office of Management and Budget (OMB) *Uniform Administrative Requirements, Cost Principles and Audit Requirements* (Uniform Guidance). Those standards and 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 Department of Human Services' 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 Department of Human Services' compliance.

Results of Compliance Audit Procedures
The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Uniform Guidance and which are identified in this letter as items 2019-030, 2019-031, 2019-032, 2019-033, 2019-034, 2019-035, 2019-036, 2019-037, 2019-038, 2019-039, 2019-042, and 2019-043.

Internal Control over Compliance

Management of the Mississippi Department of Human Services 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 Department of Human Services' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal controls over compliance in accordance with OMB 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 Department of Human Services' 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 2019-030, 2019-031, 2019-032, 2019-033, 2019-035, 2019-039, 2019-042, and 2019-043 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 identified in this letter as items 2019-034, 2019-036, 2019-037, 2019-038, 2019-040, 2019-041, and 2019-044 to be significant deficiencies.

In addition, we noted another other deficiency in internal control over compliance that require the attention of management that we have reported on the attached document, "Other Audit Findings," as items OTH-19-01.

Findings and Recommendations

ACTIVITIES ALLOWED/ALLOWABLE COSTS

Material Weakness
Material Noncompliance

2019-030	The Mississippi Department of Human Services Should Strengthen Controls to Ensure Compliance with Subrecipient Allowable Cost Activities.
CFDA Number(s)	10.551 Supplemental Nutrition Assistance Program (SNAP) 10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) 93.558 Temporary Assistance for Needy Families (TANF) 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) 93.667 Social Services Block Grant (SSBG)

Federal Award	12-35-2841 (SNAP) 2017IQ390345 2018IQ390345	G1701MSTANF G1801MSTANF G1901MSTANF G1702MSTANF	G1701MSCCDF G1801MSCCDF G1901MSCCDF

Pass-Through U.S. Department of Agriculture, U.S. Department of Health and Human Services

Questioned Costs $94,164,608. See chart at the end of finding for detailed information.

Repeat Finding No.

Statistically Valid Varying types of sampling and testing techniques were used; some are considered statistically valid and some are not. During the initial planning phase of the audit, auditor identified population as two separate and distinct groups – 1) Payments made by MDHS for services other than direct assistance to recipients 2) Payments made to first tier subgrantees. However, due to increased fraud risk during the audit, transactions were subdivided into many different populations so that statistical projection of error rates could be utilized. High risk populations were examined at 100 percent, moderate risk populations were sampled individually, and low risk items were grouped in one population to sample. Additionally, after initial testing, it was determined that fraud risk was still at a high level and a nomenclature review over the populations was performed to pull out specific transactions as individually significant.

Background Auditors were alerted to significant areas of fraud risk by the Governor of Mississippi on June 21, 2019. An internal audit performed by staff of MDHS uncovered a possible fraudulent scheme involving a third party contractor in the TANF program and the Executive Director of MDHS at that time (JD). Investigators from the OSA Investigative Division and financial auditors worked to piece together information about this scheme and subsequently indicted six individuals involved in a conspiracy to steal (by a variety of means) approximately $4 million in TANF funds. The initial investigation into the theft coincided with the fiscal year 2019 Single Audit. Due to this known fraud, auditors considered many areas of grant expenditures to be high risk. In order to properly account for and describe the significant areas of waste, fraud, and abuse that were uncovered during the subsequent investigation and audit, the finding format of this particular finding will vary.

Criteria **Applicable Internal Controls**: *The Committee of Sponsoring Organizations of the Treadway Commission (COSO*) and *the United States Government Accountability Office (GAO) Green Book* dictates that in order for organizations to have effective internal control, the organization should have an effective control environment. A component of an effective control environment is proper oversight ability, accountability and commitment to ethical values.

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.403*) states that, in order to be allowable under federal guidelines, costs must be necessary and reasonable, and adequately documented.

The Code of Federal Regulations (2 cfr 200.404) states "A cost is reasonable - if in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the entity is predominately federally funded. In determining reasonableness of a given cost, consideration must be given to: (a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award. (b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award. (c) Market prices for comparable goods or services for the geographic area. (d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government. (e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost."

The Code of Federal Regulations (2 cfr 200.405 (a)) states "A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received."

MDHS requires each subgrantee to attest by signature that they have read and understood the Subgrantee Manual issued by MDHS before payments on awards can be made. Additionally, each subgrant administered by MDHS is governed by the standard Subgrantee Agreement which sets out specific regulations that govern the subgrant.

The Office of Family Assistance, a Division of the Office of Administration for Children and Families and the grantor of TANF funds, states there are four tenets of the TANF program –

1) To provide assistance to needy families so that children can be cared for in their own homes or in the homes of relatives;
2) End the dependence of needy parents by promoting job preparation, work, and marriage;
3) Prevent and reduce the incidence of out-of-wedlock pregnancies; and
4) Encourage the formation and maintenance of two-parent families.

The Office of Family Assistance produced *Q&A: Use of Funds*, published on May 2, 2013, which clarifies the use of funds for "needy" families and is copied, verbatim, below:

"Q1: May States help the non-needy with services that are consistent with TANF purpose one or two as long as those services fall outside the definition of assistance?"

"A1: No. The first two statutory purposes (related to caring for children in their own homes and ending dependence) are expressly for the needy. Therefore, the statute envisions that States would serve only the needy when they are conducting activities or providing benefits that are reasonably calculated to accomplish TANF purpose one or two. This means that States would have to develop and apply criteria of financial need in these cases. However, States may use Federal TANF funds to help both the needy and the non-needy with benefits or services that are reasonably calculated to accomplish TANF purpose three or four (which relate to reducing out-of-wedlock pregnancies and the formation and maintenance of two-parent families). In serving the non-needy, States may use only segregated Federal TANF funds."

While states are allowed and encouraged to use creative mechanisms to accomplish the four main goals of TANF, the core purpose of the grant is to assist the needy. States are allowed, in their State Plan, to define the eligibility of needy per tenet and/or initiative. *The TANF State Plan*, as prepared by MDHS, states the following income limits/thresholds for determining the eligibility of individuals for each initiative:

- Intensive Youth Supervision Programs – To provide a diversionary, community based intensive supervision program for youth offenders. Individuals must be at or below 300 percent of the Federal Poverty Level.
- Child Care Enhancements – To end the dependence of needy parents on government benefits by promoting job preparation, work and marriage. Must be TANF participants, or low income families at risk of going onto TANF that are eligible for CCDF.
- Responsible Fatherhood Initiative – To encourage the formation and maintenance of two-parent families and prevent and reduce out-of-wedlock pregnancies. Financial eligibility determination is not required for this program.
- Post-Employment Assistance Programs – To end the dependence of needy parents on government benefits by promoting job preparation and work. Families eligible for this program are not required to be TANF eligible, but must be at or below 200 percent of the Federal Poverty Level.
- TANF Prevention/Intervention – To develop projects in community-based settings to prevent and reduce at-risk behaviors among youth and their families to prevent or break the cycle of welfare dependence. Financial eligibility determination is not required for this program.
- Healthy Choices, Brighter Future Initiative – To involve community, faith-based organizations, schools and families in the establishment of educational and training programs on youth leadership development and teen pregnancy prevention promoting abstinence. Financial eligibility determination is not required for this program.

Additionally, based on the availability of funds, the following initiatives are outlined in the TANF State Plan:

- TANF Summer Enrichment Program – no eligibility criteria are defined.
- TANF Work Program - no eligibility criteria are defined.
- Crisis Intervention Program – Families are not required to be TANF eligible but must be below 150 percent of the Federal Poverty Level.
- Funds may be made available to Attorney General to implement programs that serve at risk youth. No eligibility criteria are defined.

- TANF Funds may be used for temporary care of children in foster care. Families eligible for this program are not required to be TANF eligible but must be below 300 percent of the Federal Poverty Level.
- Families First Resource Centers – Individuals must be at or below 300 percent of the Federal Poverty Level.
- TANF funds may be used to provide family preservation services to families with dependent children. Families must be at or below 300 percent of the Federal Poverty Level.
- State Coalition of the Young Men's Christian Association (YMCA) for the purpose of developing and implementing statewide programs that serve the unmet needs of youth by way of Adolescent Offenders and Teen Leadership Programs. Individuals eligible for this program are not required to be TANF eligible, but must be at or below 300 percent of the Federal Poverty Level.

The *MDHS Subgrant/Contract Manual* states in Section 5, under the heading "Financial Management – Accounting Procedures" that "Separate financial records shall be maintained for each subgrant. Separation serves record keeping requirements and also eliminates potential conflicts with the subgrantees' usual record keeping systems which may reflect a different fiscal year, or accounting by function or department rather than by subgrant or work activity. Each subgrantee shall maintain one set of accounting records for the entire subgrantee entity which shall separately identify the receipts and disbursements for each subgrant or other source of funds. The subgrantee shall be able to isolate and trace every subgrant dollar from receipt to expenditure and have on file appropriate supporting documentation for each transaction.

Examples of documentation are vendor invoices, bills of lading, purchase orders, payment vouchers, payrolls, bank statements and reconciliations, documentation to verify that only eligible clients were served; employee activity sheets to verify activities performed and the actual hours worked for each activity/subgrant; and, cash receipt logs to verify all funds received and the actual date of receipt."

Due to the substantial amount of questioned costs found during the fiscal year 2019 audit, questioned costs are grouped by category/type of expenditure below. Each bulleted item below will also state the specific law, regulation or control that was violated.

Condition

During the audit of fiscal year 2019, auditors noted that MDHS Executive Leadership (specifically the former Executive Director, JD) participated in a widespread and pervasive conspiracy to circumvent internal controls, state law, and federal regulations in order to direct MDHS grant funds to certain individuals and groups. Executive Director JD purposefully and willfully disregarded federal and state procurement regulations in order to award a substantial portion of grant funds from the TANF program to two specific subgrantees. These two subgrantees were granted monies under the *Families First Resource Center* portion of the TANF State Plan, which requires verification of eligibility criteria, defined as income at or below 300 percent of the Federal Poverty Level.

Executive Director JD then instructed these two subgrantees - Mississippi Community Education Center (MCEC) and Family Resource Center of North

Mississippi (FRC) - on which organizations and individuals to fund with third tier grants. During the audit, auditors asked both of the two subgrantees to provide any evidence or verification to support claims that MDHS approved transactions or instructed the subgrantees to fund certain projects. Both claimed that instructions were verbal and could not provide proof. Auditors were able to verify some transactions were approved by Executive Director JD and MDHS executive staff (both current and former) by performing a review of MDHS internal documents. It is important to note that the subgrantees signed and attested to the subgrantees' responsibility to ensure compliance with the regulations, policies, guidelines, and requirements imposed by the Federal grantor agency and MDHS. The subgrantees also signed and attested that the relationship between MDHS and the subgrantee is not one of an employer-employee relationship, and that there should not be relationship such as principal and agent; partners; joint ventures; or any other similar relationship between MDHS and the Subgrantee.

Additionally, Executive Director JD instructed MDHS staff to disregard federal regulations concerning monitoring and allowable costs to ensure that grant funds continued to flow to these subgrantees. Executive Director JD, upon accepting the position of Executive Director in January 2016, continued to fund these two subgrantees with large grants in fiscal years 2017, 2018 and 2019. JD expanded on the existing grants with TANF and also began funding MCEC and FRC with additional awards generated from the CCDF, SNAP, MVAP, and TFAP federal programs. Total amount funded to each of these two subgrantees referenced above is noted below:

Initial Awards plus/less any Modifications		
	MCEC	FRC
TANF 2019	$19,422,992	$7,500,000
TANF 2018	$18,843,072	$17,620,170
TANF 2017	$1,000,000	$12,971,208
SNAP 2019	$1,034,685	N/A
SNAP 2018	$2,615,774	N/A
CCDF 2019 (From MS Community College Board by grant from MDHS)*	$2,268,381	$2,177,483
CCDF 2018 (From MDHS directly)	$3,484,592	$500,000
SSBG 2018	$3,000,000	$3,000,000
SSBG 2017	N/A	$900,000
Other unaudited federal grants**2019	N/A	$497,987
Other unaudited federal grants**2018	$30,000	$527,987
Other unaudited federal grants** 2017	$30,000	N/A
*MCEC and FRC are second tier subgrants from MS Community College Board		
**MAVP and TFAP, included for informational purposes only.		

Both MCEC and FRC also awarded subgrants of federal monies to different programmatic groups (hereafter "second tier subgrants"). Additionally, MCEC and FRC expended federal grant funds on administrative expenses and contracts. In order to opine on the allowable costs compliance requirement, and, due to MDHS' repeated material weakness and material noncompliance findings for Subrecipient Monitoring in prior years Single Audit Reports, auditors felt obligated to review programmatic and administrative expenditures at the first tier subgrantee level due to the materiality of the grant awards.

Audit work performed at MCEC and FRC determined that federal monies had been comingled with other sources of revenue – namely fundraising revenue. Both entities utilized classification codes to identify the source of the income when paying vendors or coding expenses. However, through inquiry and analysis, auditors were able to determine that MCEC used their "MDHS Grant Fund" bank account to pay all expenses of the nonprofit – whether the expenses were federal, state or private. Additionally, when audit personnel asked for details about their record keeping, auditors were told that even though fundraising monies were deposited into the "MDHS Grant Fund" bank account, they were then transferred to their own bank accounts for proper record keeping, but all expenses were still made from the MDHS Grant Account; thereby using grant funds for all expenses whether federal, state or private.

Based on financial records of MCEC, MCEC did not maintain enough private, nongovernmental grant revenue to pay for the private expenditures made by the nonprofit (fundraising expenses, investments, profit sharing contributions, etc). Moreover, auditors were able to determine that MCEC falsified requested documents and general ledgers that were provided to the auditor. These falsified documents included contracts with artificial scopes to indicate possible adherence with TANF guidelines, forged signatures on contracts, general ledgers and expense reports with transactions removed, etc. Additionally, information provided to auditors often contradicted information that had been provided to MDHS. Finally, auditors noted that some transactions that were originally coded in the accounting software as "TANF expenditures" were changed to "Administrative expenditures" after staff from the Office of the State Auditor (OSA) inquired about TANF expenditures. Therefore, unless auditors could determine that private expenditures were paid for with 100 percent private funds, the expenditures were included in the nomenclature review of transactions.

FRC's financial records were found to be inconsistent in their treatment of different expenditures and the classification of those expenditures. Subgrant payments were coded to a variety of expense codes, and payees were coded as both vendors and "other names" in the financial records. In one instance, similar payments for a transaction were coded as "Consulting", "Contractual" and "Subsidies, Loans, and Grants". Based on information in the accounting records, FRC coded expenses based on preliminary budgetary figures and not based on actual cost categories.

The following exceptions were noted during the testwork of expenditures at the MDHS level and first tier subgrantee level. It should be noted that some recipients of funds from both MCEC and FRC were not aware that they were being awarded federal monies when granted contracts, grants, or awards. Neither MCEC or FRC provided the required federal information on any contract, grant, or award that stated the source of the funds, including the name of the Federal Program or the CFDA number. Without these required disclosures, auditors are unable to determine if contractors or second tier subgrantees of MCEC and FRC were aware of allowable cost criteria or restrictions.

All amounts questioned below are TANF funds unless otherwise noted. While this report is for fiscal year ended June 30, 2019, auditor determined that there were substantial questioned costs in prior fiscal years. When questioned costs were discovered in prior fiscal years, that information has also been included in this report for informational reasons.

Personal Benefit Contracts/Related Party Contracts

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.403*) states that, in order to be allowable under federal guidelines, costs must be necessary and reasonable, and adequately documented.

The Code of Federal Regulations (2 cfr 200.318(c)) states no employee, officer, or agent of a grantee may participate in the selection, award or administration of a contract supported by a federal award if he or she has a real or apparent conflict of interest. Conflicts of interest are defined as any instance when the officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated, has a financial or other interest in or a tangible personal benefit from a firm is considered for a contract supported by federal awards.

The Code of Federal Regulations (2 cfr 200.459(a)) states that, in order to be paid as a consultant, a person must possess a special skill, and not be considered an officer or employee of the entity.

Signed subgrant agreements between MDHS and the subgrantees state in *Section XXIX – Conflict of Interest* - "Subgrantee must ensure that there exists no direct or indirect conflict of interest in the performance of the Subgrant. Subgrantee must warrant that no part of federal or state money shall be paid directly or indirectly to an employee or official of MDHS as wages, compensation or gifts in exchange for acting as an officer, agent, employee, subcontractor or consultant to the Subgrantee in connection with any work contemplated or pertaining to the Subgrant."

In *Section VI – Relationship of the Parties*, it states, "It is expressly understood and agreed that MDHS enters into this Subgrant with Subgrantee on a purchase of service basis and not on an employer-employee relationship basis. Nothing contained herein shall be deemed or construed by MDHS, the Subgrantee, or any third party as creating the relationship of principal and agent, partners, joint venturers, or any similar such relationship between MDHS and the Subgrantee. Neither the method of computation of fees or other charges, nor any other provision contained herein, nor any acts of MDHS or the Subgrantee hereunder, creates or shall be deemed to create a relationship other than the independent relationship of MDHS and the Subgrantee."

The *MDHS Subgrant/Contract Manual*, which subgrants must attest to have read and understood prior to receiving grant awards, states in Section 6, under the heading "Open and Free Competition" that "all procurement transactions shall be conducted in a manner that provides maximum open and free competition consistent with…applicable federal law. Procurement procedures shall not restrict or eliminate competition…Examples of what is considered to be restrictive of competition include, but are not limited to…noncompetitive contracts to consultants that are on retainer contracts…organizational conflicts of interest."

Exceptions/Questioned Costs: During testwork for activities allowed and allowable costs, the auditor noted the following violations regarding conflicts of interest:

- MCEC awarded contracts for services to members of Executive Director JD's immediate family, including a company owned by his brother-in-law and his nephew.

    - JD's brother-in-law was initially contracted for a business lease of property in the amount of $365,000. The property was located in Brookhaven, MS and was leased for a three-year period for a sum of $88,333 annually, with a $100,000 non-refundable security deposit. The effective date of the lease was upon "completion of the building" indicating that the property was not available for use when the lease was signed (February 2, 2019). However, the lessor was paid three payments totaling $365,050 between February 5, 2019 and February 7, 2019.

      On May 2, 2019, MCEC notified the lessor that they would be terminating the lease in 60 days from the date of the letter, and would request reimbursement of any unused rental payments and that those payments should be reimbursed on August 15 and September 15, 2019. Based on inquiry with MCEC personnel and a review of MCEC financial records (as of December4, 2019) no full repayment of any funds was made.

      Questioned costs in fiscal year 2019- $365,050

    - JD's brother-in-law was contracted as the "Leadership Outreach Coordinator" for a sum of $150,000. The contract term was from June 1, 2018 to September 30, 2019. However, the total fee of the contract was paid in a lump sum on June 1, 2018.

      Questioned costs in fiscal year 2018 - $150,000

    - JD's nephew was contracted to coordinate and create a Coding Academy and Website Design program in the amount of $139,500 for the period of February 1, 2019 to January 31, 2020. A lump sum payment in the amount of $139,500 was made on February 2, 2019. Additionally, travel in conjunction with the contract in the amount of $1,309 was reimbursed.

      Questioned costs in fiscal year 2019- $140,809

    - JD's nephew was also employed by MCEC from July 16, 2018 through February 15, 2019 at a semimonthly salary of $5,000 (annualized to $120,000 annually). For the period of February 1st through 15th in 2019, he was both contracted and employed by

MCEC for an overlapping period. Gross pay for the period totaled $67,769.23.

Questioned costs in fiscal year 2019- $67,769

- FRC awarded contracts and employed the same individuals as MCEC above.

  - JD's brother-in-law was employed by FRC from July 1, 2018 to July 15, 2019. Gross pay for the period totaled $93,600. These funds were paid via the Early Childhood Academy grant funded by MDHS through the CCDF grant.

    Questioned costs for fiscal year 2019 - $93,600 (CCDF)

  - JD's nephew was also employed by FRC from October 17, 2017 through July 12, 2018. Gross pay for the period totaled $55,625. For the period of June 15th through July 12, 2018, he was both contracted and employed by FRC for an overlapping period. Additionally, travel in conjunction with the contract in the amount of $14,368 was reimbursed. While the amount of the contract was paid prior to fiscal year 2019, it is included in this report because it was discovered by auditors during the 2019 audit.

    Questioned costs in fiscal year 2018 - $63,975
    Questioned costs in fiscal year 2019 - $6,018

  - JD's nephew was contracted to coordinate and create a Coding Academy and Website Design program in the amount of $130,000 for the period of June 15, 2018 to June 14, 2019. A lump sum payment in the amount of $130,000 was made on July 16, 2018. Additionally, travel in conjunction with the contract in the amount of $14,278 was reimbursed. The travel reimbursements are often from Mississippi to New Orleans and include mileage reimbursements, hotel stays, per diem reimbursement, in room dining in addition to per diem, etc. The contract states that the contract amount should be inclusive of all fees necessary to complete the program; therefore, even if the initial contract was made at an arm's length bargaining arrangement, the travel would be questioned. Based on inquiry with personnel at FRC, the travel was needed so that JD's nephew could obtain the necessary skills to teach the coding academy.

    Questioned costs in fiscal year 2019- $144,278

- MDHS also employed JD's nephew from September 16, 2016 to October 15, 2017 at varying salaries ranging from $36,177 to $45,000. His ending salary, $45,000, was paid from TANF funds in fiscal year 2018. Due to the intertwined and familial relationship, it is necessary to question the salary payments plus fringe. Actual salary payments plus fringe included $50,173 in FY 2017 and $19,477 in FY 2018.

Questioned costs in fiscal year 2017 - $50,173
Questioned costs in fiscal year 2018 - $19,477

Total amount paid to JD's brother-in-law – $608,650
Total amount paid to JD's nephew – $492,499

Total amount questioned in 2017 – $50,173
Total amount questioned in 2018 – $233,452
Total amount questioned in 2019 – $723,924

Total amount questioned in 2019 – $93,600 (CCDF)

<u>Governmental Relations/Lobbyists</u>

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.450*) states that the cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost. Additionally, paragraph (c) puts additional restrictions on nonprofit organizations, such as MCEC and FRC. Those restrictions include any costs to influence the outcome of any federal, state, or local election, referendum, initiative, or similar procedure through in-kind or cash contributions, endorsements, publicity, or similar activity is unallowable. Any legislative liaison activity, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, and analyzing the effects of legislation is also unallowable.

The Code of Federal Regulations Title 45. Public Welfare (45 cfr 93.100(a)) states that no appropriated funds may be expended by the recipient of a Federal contract, grant, loan, or cooperative agreement to pay any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with any of the following covered Federal actions: the awarding of any Federal contract, the making of any Federal grant, the making of any Federal loan, the entering into of any cooperative agreement, and the extension, continuation, renewal, amendment, or modification of any Federal contract, grant, loan, or cooperative agreement.

The *MDHS Subgrant/Contract Manual*, which subgrantees must attest to have read and understood prior to receiving grant awards, sets out and defines the regulations that subgrantrees and lower-tier subrecipients must follow, including the "*Restrictions on Lobbying – Common Rule (P.L 101-121, Section 319).*"

Internal Revenue Service Publication 4221-PC (Revised 3-2018) states "A public charity is not permitted to engage in substantial legislative activities (commonly known as lobbying). An organization will be regarded as attempting to influence legislation if it contacts, or urges the public to contact, members or employees of a legislative body for purposes of proposing, supporting or opposing legislation, or advocates the adoption or rejection of legislation…. a 501(c)(3) organization may…risk losing its tax-exempt status and/or be liable for excise taxes."

Exceptions/Questioned Costs: During testwork for activities allowed and allowable costs, the auditor noted the following violations regarding Governmental Relations/Lobbying:

- MCEC entered into multiple contractual agreements with consulting firms in order to maintain governmental revenue streams or to lobby on behalf of their organization, the Families First Initiative, or MDHS. Based on a nomenclature review of the financial records, auditors were able to determine the following unallowable lobbying contracts:

  - AvantGarde Strategies was paid $21,000 in FY 2019, but no contract was provided to the auditor.
  - Inside Capital was paid $14,000 in FY 2017; $150,325 in FY 2018; and $154,000 in FY 2019 for a total of $318,325. No contract was provided to the auditor.
  - Lucas Compton was contracted by MCEC for services including sustaining federal revenue streams and bipartisan advocacy. The contract was for the period of October 1, 2017 through October 1, 2018. Actual payments included $36,000 in FY 2018 and $36,000 in FY 2019 for a total of $72,000.

  Questioned costs for fiscal year 2017 – $14,000
  Questioned costs for fiscal year 2018 – $186,325
  Questioned costs for fiscal year 2019 – $211,000

- FRC entered into a contractual agreement with Lucas Compton for $84,000 in fiscal year 2018. Auditor did not have a copy of the contract to determine the performance period of the contract.

  Questioned costs for fiscal year 2018 – $84,000

Total amount questioned in 2017 – $14,000
Total amount questioned in 2018 – $270,325
Total amount questioned in 2019 – $211,000

<u>Consulting</u>

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.403*) states that, in order to be allowable under federal guidelines, costs must be necessary and reasonable, and adequately documented.

The Code of Federal Regulations (2 cfr 200.459(a)) states that costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the non- Federal entity, are allowable, subject to paragraphs (b) and (c) when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal government.

The Code of Federal Regulations (2 cfr 200.318(d)) states that the subgrantee must avoid acquisition of unnecessary or duplicative items.

Signed subgrant agreements between MDHS and the subgrantees state, in *Section XI "Agreements by Subgrantee" – A. General Responsibility*, that entities currently in a contractual relationship with MDHS to provide the same or similar services are not eligible to enter into a Contract/Subcontract with the Subgrantee.

Exceptions/Questioned Costs: During testwork for activities allowed and allowable costs, the auditor noted the following violations regarding consultants:

- MCEC entered into multiple contractual agreements with consulting firms on behalf of their organization, the Families First Initiative, or MDHS. These consulting contracts were often for duplicative services for overlapping time periods and were for large sums of money. Additionally, auditors could find no evidence that any type of procurement regulations were followed in securing these contracts. Both MCEC and FRC indicated to auditors that former Executive Director JD instructed both subgrantees to enter into contracts with some of these individuals. Due to the excessive fees paid for these contracts and the duplicative services, auditor considers these costs to be unreasonable, and therefore questioned. Additionally, many of the expenses coded to "Consulting" in MCEC's general ledger do not appear to be for legitimate consulting services. Those expenditures will be detailed in additional sections based on the actual purpose of the purchases. Based on a nomenclature review of the financial records and a detailed review of contracts, auditors were able to determine the following questioned costs (names of private individuals will not be used due to restrictions on personally identifiable information (PII)):

  - The Stephen Group was contracted to provide strategic organizational, process and management consulting services and provide Families First with project management support surrounding the concept of generational poverty. The term of the contract was for the period of November 28, 2017 through November 27, 2018 with a renewal option for December 1, 2018 through December 1, 2019. The initial contract was not to exceed $500,000 and was to be split between MCEC and FRC. Actual payments on the contract included $74,157 in FY 2018 and $139,256 in FY 2019 for a total of $213,413.
  - Consultant 1 was contracted to perform services but no copy of the contract was made available to auditors. Payments included $34,000 in FY 2018 and $6,000 in FY 2019 for a total of $40,000.
  - Consultant 2 was paid for consulting services regarding curriculum. Payments included $97,500 in FY 2018.
  - NCC Ventures was contracted to plan and coordinate industry sector initiatives with small businesses, and to provide training regarding workforce development. Contracted amount was

$50,000. Actual payments totaled $41,667 in FY 2018; $4,167 in FY 2019 for a total of $45,834

- Institute of Project Management was contracted for services coded as consulting in the general ledger; however, no contract was provided to auditors. Payments included $45,000 in FY 2018.

Questioned costs for fiscal year 2018 – $292,324
Questioned costs for fiscal year 2019 – $149,423

- FRC entered into contractual agreements with the same consulting organizations as MCEC, as follows:

  - The Stephen Group was contracted to provide strategic organizational, process and management consulting services and provide Families First with project management support surrounding the concept of generational poverty. The term of the contract was for the period of November 28, 2017 through November 27, 2018 with a renewal option for December 1, 2018 through December 1, 2019. The initial contract was not to exceed $500,000 and was to be split between MCEC and FRC. Actual payments on the contract included $65,394 in FY 2018 and $142,053 in FY 2019 for a total of $207,447.
  - CG Consulting was contracted for $16,000 from August 2, 2018 to July 31, 2019. The scope of the project was for professional development plans, training, and evaluation plans. Actual payments of $8,000 were made in fiscal year 2019.
  - NCC Ventures was also contracted by FRC for workforce development training, but no contract was provided to auditors. Actual payments included $50,000 in FY 2018.

  Questioned costs for fiscal year 2018 – $115,394
  Questioned costs for fiscal year 2019 – $150,053

- MDHS also entered into a consulting contract with NCC Ventures during FY 2018 for a total of $72,900 from December 1, 2017 to May 31, 2018. The contract was paid out in equal installments of $12,150 from March 2018 to September 2018, which is four months after the contract end date. The entire contract amount of $72,900 was paid. This amount is questioned in Finding #2019-039.

Total amount questioned in 2018 – $407,718
Total amount questioned in 2019 – $299,476

<u>Payments for Sports/Coaches/Sporting Celebrities</u>

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.403*) states that, in order to be allowable under federal guidelines, costs must be necessary and reasonable, and adequately documented.

The Code of Federal Regulations (2 cfr 200.459(a)) states that costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the non- Federal entity, are allowable, subject to paragraphs (b) and (c) when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal government.

The Code of Federal Regulations (2 cfr 200.434(a)) states the costs of contributions and donations, including cash, property, and services from the grantee to other entities are unallowable.

The Code of Federal Regulations (2 cfr 200.469) states the costs incurred for intramural activities, student publications, student clubs, and other student activities, are unallowable, unless specifically provided for in the Federal award.

The TANF State Plan states TANF funds may be used to fund the expansion of the Families First Resource Centers. Through these centers, MDHS will advance the development, expansion and enhancement of a statewide network of community-based, prevention focused, parent resource centers that offer assistance to families. To encourage the formation and maintenance of two-parent families and reduce out of wedlock pregnancies the centers will:

- Provide early comprehensive support for parents;
- Promote the development of parenting skills;
- Promote the independence of families;
- Increase family stability;
- Improve family access to resources and opportunities for assistance;
- Focus on prevention of teenage pregnancy while supporting teen parents;
- Support the needs of families with children with disabilities; and,
- Provide a safe place for supervised children.

Families eligible for this program are not required to be TANF eligible, but must be at or below 300 percent of the Federal Poverty Level.

Exceptions/Questioned Costs: During testwork for activities allowed and allowable costs, the auditor noted the following violations:

- MCEC expended federal grant monies to fund multiple sports programs. MCEC could not provide any documentation supporting the correlation of these sports programs to any of the four tenets of TANF, nor did MCEC utilize any criteria to establish eligibility for these programs. Additionally, as detailed below, the auditor does not consider the costs of some of the programs reasonable or necessary to meet federal requirements.

    - Favre Enterprises was contracted to appear at several events, record promotions, and provide autographs for marketing materials from July 1, 2017 through July 31, 2018. Additional contract information provided that the contract fee would be paid in installments and would include three (3) speaking engagements, one (1) radio spot and one (1) keynote address. There was no mention of the contract price in the contract supplied to auditors.

When auditors requested further details on the performance of the contract, specifically the dates of any speaking engagements, MCEC provided a list of dates and events that fulfilled the contract terms; however, upon a cursory review of those dates, auditors were able to determine that the individual contracted did not speak nor was he present for those events. Two payments were made to Favre Enterprises – one for $500,000 in December 2017 and one for $600,000 in June 2018.

Due to the inability to verify that any work was performed in order to fulfill the contract, and due to the unreasonable amount paid, the entire payment of $1,100,000 paid in FY 2018 is questioned.

- Rick Rigsby Communications was paid $52,100 for motivational speaking in April 2019. No contract was provided to auditor; therefore, correlation to TANF cannot be verified.

- Diamond Design and Construction was paid $42,750 in FY 2019 to convert and line Field 8 for the North Jackson Youth Baseball League. The field is located next to New Summit School, the school owned and operated by the Director of MCEC (NN). According to inquiry, Field 8 was often utilized as a baseball field for New Summit Academy.

  Due to the inability to verify that this work was related to TANF, including no correlation to any tenet of TANF, and due to the risk that this payment was made for the personal use of those involved with MCEC, this payment is questioned.

- North Jackson Youth Baseball was paid $65,000 in FY 2017 to rent baseball fields. MCEC stated the amounts were a donation to the organization. Auditor noted that the Programmatic Director for MCEC (SP) and the spouse of one of the principals at MCEC (JN) are currently on the Board of Directors of the baseball organization.

  Due to the inability to verify any correlation to TANF, including a programmatic reason for the payments, the provision against using TANF funds for intramural student activities, and the unreasonable amount paid, these payments are questioned.

- P360 Performance Sports was contracted to allow four Jackson schools to use the baseball fields for practice and training. The schools listed in the contract are schools that operate in at-risk areas. However, based on inquiry with the vendor, these amounts also allowed for a specialty, private team (Mississippi Bombers) to use the field, thereby making at least a portion of the payments unallowable due to lack of ability to verify that the payments were for needy individuals. There was no allocation of payments to isolate the portion of the payment that would be allowable. Auditor was provided one contract for $125,000 for a six-month period in

2019; however, actual payments included $72,000 paid in FY 2018 and $146,750 in FY 2019.

Due to the inability to verify any correlation to TANF, including a programmatic reason for the payments, the provision against using TANF funds for intramural student activities, and the unreasonable amount paid, these payments are questioned.

- Overtime Sports was paid $37,500 for a sponsorship of a college tournament in FY 2019.

  Due to the inability to verify any correlation to TANF, including a programmatic reason for the payments, and the regulation noted above that sponsorships are disallowed under federal regulations, these payments are questioned.

  Questioned costs for fiscal year 2017 – $65,000
  Questioned costs for fiscal year 2018 – $1,172,000
  Questioned costs for fiscal year 2019 – $279,100

- FRC expended federal grant monies to fund multiple sports programs. FRC could not provide any documentation supporting the correlation of these sports programs to any of the four tenets of TANF, nor did FRC utilize any criteria to establish eligibility for these programs. Additionally, as detailed below, the auditor does not consider the costs of some of the programs reasonable or necessary to meet federal requirements.

  - Metro Area Community Empowerment Foundation (MACE) was contracted for $75,000 for conference keynotes, wheelchair sports exhibitions, motivational speaking and community events. Actual payments of $10,000 were made in FY 2018.

    Due to the inability to verify any correlation to TANF, including a programmatic reason for the payments, these payments are questioned.

  - Bigger than Ball Foundation, Inc. was contracted to produce "Bigger than Ball Moments" by well-known coaches and to offer coaching clinics for a total of $62,500. Actual payments of $7,350 were made in FY 2018 and $4,439 were made in FY 2019 for a total of $11,789. Contracts and agreements for these payments did not offer any correlation to one of the TANF tenets or seek to verify that there was any eligibility or programmatic reason for these clinics.

    Due to the inability to verify any correlation to TANF, including a programmatic reason for the payments, these payments are questioned.

- Retired Pro Football Players Charitable Foundation, Inc. was contracted for $75,000 to hold three (3) football camps for youth. Actual payments of $44,625 were made in FY 2018. Contracts and agreements for these payments did not offer any correlation to one of the TANF tenets or seek to verify that there was any eligibility or programmatic reason for these clinics.

  Due to the inability to verify any correlation to TANF, including a programmatic reason for the payments, these payments are questioned.

- Northeast Mississippi Football Coaches Association was paid $30,000 in FY 2019 for a sponsorship of the NEMFCA All-Star game.

  Due to the inability to verify any correlation to TANF, including a programmatic reason for the payments, and the regulation noted above that sponsorships are disallowed under federal regulations, these payments are questioned.

  Questioned costs for fiscal year 2018 – $61,975
  Questioned costs for fiscal year 2019 – $34,439

Total amount questioned in 2017 – $65,000
Total amount questioned in 2018 – $1,233,975
Total amount questioned in 2019 – $313,539

Payments Directed by Former Executive Director

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.403*) states that, in order to be allowable under federal guidelines, costs must be necessary and reasonable, and adequately documented.

The Code of Federal Regulations (2 cfr 200.318(c)) states that no employee, officer or agent of a grantee may participate in the selection, award, or administration of a contract supported by a federal award if he or she has a real or apparent conflict of interest. Conflicts of interest are defined as any instance when the officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated, has a financial or other interest in or a tangible personal benefit from a firm is considered for a contract supported by federal awards.

The Code of Federal Regulations (2 cfr 200.53(b)) states "Improper payment includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper."

Signed subgrant agreements between MDHS and the subgrantees state in *Section XXIX – Conflict of Interest* - "Subgrantee must ensure that there exists no direct or indirect conflict of interest in the performance of the Subgrant. Subgrantee must warrant that no part of federal or state money shall be paid directly or indirectly to an employee or official of MDHS as wages, compensation or gifts in exchange for acting as an officer, agent, employee, subcontractor or consultant to the Subgrantee in connection with any work contemplated or pertaining to the Subgrant."

Section VI – Relationship of the Parties, states "It is expressly understood and agreed that MDHS enters into this Subgrant with Subgrantee on a purchase of service basis and not on an employer-employee relationship basis. Nothing contained herein shall be deemed or construed by MDHS, the Subgrantee, or any third party as creating the relationship of principal and agent, partners, joint venturers, or any similar such relationship between MDHS and the Subgrantee. Neither the method of computation of fees or other charges, nor any other provision contained herein, nor any acts of MDHS or the Subgrantee hereunder, creates or shall be deemed to create a relationship other than the independent relationship of MDHS and the Subgrantee.

The *MDHS Subgrant/Contract Manual*, which subgrants must attest to have read and understood prior to receiving grant awards, states in Section 6, under the heading "Open and Free Competition" that "all procurement transactions shall be conducted in a manner that provides maximum open and free competition consistent with…applicable federal law. Procurement procedures shall not restrict or eliminate competition…Examples of what is considered to be restrictive of competition include, but are not limited to…noncompetitive contracts to consultants that are on retainer contracts…organizational conflicts of interest.

Exceptions/Questioned Costs: During testwork for activities allowed and allowable costs, the auditor noted both MCEC and FRC often utilized the same contractors and awarded grants to common subgrantees. In some instances, joint contracts were issued under the "Families First" name, and in other instances, contracts were issued by both entities for the same scope and time period. Based on inquiry with the subgrantees and a review of documentation at MDHS, auditors determined that former Executive Director JD often directed MCEC and FRC to award contracts and grants to certain people or organizations. Contracts to these individuals or organizations were not procured using any type of competitive procurement and were not done in accordance with regulations defined in *2 cfr Part 200*. Additional findings related to the procurement of these contacts can be found in finding #2019 - 039. Due to the known conflict of interest, and inability to determine if these contracts were reasonably priced due to lack of procurement and the lack of arms-length bargaining, these contracts and grants are questioned as described below.

- Priceless Ventures, LLC and Familiae Orientem, LLC – A joint contract between MCEC, FRC and Priceless Ventures (PV) was structured under the name of "Families First of Mississippi" from June 1, 2017 through September 30, 2017. The scope of the contract included Priceless Ventures, LLC and its owner serving as "Leadership Outreach Coordinator" for the Families First Initiative cofounded by MCEC, FRC and MDHS. The contract was for $250,000 and was to be paid evenly by MCEC and FRC. Due to the overlapping scopes and time periods of all contracts made to PV by MCEC and FRC, auditor cannot determine which payments were made to satisfy specific contracts. The total amount paid will be summarized below.

MCEC awarded additional contracts to Priceless Ventures, LLC and its owner for leadership development and the administration of a self-help program called "Law of 16." According to "participant workbooks" created by MDHS to help administer the program, the program is a "model that is intended to help you understand - at a greater level, yourself, your values, your significance, and your potential." MCEC awarded a "leadership training" contract from October 1, 2018 to September 30, 2019 in the amount of $130,000 and a contract for the self-help program from September 1, 2017 to August 31, 2018 in the amount of $130,000. In addition, MCEC paid for conferences and advertising to promote the self-help program to individuals and other state agencies. Travel expenditures for the owner of PV were also paid by MCEC. Travel costs included first class airfare, expensive meals, luxury hotels, and entertainment costs. Conference and travel expenses are questioned in full in their respective sections in this finding. Actual payments to Priceless Ventures for MCEC totaled $500,000 in FY 2018 and $199,500 in FY 2019.

FRC also awarded contracts to PV from May 15, 2018 to September 30, 2018 in the amount of $500,000. The scope of the contract included "leadership outreach" and Law of 16 programs. Additionally, PV was awarded a contract from May 22, 2018 through September 30, 2018 from SNAP funds for "emergency food assistance." According to inquiry with individuals at FRC, no work was performed on this contract, but payment of $497,987 (SNAP funds) was made in full to fulfill contract terms. FRC also reimbursed travel expenses related to these contracts and those amounts are questioned in full in its respective section of this finding. Actual payments to Priceless Ventures for FRC totaled $1,643,820 in FY 2018 and $104,167 in FY 2019.

FRC also contracted with Familiae Orientem, LLC to conduct strategic development on a program created by MCEC, FRC, and MDHS called the "RISE Program." The $1,000,000 contract was from June 25, 2018 through June 24, 2019, and the two payments of $350,000 in June 2018 and August 2018 on the contract were made to the owner of PV, who is also an owner of Familiae Orientem. According to inquiry with personnel at FRC, these payments were to cover a program designed by Executive Director JD and the owner of PV. JD directed these payments to be made before the program had been designed, and required staff from FRC, MCEC and MDHS to attend a "Legislative Launch" and "planning session" at the Westin Hotel in June 2018. The terms of the contract stated that Familiae would secure, at its sole expense, all personnel required to implement the agreement; however, based on documentation obtained from the planning session referenced above, the personnel designated to carry out the scope of the agreement were employees of FRC, MCEC and MDHS. Inquiry with MDHS supports FRC's claim that, shortly after program launch, JD claimed the program would be taken "in house" at MDHS and that FRC and MCEC would no longer be involved. According to personnel at MDHS, the project was later abandoned. Actual payments totaled $350,000 in FY 2018 and $350,000 in FY 2019.

Total amount paid by MCEC – $699,500
Total amount paid by FRC - $2,447,987

Above costs are questioned due to the direct involvement of MDHS personnel; thereby, violating the "Conflict of Interest" regulations in the *MDHS Subgrant Manual*. Additionally, auditor questions whether the costs are reasonable in the performance of the federal award, or whether the costs were made at arm's length bargaining. Based on documentation provided, auditor cannot verify that work defined in the scopes of these projects was completed as MDHS did not properly monitor these grants or request documentation to support payments. Documentation obtained by auditor supports that no work was performed on portions of these contracts, even though payments were made in advance. Further, both FRC and MCEC contracted the same individual for the same services over the same time period, which indicate duplicative work charged to the federal grant. Finally, contract or supporting documentation does not define population served and whether it meets TANF eligibility criteria, nor can auditor find evidence of any direct or indirect correlation to the third or fourth tenets of TANF that do not require eligibility criteria.

Questioned costs for fiscal year 2018 – $1,995,833
Questioned costs for fiscal year 2018 – $497,987 (SNAP)
Questioned costs for fiscal year 2019 – $653,667

- Heart of David Ministries (HOD) – MCEC donated $25,000 to HOD in two separate transactions. These payments were coded as a "sponsorship" and "contribution" in the accounting records, and no contract or subgrant agreement was provided to auditors. One payment of $15,000 was made in FY 2018 and one payment of $10,000 was made in FY 2019. Auditor could find no invoice or justification for these payments, nor was auditor provided any subgrant or contract to support these payments as anything other than donations.

  MDHS awarded subgrants to HOD Ministries in FY 2017, 2018, and 2019. HOD Ministries mission focuses on the personal development of young men, ages thirteen through nineteen. Programmatic material for the awards is similar in design to PV, both featuring the acronym "LYFE" or "Living Your Faith Extreme." HOD is considered a faith based organization under federal standards. Grants to faith-based organizations are allowed under TANF regulations; however, any contract or grant agreement must include conditions to implement restrictions on explicitly religious activities. Auditor could find no such conditions in the contracts or subgrantee agreements made to HOD. Additionally, these subgrants were made at the express direction of former Executive Director JD, and the son of the Executive Director of HOD was employed as a Deputy Administrator at MDHS when the initial contract to HOD was awarded.

The 2017 subgrant, from May 1, 2017 through April 30, 2018, was for $500,000; an additional subgrant, from May 1, 2017 through September 30, 2018, was for $1,500,000. The FY 2019 subgrant, from October 1, 2018 through December 31, 2019, was for $1,562,500. Actual payments were $271,349 in FY 2017; $900,000 in FY 2018 and $756,224 in FY 2019. *These costs are questioned in Finding 2019-032.*

Above costs are questioned due to the direct involvement of MDHS personnel; thereby, violating the "Conflict of Interest" regulations in the *MDHS Subgrant Manual*. Additionally, auditor questions whether the costs are reasonable in the performance of the federal award, or whether the costs were made at arm's length bargaining. Finally, while subgrant includes a needs assessment with a loose correlation to TANF, agreement does not define population served and whether it meets TANF eligibility criteria. Agreement also fails to include required certifications from a faith-based organization.

Questioned costs for fiscal year 2018 – $15,000
Questioned costs for fiscal year 2019 – $10,000

- Lobaki Foundation – A joint contract between MCEC, FRC and the Lobaki Foundation (Lobaki) was structured under the name of "Families First of Mississippi" from September 1, 2018 through August 30, 2019. The scope of the contract included forming a virtual reality academy in which students would be taught how to create and build virtual reality experiences. The initial cost of the academy was $635,000 with payments to be split evenly between MCEC and FRC. However, the entire contract sum was paid in a lump sum check by FRC in September 2018.

  MCEC entered into an additional agreement with Lobaki alone to expand the initial contract for an additional $160,000. The entire contract sum was paid in a lump sum check by MCEC in January 2019.

  Auditors were not supplied any supporting documentation for the initial contract by MCEC when requested, and reached out to the Lobaki Foundation for information. According to Lobaki, the academy was only contracted for a single two-semester course and ended at the conclusion of those semesters. According to Lobaki, 60 students graduated the academy at a cost of $13,250 per student. There was no eligibility determination made by either FRC or MCEC if the students enrolled in the academy were considered TANF eligible.

Auditors were presented with email correspondence between MDHS Deputy Executive Director of Programs (JB) and FRC in which FRC is presented with the scope for the Lobaki project. When members of FRC staff noted they had questions about the project, JB told FRC that he had spoken with Lobaki, and that there was no need to discuss the contract further. FRC was supplied a signed contract and pressed for a timeline by MDHS. Additionally, auditors were presented with an email from Executive Director JD informing Lobaki that he would instruct "Families First" to wire transfer money to the Lobaki account, and apologized the payments had been stalled.

Questioned costs for fiscal year 2019 – $795,000

- Micah's Mission School, Inc. – A joint contract between MCEC, FRC and Micah's Mission was structured under the name of "Families First of Mississippi" from August 1, 2018 through July 31, 2019. The scope of the contract only included a description of the school as an "educational mission." There was no description on what the grant funds would be utilized, and no determination on the population that would benefit. The school is a private school funded by fundraisers and tuition. The initial contract was for $150,000, with FRC covering costs in the first six months and MCEC covering costs in the second six months of the contract. Actual payments for FY 2019 included $50,910 in from FRC and $26,667 from MCEC for a total of $77,577.

  Questioned costs for fiscal year 2019 – $77,577

- Victory Sports Foundation – MCEC entered into a contract with Victory Sports Foundation from October 1, 2018 through September 30, 2019 to conduct three 12-week fitness "bootcamps." The contract amount was for $1,394,831 and included fitness programs in three separate counties. According to the supplied budget for the program, the contract fee was to pay for the staff/coaches of Victory Sports, a program design fee, equipment, onsite nurse, a $70,000 vehicle purchase, $20,000 trailer purchase, marketing and various other costs to administer the program. The materials provided did not indicate that any fees would be charged to participants in the program. However, review of documents received from Victory Sports indicated that participants in the fitness camps paid a fee to attend, and that no eligibility determination was made to verify participants were TANF eligible or needy. Additionally, the fitness program was offered to members of the Mississippi Legislature, other elected officials, and other political staffers for no charge. Auditor could see no evidence that participants of the program were aware that it was funded in part by federal grant monies. Actual payments included $1,309,183 in FY 2019.

Questioned costs for fiscal year 2019 – $1,309,183

- Fitness Program – FRC entered into a contract with an individual in order to assess and make recommendations concerning physical health and fitness components of Families Resource Centers of North Mississippi. The contract scope also included assessing and making recommendations for "growing feeding capacity in association with the Rise program" in conjunction with Familiae noted above. Auditor was not presented with a copy of the contract, but was provided the scope of the contract. The scope was emailed to FRC from Executive Director JD in June 2018. Actual payments on the contract totaled one lump sum payment of $100,000 on June 26, 2018.

  These costs are questioned due to the direct involvement of MDHS personnel; thereby, violating the "Conflict of Interest" regulations in the *MDHS Subgrant Manual*. Additionally, auditor questions whether the costs are reasonable in the performance of the federal award, or whether the costs were made at arm's length bargaining. Finally, contract or supporting documentation does not define population served and whether it meets TANF eligibility criteria, nor can auditor find evidence of any direct or indirect correlation to the third or fourth tenets of TANF that do not require eligibility criteria.

  Questioned costs for fiscal year 2018 - $100,000

- SBGI, LLC – SBGI was contracted by FRC from August 1, 2017 to July 31, 2018 to develop a "Center of Excellence" for Mississippi. The contract states that the Center will support and empower youth, whole families and veterans by aligning, optimizing and best leveraging existing programs, resources, initiatives and facilities to deliver the greatest outcomes and impact for individuals across Mississippi. The entire contracted amount of $250,000 was paid in one lump sum advance payment on August 28, 2017. Based on inquiry from FRC, this project was never completed. According to email correspondence from MDHS, the principal of SBGI was also contracted to perform services for Heart of David.

  These costs are questioned due to the direct involvement of MDHS personnel; thereby, violating the "Conflict of Interest" regulations in the *MDHS Subgrant Manual*. Additionally, auditor questions whether the costs are reasonable in the performance of the federal award, or whether the costs were made at arm's length bargaining. Total contract fee was also paid in advance, and there is not supporting documentation to support that work was actually performed or completed on this project. FRC did not provide any documentation to support this payment other than the contract. Finally, contract or supporting documentation does not define population served and whether it meets TANF eligibility criteria, nor can auditor find evidence of any direct or indirect correlation to the third or fourth tenets of TANF that do not require eligibility criteria.

Questioned costs for fiscal year 2018 - $250,000

- Restore2/Recover2 – MDHS entered into a contract with Recover2, LLC from December 10, 2018 to June 9, 2019 for opioid training for MDHS employees. Recover2 is not registered as a business with the Mississippi Secretary of State; however, Restore2 is a registered business. All payments on the contract were made to Restore2, but the contract was for Recover2. Auditors concluded the contract contains a typographical error; however, it should be noted that contracts with businesses that are not properly registered, even if result of a typographical error, could not be considered legitimate contracts in the State of Mississippi.

  The contract amount was for $48,000 and included 24 "sessions" of opioid training over the six-month period. The entire contracted amount was paid from January 2019 through March 2019. Documents provided to auditors and investigators at the Office of the State Auditor revealed that the opioid trainings did not actually occur, and in fact, the principal of Restore2 who supposedly conducted the trainings was in a luxury rehabilitation facility in Malibu, CA at the time of the contract – see additional questioned costs below related to the payment of these services by MCEC. Evidence to support the payments on the contract (invoices, sign in sheets, etc.) was manufactured by individuals at MDHS. These payments were made at the direction of Executive Director JD - who visited the rehabilitation facility during the contract period, was aware the trainings did not take place, and was involved in a conspiracy to circumvent controls regarding these payments.

  These costs are questioned due to the fraudulent nature of the contract and the documentation that was fabricated to justify the payments. Personnel at MDHS willfully and deliberately circumvented existing controls in order to secure this contract and to assist in creating fraudulent documents to ensure payment of the contract. It should be noted that other MDHS employees reported suspicions about this individual's contract to those charged with governance, who then alerted OSA to the possibility of fraud. OSA's Investigative Division began an investigation immediately after the suspected fraud was disclosed. On February 5, 2020, Special Agents from OSA arrested Executive Director JD, the owner and Director of MCEC (NN), the Assistant Executive Director of MCEC (ZN), the accountant for MCEC (AM), the owner of Restore2 (BD), and another former employee of MDHS in connection with payments made to Restore2 and other payments made by MCEC (those payments are reflected in the section "Personal Benefit" below). Additionally, travel connected with these payments has been questioned under the section "Travel" and payments to the luxury rehabilitation center have been questioned below.

  $48,000 in costs are questioned in Finding 2019-032

- Rise in Malibu – Rise in Malibu (Rise) is a luxury rehabilitation clinic located in Malibu, CA. The cost of the rehabilitation is $40,000 monthly, which includes the cost of treatment, room, and basic needs. The owner of Restore2 (BD), who was a former employee of MDHS, and Executive Director JD conspired to send BD to the facility for a four- month treatment due to his addiction to narcotics. While there, BD was under contract to conduct opioid addiction training classes to MDHS staff, as well as employed by MCEC.

  Executive Director JD and MCEC also conspired to use TANF funds to pay for BD's stay at Rise. Personnel from MCEC wired four payments to Rise over a five-month period (February – June) of $40,000 each. MCEC coded this transaction to "curriculum" and named the facility "Rise-Malibu Training" in their financial records. After OSA began inquiring about the use of TANF funds in July 2019, the transactions were re-coded in the system to "consulting" and assigned "Bingo" (MCEC's private income source) as to the source of funds. Regardless of the change in the system, TANF funds were used to fund the luxury rehabilitation center.

  Due to the personal nature of these expenses, the lack of any correlation to TANF purpose or eligibility criteria, the lack of reasonableness and the fraudulent nature of these expenditures, the $160,000 paid to Rise is questioned.

  Executive Director JD, BD, MCEC's Director (NN), and MCEC's Assistant Executive Director (ZN) have been indicted and charged with this alleged fraud and embezzlement.

  Questioned costs for fiscal year 2019 - $160,000

Total amount questioned in 2018 – $2,858,820
Total amount questioned in 2019 – $3,005,427

<u>Curriculum</u>

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.403*) states that, in order to be allowable under federal guidelines, costs must be necessary and reasonable, and adequately documented.

The Code of Federal Regulations (2 cfr 200.445(a)) states costs of goods or services for personal use of the entity's employees are unallowable regardless of whether the cost is reported as taxable income of the employees.

The Office of Family Assistance produced *TANF-ACF-PI-2005-1 (Funding Childhood Education, School Readiness, Kindergarten, and Other Public Education Programs*, published on April 14, 2005, clarifies the use of funds for educational programs. Per the guide, "public education is a State responsibility; therefore, States may not use Federal TANF for any educational activity that is a component of the State's system of free public schools. By charging the Federal government for any part of these costs, the State would be passing on to the TANF program the costs of the State's public education system…This prohibition applies regardless of the adequacy of funding for general public education from other sources."

Title XX of the *Social Security Act* establishes the Social Services Block Grant (SSBG). Services funded by SSBG must be directed at one or more of five (5) broad statutory goals:

1) Achieving or maintaining economic self-support to prevent, reduce, or eliminate dependency;
2) Achieving or maintaining self-sufficiency
3) Preventing or remedying neglect, abuse, or exploitations of children and adults unable to protect their own interest or preserving, rehabilitating, or reuniting families;
4) Preventing or reducing inappropriate institutional care by providing for community based care, home-based care, or other forms of less intensive care; and
5) Securing referral or admission for institutional care when other forms of care are not appropriate.

The Office of Social Services Block Grant (SSBG) State Plan specifies that SSBG funds will be utilized by the MDHS Division of Aging and Adult Services and the MDHS Division of Youth Services. The State Plan specifies that a person is eligible for SSBG funds only if they meet income eligibility criteria, and have an identifiable need, unless the services are mandated services of serving children in the custody and guardianship of the Department of Child Protective Services.

Exceptions/Questioned Costs: During testwork for activities allowed and allowable costs, the auditor noted the following questioned costs:

- ActiveEd, Inc. – A joint Memorandum of Understanding (MOU) between MCEC, FRC and ActiveEd was structured under the name of "Families First of Mississippi" from July 1, 2018 through June 30, 2019. The purpose of the MOU was to order a pilot program of kinesthetic learning using physical activity to teach Math, English/Language Arts, and Literacy standards from pre-kindergarten through second grade. The pilot program was designed for schools or early childhood learning centers. The initial contract was for $250,000, with FRC and MCEC equally dividing the cost of the program. Actual payments for FY 2019 included one payment of $125,000 from MCEC in July 2018 and one payment of $125,000 from FRC in August 2018.

  Due to the inability to verify any stated correlation to TANF, supporting documentation about the program, and the regulation noted above that TANF money cannot supplant State's educational responsibilities, these payments are questioned.

  Questioned costs for fiscal year 2019 - $250,000

- Houghton Mifflin Harcourt – MCEC purchased $117,703 of "curriculum" from Houghton Mifflin Harcourt during fiscal year 2019. The funds were coded to "Curriculum Expense" in the general ledger, and the majority ($111,262) were paid with SSBG funds with the remaining $6,441 paid with TANF funds. MCEC's SSBG grant request specifies an expense of $200,000 for "Curriculum and Supplies"; however, a review of actual invoices indicated that the curriculum purchased was used for the private school associated with MCEC, and not for the community at large.

  Due to the inability to verify that the goods and services purchased were used to meet grant requirements, the lack of documentation to verify an identifiable need or income eligibility, and the suspicion that the goods and services were converted to personal use by MCEC, these costs are questioned.

  Questioned costs for fiscal year 2019 – $111,262 (SSBG)
  Questioned costs for fiscal year 2019 – $6,441 (TANF)

- Edmentum, Inc. – MCEC purchased $133,016 of "curriculum" from Edmentum during fiscal year 2019. The funds were coded to "Curriculum Expense" in the general ledger. Payments are for a digital curriculum and a "response to intervention" program for 1,500 students over a three-year time span. The payments are divided into 5 payments, the first and second payment each for $66,508. Only two payments were made as of June 30, 2019. Auditor could not verify that purchases were made for curriculum for the community at large and not the private school associated with MCEC.

  Due to the inability to verify that the goods and services purchased were used to meet grant requirements, the prohibition against supplanting State educational responsibilities with TANF funds, and the suspicion that the goods and services were converted to personal use by MCEC, these costs are questioned.

  Questioned costs for fiscal year 2019 - $133,016

Total amount questioned in 2019 – $500,719

Donations/Gifts/Sponsorships

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.403*) states that, in order to be allowable under federal guidelines, costs must be necessary and reasonable, and adequately documented.

The Code of Federal Regulations (2 cfr 200.434(a)) states the costs of contributions and donations, including cash, property, and services from the grantee to other entities are unallowable.

The Code of Federal Regulations (2 cfr 200.469) states the costs of intramural activities, student publications, student clubs, and other student activities are unallowable, unless specifically provided in the Federal award.

The Code of Federal Regulations (2 cfr 200.403(e)) states that in order for costs to be allowable under federal awards, they must be determined in accordance with generally accepted accounting principles (GAAP).

GAAP includes the concept of "substance over form." The substance over form concept means that the transactions recorded in the underlying financial records must reflect their economic substance rather than their legal form.

Exceptions/Questioned Costs: During testwork for activities allowed and allowable costs, the auditor noted the following questioned costs:

- University of Southern Mississippi Athletic Foundation - In October 2017, MCEC signed a "sublease" with the University of Southern Mississippi Athletic Foundation for $5,000,000 as "lease prepayments" for rental of a multi-purpose wellness center on the University's campus. The lease's term was for a five-year period from October 26, 2017 until July 31, 2022. At the time of the signing of the lease, the building had not yet been built, and the lease stated that the $5,000,000 was to fund certain additions, alterations and renovations to the new Wellness Center. The lease stated that MCEC would be permitted to use other University property in lieu of the Wellness Center until its construction was completed. The lease from the Athletic Foundation was then transferred to the University of Southern Mississippi (USM). The transfer of the lease was approved by the Institutes of Higher Learning (IHL) Board in their October 2017 Board Meeting. A review of the minutes of that Board Meeting state that the funding for the sublease between MCEC and the Athletic Foundation is from funding "via a Block Grant from the Mississippi Department of Human Services."

  The facility was completed in December 2019, with USM expected to begin to utilize the space in January 2020. Auditors inquired of USM officials if MCEC utilized other University property, as described in the lease. According to USM's records, MCEC utilized the Reed Green Coliseum one time for a Healthy Teens Rally on October 18, 2018. It is important to note that during the time of the "lease" to the Athletic Foundation, the Director of MCEC (NN) served as a Board Member to the Athletic Foundation.

  The $5,000,000 was paid to USM Athletic Foundation in two equal installments of $2,500,000 on November 6, 2017 and December 5, 2017.

  When the lease from USM Athletic Foundation was viewed under scrutiny, auditors determined that the substance of the $5,000,000 payment to USM is a donation to the USM Athletic Foundation for the construction of the Wellness Center and not a lease of the property.

The property was leased almost three years before its construction was completed; the rent was prepaid in order to build the space; any additional use of the property was limited to one occurrence in a three-year period; and the revenue did not appear to be classified as rental revenue on the USM Athletic Foundation form 990 (non-profit tax return).

Questioned costs for fiscal year 2018 - $5,000,000

- American Heart Association – MCEC funded various programs and initiatives of the American Heart Association through donations and sponsorships. The American Heart Association did not sign subgrantee agreements and was not considered a contractor of MCEC. Therefore, no reporting on the use of the funds was requested or required. Actual payments included $35,000 in FY 2017; $36,500 in FY 2018; and $24,000 in FY 2019 for a total of $95,500. As donations and sponsorships are prohibited as an allowable cost, the payments are questioned.

  Questioned costs for fiscal year 2017 - $35,000
  Questioned costs for fiscal year 2018 - $36,500
  Questioned costs for fiscal year 2019 - $24,000

- The Library Foundation of Madison – MCEC donated $35,000 for a bookmobile/digital lab project in Madison County in June 2018. Supporting documentation for the transaction consists of a donor form wherein MCEC requested recognition on an engraved foundation stone in exchange for the donation. As donations and sponsorships are prohibited as an allowable cost, the payments are questioned.

  Questioned costs for fiscal year 2018 - $35,000

- Fannin Fabrication Company/Mississippi State Highway Patrol (MS Hwy Patrol) – MCEC contracted and paid Fannin Fabrication Company $28,186 to build a "Rollover Simulator." Total cost was paid in two equal installments of $14,093, one payment in FY 2018 and the second in FY 2019. The simulator was then donated to the MS Hwy Patrol. Inventory records from the MS Hwy Patrol verify that the two simulators are owned by the Patrol, and that one was donated. As donations and sponsorships are prohibited as an allowable cost, the payments are questioned.

  Questioned costs for fiscal year 2018 - $14,093
  Questioned costs for fiscal year 2019 - $14,093

- Mississippi Military Family Relief Fund – MCEC donated $10,000 to the fund in FY 2019. The transaction is coded to "Benevolence" in the general ledger. The fund did not sign subgrantee agreements, and was not considered a contractor of MCEC. Therefore, no reporting on the use of the funds was requested or required. Actual payments included

$10,000 in FY 2019. As donations and sponsorships are prohibited as an allowable cost, the payment is questioned.

Questioned costs for fiscal year 2019 - $10,000

- Financial records of MCEC show that on December 7, 2018 a $3,000 check was written to the bookkeeper of MCEC using TANF funds. The payee in the financial records is left blank, and the copy of the cashed check shows the payee as the bookkeeper. The check was coded to "Seminars and Continuing Education" in the general ledger. However, check stub contains hand written note that $3,000 cash was given to Executive Director JD. Auditor was unable to verify the purpose of the $3,000 payment; therefore, the amount is questioned.

  Questioned costs for fiscal year 2019 - $3,000

- MCEC paid $38,737 in small donations/sponsorships to various Booster Clubs, races, foundations, student activity clubs, etc. during FY 2019. As donations and sponsorships are prohibited as allowable costs, these payments are questioned. Amounts paid over $1,000 are detailed below:
  - Speaker for Hattiesburg Rally $1,250
  - Murrah High School – Sound of Perfection Band - $1,000
  - Greater Pine Belt Community Foundation – Full time tutors - $13,200
  - Papa John's Pizza of South MS – Parade Float - $2,500
  - Canton Educational Foundation – $7,000
  - Junior League of Jackson – Touch A Truck - $2,500
  - National Guard Association of Mississippi – ½ of sponsorship - $2,500
  - National Strategic Planning and Analysis Research Center – sponsorship of Cybernetic City - $2,500

  Questioned costs for fiscal year 2019 - $38,737

- FRC paid $16,680 in small donations/sponsorships to various Booster Clubs, pageants, student activity clubs during FY 2019. These payments are classified as "sponsorships" in the general ledger. As donations and sponsorships are prohibited as an allowable cost, these payments are questioned. Amounts paid over $1,000 are detailed below:
  - Tupelo High School Cross Country Booster Club – timing chips and readers - $5,350
  - Baldwyn Baseball – sponsorship - $5,000
  - Mississippi Municipal League – sponsorship - $1,000
  - Child Advocacy Center – sponsorship - $2,000
  - Baldwyn High School Cheerleaders – sponsorship - $1,000
  - Johnie E. Cooks Foundation Initiative – sponsorship - $1,000

  Questioned costs for fiscal year 2019 - $16,680

Total amount questioned in 2017 – $35,000
Total amount questioned in 2018 – $5,085,593
Total amount questioned in 2019 – $106,510

Publications

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.403*) states that, in order to be allowable under federal guidelines, costs must be necessary and reasonable, and adequately documented.

The Code of Federal Regulations (2 cfr 200.400 (g)) states that entities may not earn or keep any profit resulting from federal financial assistance, unless explicitly authorized by the terms and conditions of the award.

The Child Care and Development Block Grant Act (CCDBG) authorized CCDF funds to be spent to achieve one of the following goals:

1) Protect the health and safety of children in child care,
2) Promote continuity of access to subsidy for low-income families,
3) Better inform parents and the general public about the child care choices available to them, and
4) Improve the overall quality of early learning and afterschool programs.

Participants in the CCDF program and recipients of the benefits must meet defined eligibility criteria based on income and need.

Exceptions/Questioned Costs: During testwork for activities allowed and allowable costs, the auditor noted the following questioned costs:

- Bay View Funding/M&W Publishing (Bay View) – MCEC entered into a four-year commitment with Bay View to purchase copies of the book "Professional Grammar Simplified" in order to market and sell the book to organizations to whom MCEC was affiliated. The books were sold wholesale to MCEC, with the intent to resell for a profit. During the commitment, MCEC and M&W Publishing entered into a legal dispute. The dispute was settled in mediation, and MCEC returned any unsold publication inventory to M&W Publishing. Actual payments on the agreement totaled $905,000 in FY 2019.

  Due to the unreasonable nature of the expenditure, the intent to profit from the sale of the book in violation of Program Income regulations, and the lack of any direct correlation to TANF, these funds are questioned. Additionally, any legal fees paid in relation to these questioned costs are also questioned. Legal fees were paid to two separate law firms (Bradley Arant and Watkins & Eager) in the amount of $10,212 in FY 2019.

  Questioned costs for fiscal year 2019 – $915,212

- *Eli's Christmas* – MCEC purchased 2,600 copies of the children's book in January 2019 using funds from the Mississippi Community College Board (MCCB) grant. These funds were pass-through CCDF funds through MDHS. MDHS and MCCB had a Memorandum of Agreement (MOA) to establish an Early Childhood Academy (ECA) at participating community colleges. The purpose of the ECA was to focus on preparing practitioners and parents to ensure children are prepared for successful transition from Pre-K to K-12. The MOA specifies that the ECA will provide professional development, technical assistance and coaching for practitioners and assist with Resource and Referral (R&R) Network offices around the state. R&R offices serve to facilitate the referral of parents and providers, and to assist members of the public for purposes of referral to an appropriate agency/entity for resources. Additionally, the scope of the agreement between MCEC and MCCB states that the work is to provide coaching, training, professional development, etc. The scope does not include any reference to providing materials to eligible children.

  The author of the children's book is also related to the principal and owner of Restore2, LLC. Due to the relationship of Executive Director JD, the owner of Restore2 (BD) and the principals of MCEC, auditor cannot verify purchase was made at arm's length bargaining or in good faith.

  Additionally, the scope of the projects does not include providing books to children, nor do the agreements make any correlation to the eligibility requirements of CCDF. Actual payments for the book totaled $44,964 in FY 2019.

  Questioned costs for fiscal year 2019 – $44,964 (CCDF)

Total amount questioned in 2019 – $960,176

Purchases of Real Property/Construction/Assets

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.403*) states that, in order to be allowable under federal guidelines, costs must be necessary and reasonable, and adequately documented.

The Code of Federal Regulations (2 cfr 200.311(c)) states that real property that is purchased using federal funds must be used for as long as it is needed for the original purpose, and that the entity must not dispose or encumber its title or other interests. Further, when property is to be disposed, the entity must obtain disposition instructions from the federal awarding entity or pass through entity, and must provide for one of the following: Entity may

1) Retain title after compensating the federal awarding agency,
2) Sell the property and compensate the federal awarding agency, or
3) Transfer title to the federal awarding agency or an approve third party.

The Code of Federal Regulations (2 cfr 200.439 (b)) states, "The following rules of allowability must apply to equipment and other capital expenditures: (1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except with the prior written approval of the Federal awarding agency or pass- through entity. (2) Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of $5,000 or more have the prior written approval of the Federal awarding agency or pass-through entity. (3) Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior written approval of the Federal awarding agency, or pass-through entity."

Decision of the Comptroller General of the United States, 42 Comp. Gen. 480 (1960) reiterates that a State may not use TANF funds to construct or purchase buildings, or facilities or to purchase real estate. Additionally, the guide "*Q&A: Use of Funds, TANF Program Policy Questions and Answers*" produced by the Office of Family Assistance states that this prohibition also applies to grantees and subrecipients including counties, nonprofit agencies, and contractors.

The *MDHS Subgrant/Contract Manual* states in *Section 7*, that "all property and assets purchased through MDHS subgrants shall be placed on inventory in accordance with the statutes of the State of Mississippi and the rules set forth in the State Property Officers Manual."

Additionally, the manual states that all equipment purchased with subgrant monies must be specifically authorized through the Cost Summary and Budget Narrative portions of the subgrant agreement, and that any deviation requires a formal modification of the subgrant. The manual also states that any means of acquiring property shall be reviewed before any authorization by MDHS is given.

Regarding property inventory, the manual details the following property inventory regulations:

<u>Cameras, Televisions, Computers</u> – Any item $250 or over should be reported to MDHS on an Inventory Control Sheet, listed on MDHS inventory, and marked with a "Property of MDHS Sticker"

<u>Weapons, Two-Way Radios Equipment, Lawn Maintenance Equipment, Cellular Telephones, Chain Saws, Air Compressors, Welding Machines, Generators, Motorized Vehicles</u> – Must be reported to MDHS on an Inventory Control Sheet, listed on MDHS inventory, and marked with a "Property of MDHS sticker" regardless of price.

<u>All other items purchased for over $1,000 with a useful life of over one year</u> - Must be reported to MDHS on an Inventory Control Sheet, listed on MDHS inventory, and marked with a "Property of MDHS sticker"

MDHS is responsible for conducting a periodic physical inventory of each subgrantee at least twice yearly, using the inventory control list submitted to MDHS. The manual also states that any property or equipment that is not being utilized or managed under the terms of the subgrant agreement and manual shall be recovered and redistributed. Lastly, the manual states that if a subgrant is terminated or not renewed, any equipment purchased under the subgrant with public funds or MDHS funds shall neither be transferred to another location nor remain at the present location under a new subgrant without prior written approval of the MDHS Executive Director, and that MDHS has the authority to recover the value of any missing property via demand on the head of the subgrantee agency, property officer or employee.

Exceptions/Questioned Costs: Auditor initially used sampling techniques to audit equipment purchased with grant funds; however, the inadequate level of record keeping and incomplete inventory logs required additional procedures. In addition, due to the high risk of fraud, waste, and abuse assigned to subgrantees based on initial testwork, further types of auditing methodology were used. The results below encompass questioned costs under each testing method.

During testwork for activities allowed and allowable costs, the auditor noted the following:

- MD Foundation – MCEC entered into an agreement with MD Foundation for a sum of $371,000 on January 1, 2018 for "Equine Assisted Learning" and "Equine Assisted Activities". The agreement does not have an expiration date and does not specify who the services will benefit, other than to state that individuals with mental or emotional disabilities benefit from equine training overall. On February 26, 2018, the owner of MD Foundation was paid $171,000. The transaction is classified as "Rent" in the underlying accounting records. Auditor was provided a general ledger by MCEC; however, that showed this payment coded to "Contractual Services" indicating that MCEC edited the general ledgers before supplying them to auditors. In both instances of recordkeeping, the payment was made from TANF funds.

  On April 13, 2018, MD Foundation purchased a residence with acreage in Flora, MS for a purchase price of $855,000. The loan amount for the purchase was for $684,000, $171,000 less than the purchase price. A down payment of $169,096 was made on the residence. Based on observation and inquiry, the residence appears to be the personal residence of the Director and Owner of MD Foundation.

  MCEC paid an additional $200,000 directly to the bank that holds the note on the residence, and, on June 1, 2018, the residence was refinanced for a total of $484,895. The check is coded to "Consulting" in the general ledger. This payment was also made from TANF funds.

  MCEC also guaranteed the residence through the bank with a six-year lease from April 1, 2018 through March 31, 2024. The lease was for the property in Flora purchased by MD Foundation and included $684,000 in lease payments at $9,500 monthly. The purpose of the lease was to operate a "multi use facility" at the residence. According to information in the Guaranty, the MCEC Board of Directors approved the Guaranty at a Board Meeting held on April 13, 2018. The Guaranty was signed by the Director of MCEC. Auditors could find no record of a Board Meeting held on that date during a review of the Board Minutes of MCEC and found no record of the Board Members approving a Guaranty in any provided Minutes. Additionally, MCEC later confirmed to auditor that no meeting was held on April 13, 2018. The Director of MCEC (NN) also personally guaranteed the loan of the residence.

When auditors inquired of MCEC about payments made to MD Foundation and any payments made on the property in Flora, personnel at MCEC did not provide consistent answers. Initially, the Director of MCEC (NN) told auditors in November 2019 that MCEC had given MD Foundation a subgrant for equine learning, mentoring, and youth development activities, and that they had made only one payment of $171,000 to the foundation. In March 2020, Auditors then inquired about payments to MD Foundation again and were told on March 27, 2020 that MD Foundation was paid $171,000 for equine learning. They were also told MCEC had no involvement with the residence in Flora and that no payments were ever made on the $684,000 lease used to guarantee the property. MCEC stated that the loan was to be modified in July 2018 to remove the guarantee. On March 31, 2020, MCEC stated that they contracted MD Foundation in January 2018 for $371,000 for programmatic services and that a lease was executed in February 2018 for $9,500 monthly payments and that MCEC paid $200,000 directly to the Bank for lease payments. MCEC stated that MD Foundation began programmatic services in April 2018, and that the lease terminated December 31, 2019.

Based on information provided over the course of the audit, MCEC asserts it paid $171,000 for equine learning services in February 2018 to be held on property that was not yet owned by MD Foundation. This payment was made in a lump sum advance, and services did not commence until April 2018. Additionally, MCEC paid $200,000 in lump sum, advance rental payments in order to lease the same property for use as a multi-use building. Based on fact patterns and documents reviewed, auditors believe that the initial payment of $171,000 was used by MD Foundation to secure the residence at the closing of the initial loan. MCEC and MD Foundation then refinanced the residence, and MCEC contributed another $200,000 to the purchase of the residence; thereby, using $371,000 of TANF funds to secure a personal, private residence for the Director and Owner of MD Foundation.

It should be noted that the Director and Owner of MD Foundation was also employed by MCEC from July 17, 2017 until September 30, 2019 at an ending annual salary of $130,000. MCEC stated that he was employed as a “community liaison” during this time. MCEC paid $198,846 in salary payments and fringe benefits during this time period. Refer to “Salaries” section of this finding for the amount questioned for these salary payments.

MD Foundation was also paid $3,100 in travel reimbursements in FY 2018 and payments of $2,700 for "loans" in FY 2019.

Due to the prohibition against using federal funds for personal use, the prohibition of purchasing real property with TANF funds, and the unreasonableness of these purchases, the payments to MD Foundation are questioned in full.

Questioned costs for fiscal year 2018 – $374,100
Questioned costs for fiscal year 2019 – $2,700

- MCEC paid a contractor $134,880 in FY 2019 to demolish and renovate space at the North State Families First location. Due to the prohibition of using TANF funds to renovate real property, these purchases are questioned.

  Questioned costs for fiscal year 2019 – $134,880

- Both MCEC and FRC purchased items that meet the thresholds in the MDHS Subgrantee Manual for inclusion on the "Physical Property Inventory" and did not report these items to MDHS, as required by subgrant requirements. These items included cell phones, televisions, equipment, etc. Since the items were never reported to MDHS, they were not listed on the Inventory Control Sheets and were not properly examined in a physical inventory of MDHS. Auditor attempted to examine physical property inventory at both locations. Inventory could not be verified at MCEC due to inadequate tracking and lack of identifiable information on assets and invoices, i.e. serial numbers. Property inventory was able to be verified at FRC due to adequate tracking and property listings.

- MCEC purchased three vehicles using MDHS grants funds –
  - 2018 Armada for $52,257 in October 2018 – While the vehicle is registered to MCEC, the address for the purchase of the tag is the residence of the Director of MCEC (NN) indicating personal use of the vehicle.
  - Big Country Silverado Chevrolet Truck for $59,840 in September 2017 – While the vehicle is registered to MCEC, the address for the purchase of the tag is the residence of Assistant Executive Director of MCEC (ZN) indicating personal use of the vehicle.
  - F250 Ford Truck for $54,221 in November 2018 – While the vehicle is registered to MCEC, the address for the purchase of the tag is the residence of Director of MCEC's son (JN), indicating personal use of the vehicle. This individual is not employed by MCEC.
  - MCEC also paid $6,584 in for maintenance contracts, repairs, and other costs associated with the vehicles in FY 2019.

  Through inquiry and observation, auditor determined these vehicles were treated as the primary vehicles for the Director of MCEC (NN), the Assistant Executive Director of MCEC (ZN) and the son of the Director of MCEC (JN). Due to the vehicles personal use, lack of any discernable allocation of the costs of the vehicles based on use, the reasonableness of purchase, and the lack of adherence to policies as described in the subgrant manual, these costs are questioned in full.

Questioned costs for fiscal year 2018 – $59,840
Questioned costs for fiscal year 2019 – $113,062

- Out of eight items of equipment purchases sampled at FRC, auditor noted:
  - Purchase of two vehicles, one for $50,415 and one for $27,749. The vehicles were purchased with entirely TANF funds. Auditor verified that vehicles were not used only for TANF purposes and that they were sometimes used for personal use.
  - Purchase of $27,093 in computer equipment. The equipment was purchased with MDHS grant funds.
  - Purchase of networking equipment for a total of $8,055. The equipment was purchased with MDHS grant funds.
  - Purchase of an air conditioning unit for $2,798, which is classified as "real property" under the federal grant.

Due to improper allocation of costs and no appropriate underlying allocation methodology, and lack of adherence to the policies as described in the subgrant manual, the costs are questioned. Due to the auditor's inability to calculate proper allocation due to insufficient documentation, the cost is questioned in full.

Questioned costs for fiscal year 2019 – $116,110

- Out of 100 items of equipment purchases sampled at MCEC, auditor noted:
  - Nine (9) items for a total of $2,334 in which MCEC could not provide documentation to support the expenditure.
  - Six (6) items for a total of $924 in which auditor could not find any correlation to the objectives of the TANF program for the equipment purchase.
  - Eighty-four (84) items for a total of $31,758 in which auditor could not determine item was used exclusively for the TANF program and/or what percentage of the items' use was appropriate, reasonable and necessary for the TANF program.

Due to lack of supporting documentation, improper allocation of costs and no appropriate underlying allocation methodology, and lack of adherence to the policies as described in the subgrant manual, the costs are questioned. Due to the auditor's inability to calculate proper allocation due to insufficient documentation, the cost is questioned in full.

Questioned costs for fiscal year 2019 – $35,016

Total amount questioned in 2018 – $433,940
Total amount questioned in 2019 – $401,768

Faith-Based Initiatives/Concerts

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.403*) states that, in order to be allowable under federal guidelines, costs must be necessary and reasonable, and adequately documented.

The Code of Federal Regulations (45 cfr 260.34(c)) states, "No Federal TANF or State MOE funds provided directly to participating organizations may be expended for inherently religious activities, such as worship, religious instruction, or proselytization. If an organization conducts such activities, it must offer them separately, in time or location, from the programs or services for which it receives direct Federal TANF or State MOE funds under this part, and participation must be voluntary for the beneficiaries of those programs or services."

The Code of Federal Regulations (2 cfr 200.438) states, "Costs of entertainment, including amusement, diversion, and social activities and any associated costs are unallowable, except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the Federal award or with prior written approval of the Federal awarding agency."

Exceptions/Questioned Costs: During testwork for activities allowed and allowable costs, the auditor noted the following:

- Under the "Families First" initiative, both MCEC and FRC funded concerts of a faith-based, evangelical worship singer in FY 2018 and FY 2019. Payments were made to the singer individually and the organization "Through The Fire Ministries". The singer performed at rallies and performed concerts in churches in Mississippi. Auditors did not have a copy of the contracts associated with the payments. Actual payments included $1,050 paid in FY 2018 by FRC and $180,350 in FY 2019 ($85,400 paid by MCEC and $94,950 paid by FRC).

  MCEC also expended $3,783 in identifiable expenditures in conjunction with the concerts, including paying for meals, security, and an opening choir performance.

  Due to the prohibition against paying for entertainment costs of inherently religious activities such as worship, the lack of any correlation to TANF purpose, and the unreasonableness of the cost, these costs are questioned.

  Questioned costs for fiscal year 2018 – $1,050
  Questioned costs for fiscal year 2019 – $184,133

- MCEC contracted with Sonshine Leadership, LLC to develop faith-based coalitions. One of the stated activities of the agreement was to "develop a prayer team for Mayors" and to receive and connect prayer requests to faith-based coalitions. Due to lack of supporting documentation, auditor cannot verify that work performed under the contract could not be categorized as "inherently religious" and therefore, the costs are questioned.

  Questioned costs for fiscal year 2019 – $61,826

Total amount questioned in 2018 – $1,050
Total amount questioned in 2019 – $245,959

Marketing/Branding/Advertising/Promotional Materials

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.403*) states that, in order to be allowable under federal guidelines, costs must be necessary and reasonable, and adequately documented.

The Code of Federal Regulations (2 cfr 200.438(b)) states, in part, "the only allowable advertising costs are those which are solely for…program outreach and other specific purposes necessary to meet the requirements of the federal award."

The Code of Federal Regulations (2 cfr 200.438(d)) states, in part, "the only allowable public relations costs are costs specifically required by the federal award, costs of communicating with the public and press pertaining to specific activities or accomplishments which result from the performance of the federal award, and costs of conducting general liaison with news media and government public relations officers, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern, such as notices of funding opportunities, financial matters, etc."

The Code of Federal Regulations (2 cfr 200.438(e)) states, in part, "Unallowable advertising and public relations costs include the following: (1) All advertising and public relations costs other than as specified in paragraphs (b) and (d); (2) Costs of meetings, conventions, convocations, or other activities of the entity including costs of displays, demonstrations and exhibits; costs of meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events; and salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations and providing briefings. (3) Costs of promotional items and memorabilia, including models, gifts, and souvenirs; (4) Costs of advertising and public relations designed solely to promote the non-federal entity.

The Code of Federal Regulations (2 cfr 200.422) states, "Costs incurred by advisory councils or committees are unallowable unless authorized by statute, the Federal awarding agency or as an indirect cost where allocable to Federal awards."

The *MDHS Subgrant Agreement* states in Section 9, under the heading "Compliance with Laws, Rules and Regulations" that any advertisements, brochures, flyers or produces any other material, printed or otherwise, relating to, or promoting, the services which is provided through the subgrant, it shall acknowledge that MDHS provided funding for the services.

Exceptions/Questioned Costs: During testwork for activities allowed and allowable costs, the auditor noted the following:

- Under the "Families First" initiative, MCEC and MDHS were provided branding, public relations, print media and advertising from the Cirlot Agency. Auditor was not provided a contract for these services, but was provided a "Families First for Mississippi Financial Update" from November 2019 that detailed the scope of work performed for MDHS, Family First Initiative and Families First Mississippi. The update stated that $1,199,310 had been billed for services, and was broken down as follows (Numbers below are copied verbatim from the invoice. Breakdown summary does not equal the total by category, and the amounts do not equal the amount billed. Errors in addition remain unchanged intentionally):
  - Families First for MS – $292,718
    - Collateral $17,919
    - Fundraising $61,974
    - Public relations - $10,576
    - Strategic Planning - $63,489
    - Video Production - $63,698
    - Website - $75,064
  - Family First Initiative – $298,310
    - Summit Materials and Planning - $124,114
    - Strategic Planning - $54,805
    - Pilot Programs - $100,884
    - Steering Committees - $10,751
    - Website - $7,756
  - Mississippi Department of Human Services - $608,088
    - Video Production - $247,111
    - Strategic Planning - $42,732
    - Branding and Positioning - $169,626
    - Law of 16 Events - $113,037
    - Public Relations - $6,539
    - Analytics - $29,043

  Actual payments made by MCEC for the services included $206,000 in FY 2017, $369,438 in FY 2018 and $1,152,470 in FY 2019 for a total of $1,727,908, which does not agree with the summary provided to auditors. Auditors could find no record of payments made to Cirlot by MDHS directly. Based on inquiry with MDHS personnel, MCEC requested reimbursement for expenditures paid on their behalf based on a verbal "promise to pay" from Executive Director JD. MDHS, under the subsequent Executive Director (CF), denied any reimbursement request. However, MCEC still used TANF funds to pay for the services.

  Auditors, when possible with supporting documentation, viewed copies or video of advertising made in conjunction with this agreement. Auditors were not able to view all materials, however, due to lack of documentation. Auditors determined that promotional materials and advertising did not consistently abide by restrictions in the MDHS subgrant to include MDHS as a funding source, and did not consistently correlate advertisements to programmatic resources. Much of the advertising was designed to solely benefit MCEC and its nonprofit and not programs offered. Additionally, advertising was not appropriately allocated among different subgrants. Finally, some items charged by Cirlot are specifically prohibited in federal regulations (steering committees, promotional materials, fundraising) and should not have been paid by federal monies. Auditor also questions the reasonableness of the cost of services. Due to these reasons, the costs paid to Cirlot are questioned in full.

Questioned costs for fiscal year 2017 – $206,000
Questioned costs for fiscal year 2018 – $369,438
Questioned costs for fiscal year 2019 – $1,152,470

- MCEC entered into contractual agreements to advertise and sponsor NCAA college sporting events at Mississippi State University. Invoices for payments made to IMG College, LLC/Learfield indicate that the advertisements were at college football, basketball, and baseball games. In addition, advertising was also done for NCAA Final Four Championships and Bowl Games held out of state. In at least one instance, TANF grant funds were used to purchase tickets to a college football game. Total payments included $195,163 in FY 2018 and $121,393 in FY 2019 for a total of $316,556.

  Due to the unreasonableness of providing advertising for programs designed for the needy at college sporting events, lack of adherence to stipulations in the grant agreement, and the lack of any correlation to how the advertising benefited the programmatic nature of the TANF program, these costs are questioned.

  Questioned costs for fiscal year 2018 – $195,163
  Questioned costs for fiscal year 2019 – $121,393

- MCEC and FRC entered into contractual agreements to advertise with radio stations owned by Telesouth Communications. Invoices for payments indicate that the advertisements were for promotional campaigns, fundraising, and programmatic functions. The advertisements were sold in a "marketing package" whereas the price of the contract was billed in installments. Due to the packaged nature of the invoices and advertising, auditors cannot determine which costs should be allocated to programmatic functions and which charges were for advertising that solely benefited the entity.

  Payments included $57,950 in FY 2017, $49,886 in FY 2018, and $220,560 in FY 2019 for a total of $328,396 from MCEC.

  Payments included $36,680 in FY 2017, $53,721 in FY 2018, and $213,521 in FY 2019 for a total of $303,922 from FRC.

  Due to the unreasonable cost of the advertising, lack of adherence to stipulations in the grant agreement, inability to allocate costs of allowable and unallowable payments, and the lack of any correlation to how the advertising benefited the programmatic nature of the TANF program, these costs are questioned.

Questioned costs for fiscal year 2017 – $94,630
Questioned costs for fiscal year 2018 – $103,607
Questioned costs for fiscal year 2019 – $434,081

- Both MCEC and FRC utilized iPromoteU to provide promotional gifts and “swag” for conferences, booths, etc. These items were often branded as “Family First” and failed to denote that funds used for the cost of the items were from MDHS, as required by the subgrant agreement. Additionally, these items are prohibited as unallowable costs. Payments were made primarily from TANF funds, but CCDF and SSBG funds were also utilized as noted below.

  Payments included $23,569 in FY 2017, $94,789 in FY 2018, and $49,613 in FY 2019 for a total of $167,971 from MCEC.

  Payments included $3,137 in FY 2017, $11,197 in FY 2018, and $3,842 in FY 2019 for a total of $18,176 from FRC.

  Questioned costs for fiscal year 2017 – $26,706
  Questioned costs for fiscal year 2018 – $105,393
  Questioned costs for fiscal year 2018 – $593 (SSBG)
  Questioned costs for fiscal year 2019 – $52,455
  Questioned costs for fiscal year 2019 – $1,000 (CCDF)

- MCEC purchased additional advertising, marketing and promotional materials in FY 2019. Auditors sampled the remaining population of expenses classified as “Advertising” in the entities general ledgers. Auditors examined the invoices of nine additional advertising charges. When available, auditors viewed copies of the actual advertisements to determine what, if any, programmatic content was advertised. Auditors found that MCEC did not properly identify MDHS as the source of the funds nor did the advertising have a correlation to the TANF program. Sampled items totaled $13,090. Items are detailed below:
  - Clarion Ledger - $70 for digital ads
  - WONA radio station - $120 for ads
  - Ridgeland Chamber of Commerce - $40 for luncheon
  - Area Development Partnership - $250 for ad
  - House of Peace - $75 for pastor, minister, and leader conference
  - Busby Companies - $498 for billboards
  - WAPT - $12,037 for ads

  Questioned costs for fiscal year 2019 – $13,090

- FRC also had additional advertising expenditures; however, due to the inconsistency in how FRC accounting personnel coded expenses in the General Ledger, auditors could not perform a targeted sample of advertising expenditures. Any advertising expenditures sampled in the general population are discussed in the Section "Other Auditing Results" of this finding.

Total amount questioned in 2017 – $327,336
Total amount questioned in 2018 – $774,194
Total amount questioned in 2019 – $1,774,489

Second Tier Subrecipients/Programmatic Subgrants

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.403*) states that, in order to be allowable under federal guidelines, costs must be necessary and reasonable, and adequately documented.

The Code of Federal Regulations (2 cfr 200.469) states the costs incurred for intramural activities, student publications, student clubs, and other student activities, are unallowable, unless specifically provided for in the Federal award.

The Office of Family Assistance produced *TANF-ACF-PI-2005-1 (Funding Childhood Education, School Readiness, Kindergarten, and Other Public Education Programs*, published on April 14, 2005, clarifies the use of funds for educational programs. Per the guide, "public education is a State responsibility; therefore, States may not use Federal TANF for any educational activity that is a component of the State's system of free public schools. By charging the Federal government for any part of these costs, the State would be passing on to the TANF program the costs of the State's public education system…This prohibition applies regardless of the adequacy of funding for general public education from other sources."

The *MDHS Subgrant Agreement* states in Section 5, under the heading "Documentation Requirements" that "Source documents are required to support transactions entered into the subgrantees' record keeping system. The following is a list of the minimum documentation required for selected transaction types:

- Salaries & Fringe - Benefits Personnel files which include a job application or resume, IRS W-4 Form, State Tax withholding form, I-9 Form (if hired after May 1987), e-verify confirmation, date of hire, and current approved salary/wage. Time distribution/activity sheets are required when the employee's time is charged to more than one subgrant or activity. Time sheets and activity reports should reflect the actual hours worked and duties performed.

- Travel - An approved travel voucher showing that all travel expenses were incurred for the benefit of the subgrant; copies of supporting bills including out-of-state meal receipts, hotel bills, conference registration fee receipts, and conference agendas.

- Telephone - Complete telephone bills and long distance telephone logs that indicate the person calling, the person called, the date and time of the call, the reason and purpose of the call, the number called, and the subgrant that benefitted from the telephone call.

- Equipment - Original vendor invoices, receiving reports, purchase orders, competitive quotes or proof of newspaper advertisements for bids (if applicable), property records, and authorization to purchase equipment, and any other documentation necessary for purchasing law conformity. All purchases of equipment must be made in accordance with state purchasing requirements.

- Commodities (Supplies) - Original vendor invoices, receiving reports, purchase orders, competitive quotes or proof of newspaper advertisements for bids (if applicable), and documentation the expenses were incurred for the benefit of the subgrant.

- Contractual Services - Original contracts for services charged to the subgrant, evidence of completion of contracts, billings for services, rental or lease agreements, competitive quotes or proof of newspaper advertisements for bids (if applicable), or documentation of fair market value.

- Subsidies, Loans & Grants - (Payments to/for clients) Client attendance records, documentation of services provided, including dates, times, names, and client signatures, or documentation to verify units of service provided.

- Other Direct Costs - Original vendor invoices, receiving reports, purchase orders, competitive quotes or proof of newspaper advertisements for bids (if applicable), and documentation the expenses were incurred for the benefit of the subgrant.

Exceptions/Questioned Costs: Both MCEC and FRC awarded subgrants to "second tier subrecipients" during the grant period. Auditor reviewed programmatic scopes, payment requests, and supporting documentation to determine if agreements were made in accordance with provisions of Uniform Grant Guidance, grant regulations and restrictions, the initial subaward from MDHS, and whether the documentation adhered with the MDHS Subgrantee Manual. During this review, auditor found the majority of subgrantees of MCEC and FRC were not appropriately monitored, and that MCEC/FRC did not supply appropriate documentation for reimbursements or had inappropriate project narratives, scopes, etc. Most of the subgrant "packets" examined did not contain any type of correlation to the federal award objectives, nor did they contain client attendance records or documentation of the services provided. Many of the projects funded with appropriate scopes appeared to have performed work; however, documentation supporting that work was not sufficient for auditor to determine if it met the requirements to be allowable under the federal award. Additionally, while some of the projects may have community value and be considered worthwhile endeavors, auditor could not determine, from information provided, if the project/subgrant was a reasonable use of TANF, CCDF or SNAP resources, or if the program was limited to those defined as "needy" in both State or Federal regulations. It should be reiterated that, due to MCEC and FRC failing to denote on grant agreements that monies supplied were funded from federal programs such as TANF, second tier subrecipients could have not been aware of program restrictions and regulations. Based on these criteria, auditor has included these as questioned costs.

- MCEC Subgrantee agreements did not contain scopes or projects, nor did they entail how the programs would benefit needy individuals, or the correlation to TANF. In some instances, auditor was provided copies of grants/contracts for prior years and in some instances, auditors were only provided current year agreements. While some payments below appear to exceed grant awards, auditors were only provided contracts for FY 2019, and it is possible FY 2018 agreements existed that allowed for additional monies to be spent. Contract dates also spanned multiple fiscal years; therefore, information regarding FY 2018 and FY 2019 are presented as questioned costs.

    - Belhaven University – Granted $250,000 for Leadership Development. Actual payments in FY 2019 were $236,023.
    - Delta State University – Granted $700,002 over a two- year period. Scope unknown. Actual payments in FY 2018 were $238,796; and $344,807 in FY 2019.
    - Friendship Connection – Granted $35,000. Scope unknown. Actual payments totaled $35,000 in FY 2019.
    - Greenwood Community and Recreation Center – Granted $35,000. Scope unknown. Actual payments in FY 2018 totaled $62,166; and $43,891 in FY 2019.
    - Gulf Coast Community Foundation – Granted $55,250. Scope unknown. Actual payments in FY 2018 totaled $82,167; and $36,883 in FY 2019.
    - Jackson County Civic Action Agency – Granted $75,000 for 'Youth development and mentoring'. Actual payments in FY 2018 totaled $194,554; and $124,215 in FY 2019.
    - Juanita Sims Doty Foundation – Granted $1,000,000 over a two-year period. Scope unknown. Actual payments in FY 2018 totaled $688,864; and $368,291 in FY 2019.
    - Kid's Hub – Granted $72,464. Scope unknown. Actual payments in FY 2018 totaled $41,120; and $45,309 in FY 2019.
    - Meridian Community College – Granted $100,000. Scope unknown. Actual payments in FY 2018 totaled $36,672; and $96,022 in FY 2019.
    - Mississippi Gulf Coast Community College – Granted $274,314 for 'Training for middle skill job opportunities'. Actual payments in FY 2019 totaled $62,905.
    - Mississippi Offender Re-Entry Program – Granted monies to establish a re-entry program for the Oakley Training Facility. Contract did not include an amount of funds granted. Actual payments for FY 2019 totaled $301,000.
    - Pearl River Community College – Granted $260,193 for 'Encourage work ready credentials or HSE diploma'. Actual payments for FY 2018 totaled $10,759; and $182,942 in FY 2019.
    - Phoenix Project – Granted $45,000. Scope unknown. Actual payments in FY 2018 totaled $195,696; and $73,821 in FY 2019.
    - Picayune School District – Granted $50,000. Scope unknown. Actual payments in FY 2018 totaled $131,005; and $97,014 in FY 2019.

- Restoration Foundation – Granted $30,000 for addiction services. Actual payments for FY 2018 totaled $27,479; and $24,823 in FY 2019.
- Soul City Hospitality - $200,000 subgrant to create a community garden and to educate youth about sustainable agriculture. Actual payments totaled $200,000 in FY 2019.
- Tulane Missionary Baptist Church – Granted $25,000. Scope unknown. Actual payments in FY 2018 totaled $9,551; and $53,408 in FY 2019.
- Voice of Calvary – Granted $42,000 for 'The Net Counseling and Mentoring' services. Actual payments totaled $7,128 in FY 2018 and $30,948 in FY 2019.

Questioned costs for fiscal year 2018 – $1,725,957
Questioned costs for fiscal year 2019 – $2,357,302

- FRC Subgrantee agreements did contain scopes and/or project descriptions; however, some items in project scopes did not comply with allowable cost provisions and those grants are questioned below.

  In some instances, information provided by subrecipients details lists of participants in programs, including participant intake forms that contain information on eligibility; however, for some programs no conclusions were drawn on whether participants were eligible. Additionally, some intake forms detail wage information that makes participant ineligible for program. For those programs that did not draw conclusions on eligibility determinations and those that covered ineligible participants, the grants are also questioned below.

  - Autism Center of North Mississippi – Granted $250,000 to provide a variety of services to children with autism. Many of the services provided do not meet allowable cost guidelines. Actual payments totaled $7,472 in FY 2018; and $99,732 in FY 2019.
  - Baldwyn School District – Granted $577,163 for a variety of programs provided to children of the district. Many of the services provided do not meet allowable cost guidelines and services were not limited eligible participants. Actual payments totaled $158,574 in FY 2018; and $210,600 in FY 2019.
  - Children's Advocacy Center – Granted $579,180 to develop and increase child advocacy training studies at colleges and universities. Many of the services provided do not meet allowable cost guidelines and were not limited to eligible participants. Actual payments totaled $254,478 in FY 2018; and $48,913 in FY 2019.
  - Kelly Williams Ministries – Granted $75,000 to assist women re-entering the workforce after incarceration or addiction. Auditor could not determine if eligibility determinations were made for participants. Actual payments totaled $64,000 in FY 2019.
  - Mississippi State University – Three different subgrant agreements were provided to auditors; however, auditor could not discern based on supporting documentation from which of the three subgrants the payments were made; therefore, the total of all

payments is presented. Actual payments totaled $595,482 in FY 2018; and $217,800 in FY 2019.

- "Recruitment and Enrollment" – Granted $225,000 to recruit students into the Education programs at the university. Program does not meet allowable cost guidelines.
- "Augmentative Communication" – Granted $150,188 to pay for the salaries of therapists. Program does not meet allowable cost guidelines.
- "Dyslexia" – Granted $171,089 to pay for the salaries of therapists. Program does not meet allowable cost guidelines.

- Nettleton School District – Granted $150,000 to pay for curriculum, equipment and supplies. Program does not meet allowable cost guidelines. Actual payments totaled $48,201 in FY 2018.
- Prentiss County Library – Granted $144,800 to pay for the salaries of library personnel. Program does not meet allowable cost guidelines. Actual payments totaled $46,533 in FY 2018; and $93,067 in FY 2019.
- Regional Rehabilitation Center - Granted $500,000 to pay for the salaries of therapists. Program does not meet allowable cost guidelines. Actual payments totaled $263,995 in FY 2018; and $175,019 in FY 2019.
- Reviving Network – Granted $74,259. Scope only includes the requirement to report on grant's progress. Auditor is unable to determine if program meets allowable cost guidelines. Actual payments totaled $31,096 in FY 2018; and $18,325 in FY 2019.
- Robinson Resource Center – Granted $60,000 to operate a community outreach center. Services provided are not limited to eligible participants. Actual payments totaled $8,835 in FY 2018; and $23,182 in FY 2019.
- Southeast Mississippi Children's Advocacy Center – Granted $14,000 to develop and increase child advocacy training studies at colleges and universities. Many of the services provided do not meet allowable cost guidelines and not limited to eligible participants. Actual payments totaled $20,625 in FY 2018; and $11,371 in FY 2019.

Questioned costs for fiscal year 2018 – $1,435,291
Questioned costs for fiscal year 2019 – $962,009

Total amount questioned in 2018 – $3,161,248
Total amount questioned in 2019 – $3,319,311

Personal Benefit/Conversion to Private Use

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.403*) states that, in order to be allowable under federal guidelines, costs must be necessary and reasonable, and adequately documented.

The Code of Federal Regulations (2 cfr 200.445 (a)) states that, "Costs of goods or services for personal use of the non-federal entity's employees are unallowable regardless of whether the cost is reported as taxable income to the employees."

Exceptions/Questioned Costs: During the course of the audit, auditors became aware that MCEC was under investigation for the misuse of state and federal monies. Allegations against MCEC included the conversion of assets derived from federal grants to personal use. Auditors examined the financial records of MCEC, and concurred with the conclusion that some federal grant monies had been converted to personal use. The Director (NN) and Assistant Executive (ZN) Director of MCEC have both been indicted on charges of fraud and embezzlement and have been arrested. Both pleaded non-guilty and are currently awaiting trial. Auditor noted the following instances of alleged conversion of assets to personal use:

- From a period of January 1, 2016 to June 30, 2019, MCEC transferred/paid a total of $6,513,393 in monies directly to the private business New Learning Resources, Inc. (NLR) which is owned and operated by the Director and Assistant Executive Director of MCEC. NLR operates in several different ways, including a website for online learning, New Learning Resource School Districts (NLRSD), and offers other educational services at the private school, New Summit School (NSS). A review of the transactions/transfers indicates that NLR and MCEC's finances were commingled and intertwined in such a manner that MCEC often paid invoices addressed to personnel at NLR and sent to NLR's physical address. Vice versa, some transactions indicate NLR paid for MCEC expenses and NLR was reimbursed for those charges. Auditor noted, however, that when NLR funds were used to pay for MCEC expenses, MCEC reimbursed NLR almost immediately, in many instances the same day. The balance for transactions paid by MCEC on behalf of NLR, however, continued to increase throughout the fiscal year. Some of the $6,513,393 was offset by credits for amounts paid by NLR on behalf of MCEC; however, the legitimacy of the credits could not be determined.

  MCEC utilized a variety of accounting transactions to allegedly conceal money transfers to NLR. As an example, general ledgers provided by MCEC to auditors and MCEC's underlying financial records do not agree in regards to transactions to NLR. In multiple instances the underlying financial records refer to the payee on the transfer/check as New Learning Resources; however, the general ledger provided to auditors show the same transactions with varying vendor names. For example, in one instance the financial records show a payment to NLR on 01/08/2019 for $1,125 for catering of Highway Patrol meals; however, the same entry on the general ledger provided to auditors shows the payee of this transaction to be "Robert's Catering." In fact, any payments to NLR other than a $700,000 grant payment had been artificially removed from the general ledger provided to auditors.

  Additionally, there were numerous transactions in the general ledger provided to auditors that indicated that the payee on a check was American Express, showing the transaction to be a credit card charge; however, when auditors examined the actual bank statements of MCEC, the same transactions would be made out to NLR. Therefore, the American Express balance in the was overstated, and the amount paid to NLR was understated. The only discernable purpose of this deliberate mislabeling of transactions in the general ledger would be to conceal the number and amount of transactions flowing through from MCEC to NLR.

General journal transactions were used to transfer money and set up a "Due from NLR" in the accounting system. The balance in the "Due from NLR" account has a $1,085,217 balance as of June 30, 2019, indicating that MCEC utilized grant monies of a minimum of $1,085,217 to fund NLR. In December 2018 alone, MCEC funded NLR a total of $275,000 in transfers coded as "Due from NLR."

On November 30, 2018, MCEC recorded a $700,000 transfer of TANF funds to NLR. The amount is coded as a general journal reduction in the amount owed to MCEC. When auditors inquired about the transfer, MCEC personnel provided a signed grant agreement from MCEC to NLR. However, investigators were able to verify that the document had been falsified, was not in existence at the time of the transfer, and that proceeds did not benefit NLR in a grant/subgrant relationship. When added with the balance of the "Due from NLR" account, the actual amount of MCEC funds used to fund NLR increases to $1,785,217.

Auditors also reviewed invoices supplied by MCEC for fiscal year 2019, and were able to verify $73,514 of transactions that were paid using TANF Funds on behalf of NLR in addition to the amounts in the paragraph above. These costs included utilities, licenses, curriculum, etc.

Without examining the records of NLR, auditors cannot determine what fiscal year these charges stem from and what year the grant costs should be questioned for any balance prior to 2017. Additionally, auditor cannot verify that these are the only amounts converted to private use without a thorough review of the records of NLR and MCEC in tandem.

After analyzing the transfers and transactions in the ledger, auditor questioned the payments to NLR that were not offset by credits.

Questioned costs for fiscal year 2018 – $473,622
Questioned costs for fiscal year 2019 – $**1,326,267**

- The Director and Assistant Executive Director entered into a contract for $1,700,000 with the medical company, Prevacus, to purchase an investment in Prevacus and its affiliate PreSolMD. The company manufactures a brain concussion medicine. In exchange for the investment, Prevacus was to conduct clinical trials of the new medicine on children in Mississippi. The agreement was entered into by the Director (NN) and Assistant Executive Director of MCEC (ZN) in their personal capacity. An initial wire transfer of $500,000 was made on April 8, 2019 and a subsequent wire transfer of $250,000 was made on May 10, 2019. Original entries in the general ledger show that the payments were made with TANF funds; however, after State

Auditor Investigators questioned the use of TANF funds in July 2019, the funding source was changed to "Bingo" in the accounting software. It should be noted that an additional $350,000 was paid in FY 2020.

Questioned costs for fiscal year 2019 – $750,000

- MCEC paid Magnolia Strategies, LLC, a company owned by the Director of MCEC's son, $250,000 in "consulting" fees in both FY 2018 and 2019. Auditors were not provided a copy of any contracts for these fees, and, therefore, cannot determine what, if any, services were actually performed. All three checks were originally paid with TANF funds and coded as such in the accounting system. On July 16, 2019, after MCEC was first questioned about the use of TANF funds by State Auditor Investigators, the audit trail shows that a check written to Magnolia Strategies was re-coded in the system as "Administrative" funds.

  Questioned costs for fiscal year 2018 – $250,000
  Questioned costs for fiscal year 2019 – $250,000

- Auditors reviewed invoices supplied by MCEC for fiscal year 2019, and were able to verify $4,387 of transactions that were paid using TANF Funds on behalf of Spectrum Academy. Spectrum Academy is also owned by the Director of MCEC's son. Additionally, $7,490 was paid in TANF funds for expenses of the Mississippi Dyslexia Center, which is also owned by the Director of MCEC's son. No contracts or subgrants existed to justify these payments. Payments ranged from utility payments, advertising payments, licenses, meals, etc.

  Questioned costs for fiscal year 2019 – $11,877

- Auditors were able to identify $118,022 in costs paid using TANF/CCDF funds for NSS in FY 2019. Of those funds, $70,228 were used to purchase kitchen equipment for the cafeteria of NSS, and $17,842 was used to purchase Apple Computer products for NSS. The remaining $29,952 was used to purchase various supplies, pay for utilities, purchase licenses, etc.

  Additionally, MCEC entered into contractual agreements with the University of Southern Mississippi (USM) to fund "externships" of students at the University through the School of Psychology. Externships allow individuals to study in a real-world work environment. According to press releases by USM and invoices supplied to auditor by MCEC, these externships were completed at NSS. Therefore, MCEC used TANF funds to pay for temporary workers at NSS. These invoices are billed to MCEC with the description "Spectrum I – Externships" and "Spectrum II". These costs were coded as "consulting" and charged to the TANF grant. Total costs paid under these grants includes $526,146 paid in FY 2018 and $56,131 in FY 2019.

  Questioned costs for fiscal year 2018 – $526,146

Questioned costs for fiscal year 2019 – $174,153

- On February 22, 2017, the Assistant Executive Director of MCEC borrowed $28,898 against the balance of his 403(b) pension plan at American Funds. The loan repayment included semimonthly payments of $264. Upon review of general ledger, payments were made from the Assistant Director to repay the loan in the amount of $1,489 for FY 2017, $6,380 for FY 2018, and $6,343 in FY 2019. According to MCEC personnel, these payments were deducted from the Assistant Executive Director's gross pay; however, auditor determined that no deductions were made against his pay and that the charges were coded and charged to the TANF grant. It should be noted that another employee of MCEC had a loan against his 403(b) pension plan. His monthly payments were deducted from his gross pay, as required.

  Questioned costs for fiscal year 2017 – $1,489
  Questioned costs for fiscal year 2018 – $6,380
  Questioned costs for fiscal year 2019 – $6,343

Total amount questioned in 2017 – $1,489
Total amount questioned in 2018 – $1,256,148
Total amount questioned in 2019 – $2,518,640

<u>Related Party Rent and Idle Facilities</u>

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.403*) states that, in order to be allowable under federal guidelines, costs must be necessary and reasonable, and adequately documented.

The Code of Federal Regulations (2 cfr 200.446) states that the cost of "idle facilities" is an unallowable cost. Idle facilities are defined as facilities that are completely unused and to the excess of the entity's current needs.

The Code of Federal Regulations (2 cfr 200.465) states that rental costs are allowable to the extent that the rates are reasonable in light of rental costs of comparable property, market conditions, alternatives available, and the condition of the property.

The Code of Federal Regulations (2 cfr 200.465(c)) states that rental costs under "less than arm's length" leases are allowable only up the amount that is considered reasonable compared to similar property. It further defines a "less than arm's length" lease as one where the lessor and lessee are under "common control" such as a situation involving two companies owned by the same individual, or the two companies owned by immediate family members. Family members, for the purpose of this regulation, are defined as (1) Spouse, and parents thereof; (2) Children, and spouses, thereof; (3) Parents, and spouses thereof; (4) Siblings, and spouses thereof; (5) Grandparents and grandchildren, and spouses, thereof; (6) Domestic partner, and parents thereof; (7) Any individual related by blood or affinity whose close association with the employee is equivalent of a family relationship.

Exceptions/Questioned Costs: MCEC is owned and operated by the Director, and her son, the Assistant Executive Director. Together, they own Avalon Holdings, LLC (Avalon). The Director's other son owns and operates 204 Key, LLC (Key). Both Avalon and Key own properties that are utilized by MCEC as places of business. Avalon owns three separate buildings that are utilized by MCEC; Key owns one.

- Avalon owns the main building that is used as MCEC's headquarters. In this shared space is a dentist office rented to an independent third party, MCEC, and New Learning Resource Online (NLRO), which is also owned by the Director of MCEC and her family. During the audit, auditors noted that the rental payments to Avalon seemed excessive considering market conditions, size of the property, condition of the property, and location of the property. After a search of business listings by the Mississippi Secretary of State's Office, auditors confirmed that MCEC and Avalon were under common control, and, therefore, should only be able to charge "reasonable and comparable" rent for use of the building. Auditors requested a copy of the lease agreement, and were provided an unsigned agreement stating that monthly rent was $3,997. After requesting a signed copy of the lease, auditors were provided a new lease agreement that stated the monthly rent to be $16,000 per month for "operating a retail boutique" and stated the size of the property was 12,500 square feet. MCEC finally provided a lease agreement amendment that stated that the monthly rental payments were $27,466 monthly.

  Auditors were able to ascertain the square footage of MCEC's utilized space, the square footage of the independent third party's utilized space and the rent charged, and calculated a reasonable "per square foot" rent charge of $1.78 per square foot (monthly rent of $5,488 for 3,084 square feet of space for the independent third party). MCEC uses approximately 7,000 square feet, according to documents provided. These calculate to a reasonable, market value of rent to be $12,460 per month. Actual rental payments made to Avalon monthly for MCEC were $27,466 monthly, plus additional amounts paid on a sporadic basis. MCEC actually paid $357,061 in rental fees for FY 2019. Reasonable annual rent is calculated to be $149,520. $207,541, the portion of rent that is considered above market value, is questioned

  Additionally, rent is charged for a building close in proximity to the headquarters of MCEC. When auditors inquired about the purpose of the rent payments, MCEC informed auditors that the space was utilized for office space and intake assessments for Families First. However, based on a physical walkthrough and inquiry with NSS personnel, auditor determined that the building is utilized by the 4th grade classes at NSS, and is the location of the "Spectrum Academy" location inside NSS. Both NSS and Spectrum Academy are privately owned organizations by the Director of MCEC and her family. Rental payments for the building were $9,868 monthly, or $118,416 annually. As these facilities were used for personal businesses of the Director of MCEC and her family and has no correlation to TANF, the cost of rent payments is an unallowable cost. Additional rent payments were made in the ledger with no explanation as to why. Actual payments of $128,294 are questioned.

Avalon also owns a property in Greenwood, MS, that is utilized by MCEC as a "Families First Resource Center." Auditors were provided with a lease agreement stating monthly rent would be $2,000 (or $24,000 annually), and would be increased no more than 3 percent for the next year. Based on the initial amount of the lease plus the 3 percent increase, monthly rent should be no more than $2,060, or $24,720 annually. MCEC paid rental fees at $7,500, or $90,000 annually. Additionally, extra rental payments were made on a sporadic basis. Actual payments for the space totaled $97,806., an overpayment of $73,086. Questioned costs include the difference in what the lease agreement allowed ($24,720) and actual payments.

Additional rent payments made to Avalon in the amount of $6,250 are also questioned as there is not a business purpose for the extra payments.

Questioned costs for fiscal year 2019 – $415,171

- MCEC paid monthly rental payments of $3,500 to Key for property located in Madison, MS. When a copy of the lease was requested by auditors, MCEC supplied a lease agreement for the property address between MCEC and Avalon Holdings, which is the incorrect lessor. The monthly amount of the lease on the agreement provided was $2,500, or $30,000 annually. Auditors inquired of the purpose of the rent payments, and were told that a "Families First Resource Center" was located at the address. Auditors did a physical walkthrough of the property and located no such center. The only property at the address was a Mississippi Dyslexia Center, which is also owned by the Assistant Executive Director of MCEC and the owner of Key. The Dyslexia Center is a fee-for-service therapy center and not related to TANF. Even though the agreement stated rent was $2,500 monthly, MCEC paid $3,500 monthly. Actual payments of $42,000 are questioned due to no valid TANF purpose.

  Questioned costs for fiscal year 2019 – $42,000

- MCEC also entered into a lease for property at the "City Centre" in Jackson owned by Hertz Jackson City Centre, LLC (Hertz) in FY 2019. MCEC paid a $500,000 deposit for the property, and signed a lease for monthly payments of $20,274. The location was to be a "virtual reality school" run by the Lobaki Foundation. However, the contract for the "vr school" ended in July 2019, and no additional use for the property was identified; therefore, the location sat idle for FY 2019. MCEC continued to charge the rent for the idle facilities to the TANF grant. Actual payments, including the deposit, totaled $669,237. Due to the restriction of idle facility charges, the total amount paid on the lease is questioned.

  Questioned costs for fiscal year 2019 – $669,237

Total amount questioned in 2019 –$1,126,408

Travel for Specific Individuals

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.403*) states that, in order to be allowable under federal guidelines, costs must be necessary and reasonable, and adequately documented.

The Code of Federal Regulations (2 cfr 200.446) states "Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the non-Federal entity. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the trip, and results in charges consistent with those normally allowed in like circumstances in the non-Federal entity's non-federally-funded activities and in accordance with non-Federal entity's written travel reimbursement policies."

The Code of Federal Regulations (2 cfr 200.446(b)) states "Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, must be considered reasonable and otherwise allowable only to the extent such costs do not exceed charges normally allowed by the non-Federal entity in its regular operations as the result of the non-Federal entity's written travel policy. In addition, if these costs are charged directly to the Federal award documentation must justify that: (1) Participation of the individual is necessary to the Federal award; and (2) The costs are reasonable and consistent with non-Federal entity's established travel policy."

The Code of Federal Regulations (2 cfr 200.446(d)) states "Airfare costs in excess of the basic least expensive unrestricted accommodations class offered by commercial airlines are unallowable except when such accommodations would: (i) Require circuitous routing; (ii) Require travel during unreasonable hours; (iii) Excessively prolong travel; (iv) Result in additional costs that would offset the transportation savings; or (v) Offer accommodations not reasonably adequate for the traveler's medical needs. The non-Federal entity must justify and document these conditions on a case-by-case basis in order for the use of first-class or business- class airfare to be allowable in such cases."

Exceptions/Questioned Costs: During the audit, auditors noted that certain individuals were reimbursed substantial travel costs when compared to other personnel. Additionally, due to the instances of fraud, waste, and abuse at MDHS, MCEC and FRC, certain individuals were assigned higher risk with travel reimbursements than everyday personnel. During testwork, the auditor noted the following questioned costs:

- Priceless Ventures, LLC travel – The owner and operator of Priceless Ventures (TD) was reimbursed for travel from MCEC. The contracts with MCEC state that the contract price is all inclusive and do not detail policies for travel reimbursement. Nevertheless, travel made by TD for these contracts was reimbursed and charged to the TANF grant. A review of actual travel invoices showed that TD often flew first class, stayed in high priced hotel suites, and charged expensive meals for himself and others. In one instance, $607 for the "Oxford Grillehouse" was charged to the TANF grant. For fiscal year 2019, MCEC reimbursed $12,872 to TD for travel. Due to the unreasonable cost of the expenses, the lack of correlation to TANF purpose, and the violation of restrictions on airfare, these charges are questioned.

Questioned costs for fiscal year 2019 – $12,872

- BD travel – Aside from being the owner and operator of Restore2, LLC, BD was also employed by MCEC from July 1, 2018 to June 30, 2019. During his employment there, BD also submitted requests for reimbursement for travel. The travel reimbursement requests do not contain information to ascertain the relevance of the travel to TANF purposes. Additionally, a review of the actual travel invoices showed that BD often flew first class, stayed in high priced hotel suites, and charged expensive meals. During his employment, BD was reimbursed $31,808 of travel expenses. Due to the unreasonable cost of the expenses, the lack of correlation to TANF purpose, and the violation of restrictions on airfare, these charges are questioned.

  Questioned costs for fiscal year 2019 – $31,808

- MCEC purchased a round trip, first class ticket for BD's wife to fly to Los Angeles, CA, with BD on April 21, 2019. Flight arrangements were made by Executive Director JD's Administrative Assistant and emailed to BD, with Executive Director copied on the email. During this time, BD was in addiction treatment in Malibu, CA at Rise in Malibu, as stated in the finding above. As there was no business purpose in the trip, BD's wife was not an employee of MCEC, and given the restrictions on airfare, these costs are questioned.

  Questioned costs for fiscal year 2019 – $1,614

Total amount questioned in 2019 –$46,294

<u>Salaries</u>

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.403*) states that, in order to be allowable under federal guidelines, costs must be necessary and reasonable, and adequately documented.

The Code of Federal Regulations (2 cfr 200.445 (a)) states that, "Costs of goods or services for personal use of the non-federal entity's employees are unallowable regardless of whether the cost is reported as taxable income to the employees."

The Code of Federal Regulations (2 cfr 200.53(b)) states "Improper payment includes any payment to an ineligible party, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), any payment that does not account for credit for applicable discounts, and any payment where insufficient or lack of documentation prevents a reviewer from discerning whether a payment was proper."

The Code of Federal Regulations (2 cfr 200.404) states "A cost is reasonable - if in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the entity is predominately federally funded. In determining reasonableness of a given cost, consideration must be given to: (a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award. (b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award. (c) Market prices for comparable goods or services for the geographic area. (d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government. (e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost."

The Code of Federal Regulations (2 cfr 200.405 (a)) states "A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received."

The *MDHS Subgrant/Contract Manual*, which subgrants must attest to have read and understood prior to receiving grant awards, states in Section 5, under the heading "Documentation Requirements" that the minimum documentation requirements for salaries are time sheets and activity reports which reflect the actual hours worked and duties performed. Time distribution/activity sheets are required when the employee's time is charged to more than one subgrant or activity. This section also states under the heading "Cost Allocation/Indirect Costs", if MDHS subgrantee administers more than one subgrant at a time which results in costs that are shared among various subgrant programs and/or other funds such as local resources, the subgrantee must document the basis for allocating a portion of the shared costs to the MDHS subgrant and shall distribute the costs in a reasonable proportion to the benefits received.

Exceptions/Questioned Costs: In order to test the salaries paid at MCEC, auditors requested a list of employees and their salaries. MCEC provided a list; however, the list did not contain job descriptions. Auditors then requested for the job descriptions to be added to the list. When auditors received the revised list with job descriptions, auditors compared the two lists and found that five employees on the first list were not on the second list, and some of the salary amounts changed. Two of the employees that were no longer listed were the daughters-in-law of the Director of MCEC (NN) – the Assistant Executive Director's (ZN) wife, and the wife of NN's other son, JN. Two of the other employees that were no longer listed were attorneys that also are employees at FRC, one of which was previously the

Deputy Executive Director of MDHS under Executive Director JD and the other is the niece of the Executive Director of FRC.

Further review of the underlying accounting records indicated that both daughters-in-law were each paid $31,667 in gross earnings (for a total of $63,333 in FY 2018) using TANF funds. This amount includes a check to each in the amount of $15,000 (gross) on September 29, 2017.

The two attorneys reference above received approximately $181,000 in FY 2018 and $394,000 in FY 2019 from FRC; and received approximately $203,000 in FY 2018 and $208,000 in FY 2019 from MCEC.

As discussed above, through the course of the audit, auditors became aware of the risk of TANF funds converted to personal use to fund private businesses owned by the Director of MCEC (NN), the Assistant Director of MCEC (ZN) and NN's son JN. Auditors determined that there were several employees on MCEC's payroll who were also listed as staff of New Summit School (NSS – owned by NN), Mississippi Dyslexia Center (owned by JN and ZN), and Spectrum Academy (owned by JN). The salaries of the employees identified were approximately $339,000 in FY 2017, $860,000 in FY 2018, and $944,000 in FY 2019.

Also, as discussed above, the principal of Restore2 (BD) was also an employee of MCEC. In addition to the payments that were made to the rehabilitation facility, and the contractual payments made to BD by MDHS, BD continued to be paid $83,000 in salary payments by MCEC during the time period that he was in rehabilitation at Rise In Malibu. BD's job description, as listed by MCEC, was "Trainer". The average salary of all of the other employees with the "Trainer" job description was approximately $28,000. However, BD was receiving an annual salary of $250,000. The total amount paid to BD was approximately $208,000 in FY 2018, and $250,000 in FY 2019.

The owner of MD Foundation (MD) discussed above was also an employee of MCEC. Initially, MCEC stated that MD was also a "trainer", although, MCEC later stated that he was a "community liaison". MD received an annual salary of $130,000. The amount paid to MD was approximately $104,000 in FY 2018 and $130,000 in FY 2019. MD was also an employee of FRC during the same period and received approximately $60,000 in FY 2018 and $59,000 in FY 2019.

Due to the widespread fraud, waste, and abuse already discussed, the fact that MCEC attempted to conceal who was paid with TANF funds by editing the employee listing provided to auditors, the familial relationships of some employees with the owners of MCEC, the lack of any discernable work performed to earn the salaries of some individuals, and the unreasonable amounts of certain salaries, these costs are specifically questioned.

In addition to these specific questioned costs, neither subrecipient had a reasonable, causal beneficial, underlying allocation methodology of the salaries to the multiple subgrants that they received. Nor did they have adequate supporting documentation to substantiate the allocations that were used. For this reason, we are questioning all of the salaries and wages paid as auditors cannot determine what a reasonable allocation would be based on the existing documentation.

Total amount questioned in 2017 - $5,840,046
Total amount questioned in 2018 - $13,202,040
Total amount questioned in 2019 - $15,296,505

<u>All Other Costs from MCEC Sampled</u>

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.403*) states that, in order to be allowable under federal guidelines, costs must be necessary and reasonable, and adequately documented.

Exceptions/Questioned Costs: Auditors sampled and tested all other expense classes at MCEC for adherence to Uniform Grant Guidance allowability regulations. During testing, auditors noted that MCEC did not have an appropriate or auditable underlying methodology for allocating shared costs among multiple grants. Due to this lack of methodology, auditors could not verify the cost charged to the grant was reasonable or necessary. The items detailed below are questioned in addition to those items identified during a nomenclature review and detailed in the above paragraphs.

During testwork for allowable costs and activities allowed, auditors noted the following questioned costs:

- Awards, Banquets, and Events – Out of 12 items tested, auditors noted the following:
  - Three instances totaling $14,656 where documentation supporting the cost could not be provided; therefore, auditor could not determine if cost was allowable.
  - Seven instances totaling $54,480 where cost were determined questionable based on the reasonableness to the TANF program.

  Questioned Cost for fiscal year 2019 - $69,136

- Consulting – One item was questioned:
  - One item totaling $100 was questioned in which the reasonableness and allowability of an expenditure could not be determined due to the agency not providing sufficient documentation for the expenditure.

  Questioned Cost for fiscal year 2019 - $100

- Contract Labor – Out of 194 items tested, auditors noted the following:
  - Seven items totaling $450 were questioned due to auditor being unable to determine the need for the expense to the TANF program due to insufficient details in supporting documentation.
  - Sixteen items totaling $853 where MCEC was unable to provide a contract or agreement for the services provided. Therefore, auditor was unable to determine the need or reasonableness to the TANF program.

  - 179 items totaling $70,415 where MCEC was unable to provide a contract or agreement that the tutoring services performed were for work related to TANF eligible individuals.

Questioned Cost for fiscal year 2019 - $71,718

- Curriculum – One item was questioned:
  - One item totaling $15,750 was questioned in which the reasonableness and allowability of an expenditure could not be determined due to the agency not providing sufficient documentation for the expenditure.

Questioned Cost for fiscal year 2019 - $15,750

- Data Processing – Out of 5 items tested, auditors noted the following:
  - Five items totaling $5,100 in which costs were questioned due to 100 percent of the cost being charged to the TANF program. The subgrantee did not have a proper allocation plan and the auditor was unable to determine the percentage of the expense that is considered necessary and reasonable for the performance and administration of federal awards to the TANF program.

Questioned Cost for fiscal year 2019 - $5,100

- Dues and Subscriptions – Out of 5 items tested, auditors noted the following:
  - Three items totaling $139 where the expense was questioned based on the reasonableness to promote the objectives of the TANF program.
  - Two items totaling $355 where MCEC paid for expenses associated with a counselor licensure for an employee who was employed by New Summit School.

Questioned Cost for fiscal year 2019 - $494

- Equipment Rental – Out of 100 items tested, auditors noted the following:
  - Nine items totaling $2,334 were questioned in which the reasonableness and allowability of an expenditure could not be determined due to the agency not providing sufficient documentation for the expenditure.
  - Six items totaling $923 where the expense was questioned based on the reasonableness to promote the objectives of the TANF program.
  - Eighty-four items totaling $31,759 where costs were questioned due to 100 percent of the cost being charged to the TANF program. The subgrantee did not have a proper allocation plan and the auditor was unable to determine the percentage of the expense that is considered necessary and reasonable for the performance and administration of federal awards to the TANF program.

Questioned Cost for fiscal year 2019 - $35,016

- Janitorial – Out of 6 items tested, auditors noted the following:

  - Six items totaling $3,295 where costs were questioned due to 100 percent of the cost charged to the TANF program. The subgrantee did not have a proper allocation plan and the auditor was unable to determine the percentage of the expense that is considered necessary and reasonable for the performance and administration of federal awards to the TANF program.

  Questioned Cost for fiscal year 2019 - $3,295

- Meetings – One item was questioned:
  - One item totaling $200 where the reasonableness of the expenditure to promote the objective of the TANF program could not be determined.

  Questioned Cost for fiscal year 2019 - $200

- Postage and Delivery – Out of 9 items tested, auditors noted the following:
  - Three items totaling $2,005 where costs were questioned due to 100 percent of the cost being charged to the TANF program. The subgrantee did not have a proper allocation plan and the auditor was unable to determine the percentage of the expense that is considered necessary and reasonable for the performance and administration of federal awards to the TANF program.

  Questioned Cost for fiscal year 2019 - $2,005

- Professional Fees – Out of 3 items tested, auditors noted the following:
  - One item totaling $5,500 where costs were questioned due to 100 percent of the cost charged to the TANF program. The subgrantee did not have a proper allocation plan, and the auditor was unable to determine the percentage of the expense that is considered necessary and reasonable for the performance and administration of federal awards to the TANF program.
  - Two items totaling $135 where MCEC paid for expenses associated with an employee who was employed by New Summit School. Due to this and MCEC not having a proper allocation plan, auditor is unable to determine the percentage of charges that should be charged to the TANF program.

  Questioned Cost for fiscal year 2019 - $5,635

- Repairs and Building – Out of 4 items tested, auditors noted the following:
  - Four items totaling $2,889 where the cost is unallowable as maintenance and repair cost. Per *2 cfr 200.452*, costs incurred for utilities, insurance, security, necessary maintenance, janitorial services, repair, or upkeep of buildings and equipment (including Federal property unless otherwise provided for) which neither add to the permanent value of the property nor appreciably prolong its intended life are only allowable if these costs keep the building/property in an efficient operating condition.

Questioned Cost for fiscal year 2019 - $2,889

- Repairs - Other – Out of 2 items tested, auditors noted the following:
    - Two items totaling $1,330 where documentation supporting the cost could not be provided; therefore, auditor could not determine if cost was allowable.

Questioned Cost for fiscal year 2019 - $1,330

- Seminars and Continuing Education - Out of 10 items tested, auditors noted the following:
    - Five items totaling $492 where documentation supporting the cost could not be provided; therefore, auditor could not determine if cost was allowable.
    - One item totaling $150 where costs were determined questionable based on the reasonableness of the cost to promote the TANF program
    - Two items totaling $28,796 were questioned due to MCEC not having a proper cost allocation plan. Auditor could not determine the percentage of the expenditure that would be considered necessary and reasonable for the performance and administration of Federal awards. 100 percent of the expenditure should not be charged directly to the TANF grant due to salaries being a shared cost across multiple grants. Auditor also noted that due to the nature of expenditure reporting and record keeping, auditor could not determine if the cost was recorded to the correct reporting category, or used to meet the matching requirements of any other federal award. Additionally, auditor could not determine if the cost was consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities.

Questioned Cost for fiscal year 2019 - $29,438

- Repairs and Building – Out of 4 items tested, auditors noted the following:
    - One item totaling $1,106 where documentation supporting the cost could not be provided; therefore, auditor could not determine if cost was allowable.

Questioned Cost for fiscal year 2019 - $1,106

- Supplies – Out of 17 items tested, auditors noted the following:
    - Three items totaling $705 where documentation supporting the cost could not be provided; therefore, auditor could not determine if cost was allowable.
    - Five items totaling $339 where costs were determined questionable based on the reasonableness of the cost to promote the TANF program.
    - Nine items totaling $402 were questioned due to MCEC not having a proper cost allocation plan. Auditor could not determine the percentage of the expenditure that would be considered necessary and

reasonable for the performance and administration of Federal awards. 100 percent of the expenditure should not be charged directly to the TANF grant. Auditor also noted that due to the nature of expenditure reporting and record keeping, auditor could not determine if the cost was recorded to the correct reporting category, or used to meet the matching requirements of any other federal award. Additionally, auditor could not determine if the cost was consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities.

Questioned Cost for fiscal year 2019 - $1,446

- Telephone – While reviewing invoices, auditors noted the following:
  - MCEC is paying a portion of each employees' phone bill; however, the methodology to determine how much is paid per employee is not properly documented. The fringe benefit is applied to all employees regardless of need in regards to TANF purposes. Additionally, it was noted that MCEC is also paying 100 percent of the phone bill for employees that are either not employed by MCEC, do not work full time for MCEC, or work for New Summit School or New Learning Resource center part-time. Auditors also noted that the telephone invoices also indicate that MCEC is paying for iPhones and iPad devices for NN (iPhone, iPad, and data for each), ZN (iPhone, two iPads, and data for each), ZN's wife (iPhone and data), JN (iPhone and data), and JN's wife (iPhone and data). MCEC was also paying monthly installments on two phones and for the iPhone data for the owner of Priceless Ventures, TD.

    Invoices also show that some employees' are having their spouses and children's phones, service, and iPhone data paid for using TANF funds – including the IT Director of MCEC's (BB) own phone and data, his son's data, and his daughter's phone and data. Invoices show that MCEC paid monthly on installments on at least 25 different iPhones and iPads for employees. These devices ranged from iPhone 8s to iPhone XS's, and from iPad minis to iPad Pros.

    Additionally, Federal Regulation requires expenses to be allocated to the projects based on the proportional benefit, and auditors have no assurance the cost associated with this benefit is being applied properly. Due to these factors, all amounts paid for telephone expense for FY 2019 are questioned.

    Questioned Cost for fiscal year 2019 - $61,389

- Telephone - Office – Out of 5 items tested, auditors noted the following:

  - Five items totaling $2,314 were questioned due to MCEC not having a proper cost allocation plan. Auditor could not determine the percentage of the expenditure that would be considered necessary and reasonable for the performance and administration of Federal awards. 100 percent of the expenditure should not be charged directly to the TANF grant due to salaries being a shared cost across multiple grants. Auditor also noted that due to the nature of expenditure reporting and record keeping, auditor could not determine if the cost was recorded to the correct reporting category, or used to meet the matching requirements of any other federal award. Additionally, auditor could not determine if the cost was consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities.

    Questioned Cost for fiscal year 2019 - $2,314

- Travel - Mileage – Out of 7 items tested, auditors noted the following:
  - Two items totaling $1,000 where documentation supporting the cost could not be provided; therefore, auditor could not determine if cost was allowable.
  - Five items totaling $675 where cost for the travel to the events, meetings, or trainings do not meet the needs or purpose of the TANF program.

    Questioned Cost for fiscal year 2019 - $1,675

- Travel - Other – Out of 4 items tested, auditors noted the following:
  - One item totaling $229 was questioned due to the fact expense was to pay a speeding ticket incurred by the Director of MCEC (NN). Speeding tickets and/or fines and penalties are unreasonable, un-allocable, prohibited by state laws, and unallowable.
  - One item totaling $976 where documentation supporting the cost could not be provided; therefore, auditor could not determine if cost was allowable.
  - Two items totaling $211 were questioned due to the travel costs are for individuals who are not employees of MCEC.

    Questioned Cost for fiscal year 2019 - $1,416

- Utilities – Out of 97 items tested, auditors noted the following:
  - One item totaling $52 where costs were determined questionable based on the reasonableness of the cost to promote the TANF program.
  - One item totaling $93 was questioned due to funds being used to pay a fine/penalty for unreturned satellite equipment. Fines and penalties are unreasonable, un-allocable, prohibited by state laws, and unallowable.

- Ninety-five items totaling $17,830 were questioned due to MCEC not having a proper cost allocation plan. Auditor could not determine the percentage of the expenditure that would be considered necessary and reasonable for the performance and administration of Federal awards. 100 percent of the expenditure should not be charged directly to the TANF grant due to salaries being a shared cost across multiple grants. Auditor also noted that due to the nature of expenditure reporting and record keeping, auditor could not determine if the cost was recorded to the correct reporting category, or used to meet the matching requirements of any other federal award. Additionally, auditor could not determine if the cost was consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities.

Questioned Cost for fiscal year 2019 - $17,975

Total amount questioned in 2019 –$329,427

All Other Costs from FRC Sampled

Laws and Regulations: *The Code of Federal Regulations (2 cfr 200.403*) states that, in order to be allowable under federal guidelines, costs must be necessary and reasonable, and adequately documented.

Exceptions/Questioned Costs: Auditors sampled and tested all other expense classes at FRC for adherence to Uniform Grant Guidance allowability regulations. During testing, auditors noted that FRC did not have an appropriate or auditable underlying methodology for allocating shared costs among multiple grants. Due to this lack of methodology, auditors could not verify the cost charged to the grant was reasonable or necessary. The items detailed below are questioned in addition to those items identified during a nomenclature review and detailed in the above paragraphs.

During testwork for allowable costs and activities allowed, auditors noted the following questioned costs:

- Commodities – Out of 12 items tested, auditors noted the following:
  - Ten items totaling $5,834 were questionable due to FRC not having a proper cost allocation plan. Auditor could not determine the percentage of the expenditure that would be considered necessary and reasonable for the performance and administration of Federal awards. 100 percent of the expenditure should not be charged directly to the TANF grant due to salaries being a shared cost across multiple grants. Auditor also noted that due to the nature of expenditure reporting and record keeping, auditor could not determine if the cost was recorded to the correct reporting category, or used to meet the matching requirements

of any other federal award. Additionally, auditor could not determine if the cost was consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities.
- One item totaling $222 where costs were determined questionable based on the reasonableness of the cost to promote the TANF program.
- One item totaling $65 where documentation supporting the cost could not be provided; therefore, auditor could not determine if cost was allowable.

Questioned Cost for fiscal year 2019 - $6,121

- Contractual – Out of 4 items, auditors noted the following:
  - Three items totaling $3,512 were questionable due to FRC not having a proper cost allocation plan. Auditor could not determine the percentage of the expenditure that would be considered necessary and reasonable for the performance and administration of Federal awards. 100 percent of the expenditure should not be charged directly to the TANF grant due to salaries being a shared cost across multiple grants. Auditor also noted that due to the nature of expenditure reporting and record keeping, auditor could not determine if the cost was recorded to the correct reporting category, or used to meet the matching requirements of any other federal award. Additionally, auditor could not determine if the cost was consistent with policies, regulations, and procedures that apply uniformly to improper or if it conformed to the limitations of *2 CFR part 200, subpart E*. Additionally, adequate documentation for two of the items supporting the cost could not be provided; therefore, auditor could not determine if cost was allowable.
  - One item totaling $2,667 where funds were used for promotional items which are unallowable according to *2 CFR 200.431*. Additionally, adequate documentation supporting the cost could not be provided; therefore, auditor could not determine if cost was allowable.

  Questioned Cost for fiscal year 2019 - $6,179

- Equipment – Out of 8 items tested, auditors noted the following:
  - Eight items totaling $116,110 were questionable due to FRC not having a proper cost allocation plan. Auditor could not determine the percentage of the expenditure that would be considered necessary and reasonable for the performance and administration of Federal awards. 100 percent of the expenditure should not be charged directly to the TANF grant due to the equipment being a shared cost across multiple grants. Auditor also noted that due to the nature of expenditure reporting and record keeping, auditor could not determine if the cost was recorded to the correct reporting category, or used to meet the matching requirements of any other federal award. Additionally, auditor could not determine if the cost was consistent with policies, regulations, and procedures that apply uniformly to improper or if it conformed to the limitations of *2 CFR part 200, subpart E.*

  Questioned Cost for fiscal year 2019 - $116,110

- Travel – Out of 12 items tested, auditors noted the following:
    - Two items totaling $4,605 were questionable due to FRC not having a proper cost allocation plan. Auditor could not determine the percentage of the expenditure that would be considered necessary and reasonable for the performance and administration of Federal awards. 100 percent of the expenditure should not be charged directly to the TANF grant due to the travel being a shared cost across multiple grants. Auditor also noted that due to the nature of expenditure reporting and record keeping, auditor could not determine if the cost was recorded to the correct reporting category, or used to meet the matching requirements of any other federal award. Additionally, auditor could not determine if the cost was consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities.

      Questioned Cost for fiscal year 2019 - $4,605

Total amount questioned in 2019 –$133,015

Due to the widespread fraud, waste, and abuse uncovered during the audit, and the lack of any appropriate underlying methodology for the allocation of shared costs in both MCEC and FRC, the overall lack of documentation to establish reasonableness and necessity of costs, the lack of integrity in documents obtained from MCEC due to known instances of forgery, misdirection, document modification, etc., the direct involvement of MDHS personnel in the fraud, waste, and abuse, and the likelihood of additional fraud, waste, and abuse existing in the actions of these subrecipients, auditor cannot state, with reasonable assurances, the amount of grant costs for the TANF grant were used appropriately.

Known questioned costs, as detailed in the finding above:

For fiscal year 2017: $6,333,044 (TANF)
For fiscal year 2018: $28,419,923 (TANF)
For fiscal year 2019: $31,155,361 (TANF)

For fiscal year 2018: $593 (SSBG)
For fiscal year 2019: $111,262(SSBG)

For fiscal year 2018: $497,987 (SNAP)

For fiscal year 2019: $139,564 (CCDF)

Likely questioned costs include total amounts paid to MCEC and FRC for TANF, CCDF and SNAP awards less any amounts questioned in other allowable cost findings in this report. The total has been reduced by those questioned costs to ensure the same dollar is only questioned one time.

Chart below shows amounts actually paid to MCEC and FRC as of June 30, 2019. Amounts paid could be less than grant awards listed in the "Background" section of the finding due to timing differences in the State/Federal fiscal years.

	Total Paid	Less Amount Questioned in Other Finding	Total Questioned
2019			
TANF	$26,517,614	N/A	$26,517,614
CCDF	$ 6,576,057	$3,529,915	$ 3,046,142
SNAP	$ 1,144,953	$684,598	$ 460,355
2018			
TANF	$34,801,286	N/A	$34,801,286
SNAP	$ 497,987	N/A	$ 497,987
SSBG	$ 6,900,000	N/A	$ 6,900,000
2017			
TANF	$21,941,224	N/A	$21,941,224
Total	**$98,379,121**	**$4,214,513**	**$94,164,608**

All information related to this audit finding has been referred to the Mississippi Office of the State Auditor Investigative Division, the United States Department of Justice, the Office of Inspector General for the United States Department of Health and Human Services, and the Federal Bureau of Investigation.

Cause

Executive Director JD circumvented internal controls set in place by MDHS in regards to procurement, monitoring, and other allowable costs controls in order to direct monies to certain subrecipients, who then directed federal monies to individuals associated with JD. Additionally, JD used his position as Director to convince employees at MDHS to collude with him in circumventing controls. MDHS, in turn, did not appropriately monitor or review expenditures at the subrecipient level to ensure adherence to allowable cost and activities allowed guidelines. Personnel at MDHS are not properly trained or educated in regards to allowable cost provisions. Lastly, personnel at MDHS either disregarded established policies and procedures, or were not aware policies and procedures existed.

Effect

Due to high risk of additional fraud, waste, and abuse other than what has been reported to authorities or detailed in this report, auditor questioned the entire grant award amounts to certain subrecipients. Uniform Grant Guidance includes remedies for non-compliance with federal regulations, including, but not limited to, requesting a dollar for dollar reduction in the subsequent year's grant award for any money misappropriated or misspent under the Temporary Assistance for Needy Families Grant. Additionally, the widespread fraud, waste, and abuse has led to public distrust of MDHS, and a loss of integrity in the public welfare system in the State of Mississippi.

Recommendation

We recommend the Mississippi Department of Human Services take swift and immediate action to re-instill trust in the public welfare system in Mississippi by doing the following actions:

1) Pursue any legal remedies available against those that have contributed to the widespread fraud, waste, and abuse detailed in this report;
2) Pursue any legal remedies to seize property at MCEC and FRC that was purchased with federal monies in accordance with the policies of the *MDHS Subgrant Manual*;
3) Procure an independent certified public accounting firm to conduct a widespread forensic audit of MDHS to determine the extent of fraud, waste,

and abuse in other programs, as well as the TANF program, and of MCEC and FRC to support any attestation made by MDHS of the allowability of costs, and report any suspected criminal activity to the Mississippi Office of the State Auditor;

4) Conduct internal investigations to determine the pervasiveness of the knowledge and involvement of former and current MDHS staff in the widespread fraud, waste, and abuse, and report any suspected criminal activity to the Mississippi Office of the State Auditor;

5) Strengthen existing controls to ensure non-compliance with federal regulations does not continue;

6) Procure adequate and appropriate training for all staff who are involved in any federal allowable costs and activities allowed monitoring;

7) Increase awareness in subrecipients of allowable cost and activities allowed regulations.

Views of Responsible Officials

Material Weakness
Material Noncompliance

2019-031 Strengthen Controls to Ensure Compliance with Allowable Cost Requirements of the Supplemental Nutrition Assistance Program (SNAP).

CFDA Number 10.551 Supplemental Nutrition Assistance Program (SNAP)

Federal Award No. 1283505 (2018 E&T 50%)
1293505 (2019 E&T 100%)

Federal Agency U.S. Department of Agriculture

Questioned Costs $684,598

Criteria Per *MDHS' Subgrant/Agreement Manual Section 5*, "The accounting system of each MDHS subgrantee shall provide the monitors/auditors with adequate documentation to support the subgrantee's financial claims. Source documents are required to support transactions entered into the subgrantee's record keeping system. The following is a list of the minimum documentation required for selected transaction types: …Time sheets and activity reports which reflect the actual hours worked and duties performed. Time distribution/activity sheets are required when the employee's time is charged to more than one subgrant or activity. An approved travel voucher showing that all travel expenses were incurred for the benefit of the subgrant; copies of supporting bills including out of state meal receipts, hotel bills, conference registration fee receipts, and conference agendas."

Per the *Code of Federal Regulations, Title 45- Subtitle a- Subchapter A- Part 200.431*, "Pension Plan Costs. Pension plan costs which are incurred in accordance with the established policies of the non-Federal entity are allowable, provided that: (1) Such policies meet the test of reasonableness."

Per the *Code of Federal Regulations, Title 45-Subtitle A- Subchapter A- Part 200.404*, "A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to: (a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award….."

Per the *Code of Federal Regulations, Title 45-Subtitle A- Subchapter A- Part 200.405*, "A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost: (1) Is incurred specifically for the Federal award..."

Condition

During testwork performed related to SNAP Activities Allowed and Allowable Costs, auditor noted 31 instances in which MDHS made reimbursement payments to Mississippi Community Education Center (MCEC) for salary, travel, fringe benefits and education related expenses for an agreement MCEC entered into with a KLLM Transport Services (KLLM) to provide training to SNAP Employment and Training (E&T) participants. Allowability of these activities or costs could not be determined due to the following:

1. MCEC did not provide timesheet information to support the allocation of salary percentages, nor did it provide supporting documentation relating to travel expenditures. Information provided to auditors by MCEC and information provided to MDHS by MCEC did not agree in relation to salary and wages applied to the grant.
2. The Fringe rate of 26.65 percent used by MCEC includes an unreasonable percentage of contributions to a 403(b) plan, including a profit sharing contribution for the Executive Director (NN) and Assistant Executive Director of MCEC (ZN).
3. Fraud, waste, and abuse noted during review of MCEC that included both reimbursement and accounting recorded falsification. MCEC initially submitted reimbursement for KLLM expenses at $8,000 per student cost. When advised that the $8,000 cost was too high, MCEC submitted new documentation at $4,000 and documentation for a new program for the exact amount of unallowed expenditures in the prior submission. Personnel from KLLM stated that this additional training never occurred.
4. MCEC comingled federal and private funds, as well as lacked a proper cost allocation system.

The total of the questioned costs amounts to $684,598.

Due to the issues stated above, auditor could not determine if the costs associated with this subrecipient were allowable, allocable or reasonable to the SNAP program. Additionally, due to inadequate internal controls regarding payments to subrecipients, MDHS erroneously advanced a payment in the amount of $2,615,774 to MCEC on the grant. MCEC returned the payment; however, MCEC continued to submit payment requests on the grant. These requests were paid using the contractual services line item of MDHS' budget rather than the "Amount

Transferred to Subgrantee" account. Therefore, $511,120 was paid to MCEC using the appropriate subgrant requests and accounts, and an additional $173,478 was reimbursed using contractual services. Using the wrong accounts can result in an overpayment of the grant award.

As referenced in Finding 2019-030, the entire amount of SNAP grant funds paid to MCEC is questioned. The questioned costs for this finding were deducted from the total to ensure that the same costs were not questioned twice.

Cause The Former Executive Director circumvented controls and disregarded policies and procedures related to activities allowable and allowable costs in relation to expenditures made for Mississippi Community Education Center.

Additionally, MDHS staff were either unaware or incompliant with their own policies and federal codes of regulations.

Effect Failure to verify expenditures are allowable, appropriately pay expenditures out of federal or private funds, and allocate costs correctly can lead to federal funding being withdrawn or expenditures being paid with incorrect funds. This can also lead to fraud, waste, and abuse within an agency.

Recommendation We recommend the Mississippi Department of Human Services strengthen control procedures in order to properly verify expenditures are allowable and appropriate. We also recommend that the agency appropriately pay expenditures out of the correct federal or private funds and allocate the funds correctly across all expenditures.

Repeat Finding No.

Statistically Valid The sample is considered statistically valid.

View of Responsible Officials

Material Weakness
Material Noncompliance

2019-032 Controls Should Be Strengthened to Ensure Compliance with Allowable Cost Requirements of the TANF Program.

CFDA Number 93.558 Temporary Assistance for Needy Families State Programs

Federal Award No. G1701MSTANF 2017
G1801MSTANF 2018
G1901MSTANF 2019

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

Questioned Costs $2,374,752

Criteria

Per the *Code of Federal Regulations (2 cfr 200.437(a)-(b))*, "(a) Costs incurred in accordance with the non-Federal entity's documented policies for the improvement of working conditions, employer-employee relations, employee health, and employee performance are allowable. (b) Such costs will be equitably apportioned to all activities of the non-Federal entity."

Per the *Code of Federal Regulations (2 cfr 200.404)*, "A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to: … (b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award…. (d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government."

Per the *Code of Federal Regulations (2 cfr 200.210)*, "A Federal award must include the following information: … Federal Award Performance Goals. The Federal awarding agency must include in the Federal award an indication of the timing and scope of expected performance by the non-Federal entity as related to the outcomes intended to be achieved by the program. In some instances, (e.g., discretionary research awards), this may be limited to the requirement to submit technical performance reports (to be evaluated in accordance with Federal awarding agency policy). Where appropriate, the Federal award may include specific performance goals, indicators, milestones, or expected outcomes (such as outputs, or services performed or public impacts of any of these) with an expected timeline for accomplishment. Reporting requirements must be clearly articulated such that, where appropriate, performance during the execution of the Federal award has a standard against which non-Federal entity performance can be measured. The Federal awarding agency may include program-specific requirements, as applicable. These requirements should be aligned with agency strategic goals, strategic objectives, or performance goals that are relevant to the program."

Additionally, the *Code of Federal Regulations (2 cfr 200.62)* States that a non-federal entity must have internal control over compliance designed to provide reasonable assurance that;

(a) Transactions are properly recorded and accounted for, in order to:

- (1) Permit the preparation of reliable financial statements and Federal reports;
- (2) Maintain accountability over assets; and
- (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;

(b) Transactions are executed in compliance with:

- (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and

(2) Any other Federal statutes and regulations that are identified in the Compliance Supplement; and

(c) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Condition

During testwork performed for the Allowable Costs/Cost Principle requirements of the TANF program during fiscal year 2019, auditors noted the following exceptions:

- One instance totaling $11,034 in which auditor determined that expenditures for hotel rooms were associated with a "Law of 16 Conference." The Law of 16 Conference is a self-help course for employee morale; therefore, costs should have been equitably apportioned to all activities of the entity, and not solely the TANF program. All costs associated with the "Law of 16" conference hotel rooms are questioned;

- Questioned costs of $388,145 relating to known expenditures made for "Law of 16" conferences held by MDHS for MDHS personnel. "Law of 16" conferences were held by Priceless Ventures, LLC. Priceless Ventures had a contract with MCEC and FRC, subgrantees of MDHS, to supply these services. The contract states that it is Priceless Ventures' responsibility to pay for all costs associated with the conferences with the contracted sum. As those contracts with MCEC and FRC were paid with TANF grant money, MDHS was effectively charging the same expense against the TANF grant twice. Additionally, things like entertainment and branded items are against allowable cost regulations. Therefore, all costs associated with the for "Law of 16" conferences are questioned;

- Questioned cost of $1,927,573 relating to known expenditures made for Heart of David (HOD). The HOD grant lacked any discernable performance metrics and had an inadequate scope of services. HOD also represented itself as a faith-based organization; however, no certifications existed to certify the faith-based restriction of conducting inherently religious activities with federal monies. Additionally, entering into a subgrant agreement with HOD created a conflict of interest due to the personal relationship between an officer of HOD and the prior Executive Director JD of MDHS. See Finding 2019-030 for more information.

- Questioned cost of $48,000 for payments made to Restore2/Recover2. These payments were made for opioid training that was allegedly never conducted. Executive Director JD and the principal of Restore2 (BD) conspired to fraudulently create invoices, sign in sheets, etc. to justify payment of expenses when BD was out of state in a luxury rehabilitation facility. See Finding 2019-030 for more information.

Total questioned costs - $2,374,752

Cause

Staff were either unaware or did not follow policies and procedures related to Activities Allowed and Allowable Costs of TANF funds. The former Executive Director JD circumvented controls and disregarded policies and procedures related to activities allowable and allowable costs in relation to expenditures made for

Mississippi Community Education Center, Family Resource Center of Northeast Mississippi, Law of 16, Heart of David, and Restore2, LLC.

Effect Failure to verify expenditures are allowable, appropriately pay expenditures out of federal or private funds, and allocate costs correctly can lead to federal funding being withdrawn or expenditures being paid with incorrect funds. This can also lead to fraud, waste, and abuse within an agency.

Recommendation We recommend the Mississippi Department of Human Services strengthen control procedures in order to properly verify expenditures are allowable and appropriate. We also recommend that the agency appropriately pay expenditures out of the correct federal or private funds and allocate the funds correctly across all expenditures.

Repeat Finding No.

Statistically Valid The sample is considered statistically valid.

View of Responsible Officials

Material Weakness
Material Noncompliance

2019-033 Controls Should Be Strengthened to Ensure Compliance with Allowable Cost 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 1701MSCCDF 2017
1801MSCCDF 2018
1901MSCCDD 2019

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

Questioned Costs $3,532,466

Criteria The *Code of Federal Regulations (45 cfr 98)* regulates expenditures of funds under the Child Care and Development Block Grant (CCDF), including the identification of allowable costs for CCDF expended through the child care certificate program. 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 allowable costs for child care certificate payments under the CCDF program. Specifically, Section 103.02 of this manual addresses co-payment fees and Section 104.04 addresses child care certificate rates. Therefore, eligible school-aged children should be issued certificates that state both full-time and part-time rates eligibility so that the provider can record the proper attendance each day (full-time when school is not in session or part-time when school is in session).

Per the *MDHS Subgrant/Agreement Manual*, which subgrantees must attest to have read and understood prior to receiving grant awards, states in Section 5, "The accounting system of each MDHS subgrantee shall provide the monitors/auditors with adequate documentation to support the subgrantee's financial claims. Source documents are required to support transactions entered into the subgrantee's record keeping system. The following is a list of the minimum documentation required for selected transaction types: …Time sheets and activity reports which reflect the actual hours worked and duties performed. Time distribution/activity sheets are required when the employee's time is charged to more than one subgrant or activity. An approved travel voucher showing that all travel expenses were incurred for the benefit of the subgrant; copies of supporting bills including out of state meal receipts, hotel bills, conference registration fee receipts, and conference agendas."

Per the *Code of Federal Regulations (2 cfr 200.431)*, pension plan costs which are incurred in accordance with the established policies of the non-Federal entity are allowable, provided that: (1) Such policies meet the test of reasonableness.

Per the *Code of Federal Regulations (2 cfr 200.404)*, a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to: (a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award…

Per the *Code of Federal Regulations (2 cfr 200.405)*, a cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost: (1) Is incurred specifically for the Federal award…

Additionally, the *Code of Federal Regulations (2 CFR 200.62)* states that a non-Federal entity must have internal control over compliance designed to provide reasonable assurance that;

(a) Transactions are properly recorded and accounted for, in order to:

- (1) Permit the preparation of reliable financial statements and Federal reports;
- (2) Maintain accountability over assets; and
- (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;

(b) Transactions are executed in compliance with:

- (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and

(2) Any other Federal statutes and regulations that are identified in the Compliance Supplement; and

(c) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Condition

In performing allowable cost testwork related to certificate rates and co-pays during fiscal year 2019, auditor noted the following:

- Seven instances out of 120 tested, or 5.8 percent, in which school-aged children were issued a child care certificate that provided both full-time and part-time attendance rates, but the provider recorded, and was paid, only full-time rates during months school was in session. These seven instances resulted in known questioned costs of $1,981 out of total fiscal year school-aged certificate payments of $24,462,523 and projected questioned costs of $751,243;

- One instance out of 120 tested, or 1.2 percent, in which the family was deemed ineligible due to income being higher than 85 percent of average income for the state. This resulted in a questioned cost of $570 out of total certificate payments of $86,239,928 and projected questioned costs of $283,363; and

- Seventeen instances in which allowability of activities or cost could not be determined. The total of the questioned costs amounts to $3,529,915. Auditor noted during the review of the subecipients MCEC and FRC, that the subrecipients comingled federal and private funds, as well as did not have a proper cost allocation system. Due to these issues, auditor could not determine if the costs associated with these sub-recipients were allocable to the CCDF program or reasonable.

This resulted in known questioned cost of $3,532,466.

As referenced in Finding 2019-030, the entire amount of CCDF grant funds paid to MCEC is questioned. The questioned costs for this finding were deducted from that total to ensure that the same costs were not questioned twice.

Cause

Staff were either unware or did not follow identified policies and procedures over allowable cost requirements.

Effect

Failure of DECCD to properly provide for the payment of part-time rates on the certificates for school-aged children, ensure child care certificates are active prior to payment, ensure the proper rate is used based on the age of the child, and to prevent duplicate child care certificates can result in improper payments to child care providers, 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 allowable costs requirements of the Child Care and Development Block Grant by strengthening control procedures to ensure child care certificate rates and co-pays are assigned and providers paid in accordance with the requirements set forth in the *Code of*

Federal Regulations and the *Mississippi Child Care Payment Program Policy Manual.*

Repeat Finding Yes; 2018-049 in 2018; OTH-03 in 2017

Statistically Valid The sample is considered statistically valid.

View of Responsible Officials

Significant Deficiency
Immaterial Noncompliance

2019-034 Strengthen Controls Over Review of Computations and Data for Allowable Cost Activity Used in the Manual Cost Allocation Process and Review of Indirect Costs Allocated to Federal Programs.

CFDA Number
10.551 Supplemental Nutrition Assistance Program
93.558 Temporary Assistance for Needy Families State Programs
93.658 Title IV-E Foster Care

Federal Award
12-35-2841 – 19
G1602MSTANF
G1701MSTANF
G1801MSTANF
G1901MSTANF
G1801MSFOST
G1901MSFOST

Federal Agency United States Department of Agriculture; U.S. Department of Health and Human Services

Questioned Costs $1,871

Criteria The *Internal Control - Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) specifies that a satisfactory control environment is only effective when there are adequate control activities in place. Good internal controls provide that the agency's statistical units are used in accordance with the approved Cost Allocation Plans and that the agency is updating statistical information used for cost allocation on a quarterly basis, and that a supervisory review/approval of charges are in place.

Additionally, the *Code of Federal Regulations (2 cfr 200.62)* states that a non-Federal entity must have internal control over compliance designed to provide reasonable assurance that;

(a) Transactions are properly recorded and accounted for, in order to:

- (1) Permit the preparation of reliable financial statements and Federal reports;
- (2) Maintain accountability over assets; and

(3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;

(b) Transactions are executed in compliance with:

(1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and

(2) Any other Federal statutes and regulations that are identified in the Compliance Supplement; and

(c) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Condition

During testwork performed over allowable activities and allowable cost requirements, auditor noted:

- Three instances in which the reporting category charged on the manual cost allocation spreadsheet did not tie back to a reporting category listed on the crosswalk;

- One instance totaling $1,040 where the auditor noted a charge was for parking fees related to "Law of 16" conference. Auditors determined through the audit process that expenditures for "Law of 16" conferences are questionable. Based on this, auditor will question any indirect expenditures related to "Law of 16" conferences; and

- One instance in which the auditor could not verify proper approval for expenditures $831.

Cause

Keying error made while entering reporting categories into manual spreadsheet and staff oversight of review and approval of expenditures. Also, staff responsible for the review and payment of expenditures were possibly unaware of the questionable nature of expenditures relating to "Law of 16".

Effect

Failure to implement proper control could result in over/under allocation funds as well as the allocation of funds to prohibited expenditures.

Recommendation

We recommend the Mississippi Department of Human Services strengthen controls over the review of computations and data used in the cost allocation process to ensure accurate distribution of costs to federal programs as well as strengthen controls over the review and approval of expenditures.

Repeat Finding

No.

Statistically Valid

The sample is considered statistically valid.

View of Responsible Officials

CASH MANAGEMENT

Material Weakness

Material Noncompliance

2019-035 Controls Should Be Strengthened to Ensure Compliance with Cash Management Requirements of the TANF program.

CFDA Number 93.558 Temporary Assistance for Needy Families State Programs

Federal Award No. G1701MSTANF 2017
G1801MSTANF 2018
G1901MSTANF 2019

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

Questioned Costs None.

Criteria

The *Code of Federal Regulations (2 cfr 200.514(C)(4))* states, "When internal control over some or all of the compliance requirements for a major program are likely to be ineffective in preventing or detecting noncompliance, the planning and performing of testing described in paragraph (c)(3) of this section are not required for those compliance requirements. However, the auditor must report a significant deficiency or material weakness in accordance with § 200.516 Audit findings, assess the related control risk at the maximum, and consider whether additional compliance tests are required because of ineffective internal control."

Additionally, the *Code of Federal Regulations* (*2 cfr 200.305(b))* states that payment methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity. Advance payments are allowed provided the non-Federal entity maintains or demonstrates the willingness to maintain both written procedures that minimize the time elapsing between the transfer of funds and disbursement by the non-Federal entity, and financial management systems that meet the standards for fund control and accountability as established in this part. Advance payments to a non-Federal entity must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the non-Federal entity in carrying out the purpose of the approved program or project. The timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the non-Federal entity for direct program or project costs and the proportionate share of any allowable indirect costs. Reimbursement is the preferred method when these advance payment requirements cannot be met.

Furthermore, the *Code of Federal Regulations (2 cfr 200.62)*, states that a non-Federal entity must have internal control over compliance designed to provide reasonable assurance that;

(a) Transactions are properly recorded and accounted for, in order to:

(1) Permit the preparation of reliable financial statements and Federal reports;
(2) Maintain accountability over assets; and
(3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;

(b) Transactions are executed in compliance with:
   (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and
   (2) Any other Federal statutes and regulations that are identified in the Compliance Supplement; and

(c) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Condition

During the audit of the Mississippi Department of Human Services (MDHS) subrecipients MCEC and FRC, auditor noted:

- Subrecipients MCEC and FRC were advanced large sums of monies at the beginning of each grant period.

  MDHS informed auditors in meetings held on October 1, 2019 and February 5, 2020 that that they were not able to get sufficient information from MCEC or FRC throughout the grant period. Considering this failure to receive information, and overall lack of controls in regards to the activities allowed and allowable cost provisions of the federal grant, MDHS should have evaluated the appropriateness of large cash advances to the two subrecipients.

  A review of the underlying accounting records at MCEC and FRC indicated that both subrecipients requested advance payments before expenditures had been encumbered; thereby building large cash reserves to fund other grants and private operations. Both entities are funded by primarily federal grants.

  MCEC maintained an average monthly cash balance of approximately $4 million in FY 2017, $4.5 million in FY 2018, and $5 million in FY 2019.

  FRC maintained an average monthly cash balance of approximately $2 million in FY 2017, $2 million in FY 2018, and $2.5 million in FY 2019.

  These cash management practices are in direct violation of federal regulations and the *Cash Management Improvement Act* entered into between the State of Mississippi and the federal government.

Cause

Staff were either unaware or did not follow identified policies and procedures for areas that impact the cash management requirements related to Uniform Guidance.

Effect

Failure to verify expenditures are allowable, appropriately pay expenditures out of federal or private funds, and allocate costs correctly can lead to federal funding being withdrawn or expenditures being paid with incorrect funds. This can also lead to fraud, waste, and abuse within an agency.

Recommendation

We recommend the Mississippi Department of Human Services strengthen controls in order ensure federal funds are drawn down in accordance with the *Cash Management Information Act* and are designed to minimize the time elapsing between the transfer of funds from the United States Treasury and to the disbursement of funds.

Repeat Finding No.

Statistically Valid No.

View of Responsible Officials

ELIGIBILITY

Significant Deficiency
Immaterial Noncompliance

2019-036 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 1701MSCCDF 2017
1801MSCCDF 2018
1901MSCCDD 2019

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

Questioned Costs $2,030

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.

Additionally, the *Code of Federal Regulations (2 cfr 200.62)*, states that a non-Federal entity must have internal control over compliance designed to provide reasonable assurance that;
(a) Transactions are properly recorded and accounted for, in order to:
(1) Permit the preparation of reliable financial statements and Federal reports;
(2) Maintain accountability over assets; and
(3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;

(b) Transactions are executed in compliance with:
(1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and
(2) Any other Federal statutes and regulations that are identified in the Compliance Supplement; and
(c) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Condition Based on eligibility testwork in regards to the CCDF program, out of 120 child care certificate payments made during fiscal year 2019, auditor noted the following exceptions:

- Five instances in which the certificate file did not contain a certified and complete Child Care Payment Program application or redetermination form as applicable for certificate tested;

- Five instances in which it could not be verified that the child either resides with a parent who is receiving TANF, working, or attending a job-training/education program or is a FC/PS/HHM referral due to lack of sufficient supporting documentation;

- Five instances in which it could not be verified that the child resides with a family whose income does not exceed 85 percent of the State median income level due to lack of sufficient supporting documentation;

- 14 instances in which certificate copay amounts could either not be verified due to lack of sufficient supporting documentation or were incorrectly computed; and

- One instance of ineligibility due to incorrect amount of income being entered into CCPS.

This resulted in known questioned costs of $2,030 and a projected questioned cost of $78,967.

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

Effect Failure to ensure a child care certificate applications are complete and accurate 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. We also recommend strengthening control procedures to ensure child care certificate rates and copays are assigned in accordance with rules and regulations.

Repeat Finding Yes – 2018-048 in 2018; 2017-035 in 2017; 2016-025 in 2016; 2015-002 in 2015; 2014-010 in 2014.

Statistically Valid The sample is considered statistically valid.

View of Responsible Officials

MATCHING, LEVEL OF EFFORT, EARMARKING

Significant Deficiency
Immaterial Noncompliance

2019-037 Controls Should Be Strengthened to Ensure Compliance with Matching 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 1601MSCCDF 2016
1701MSCCDF 2017
1801MSCCDF 2018
1901MSCCDD 2019

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

Questioned Costs None.

Criteria Per the *Code of Federal Regulations (2 cfr 200 Appendix XI, Compliance Supplement)*, In-Kind contributions should be valued in accordance with *2 cfr sections 200.306, 200.434 and 200.414* along with the terms and conditions of the award.

Additionally, the *Code of Federal Regulations (2 cfr 200.62),* states that a non-Federal entity must have internal control over compliance designed to provide reasonable assurance that;
(a) Transactions are properly recorded and accounted for, in order to:
  (1) Permit the preparation of reliable financial statements and Federal reports;
  (2) Maintain accountability over assets; and
  (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;
(b) Transactions are executed in compliance with:
  (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and
  (2) Any other Federal statutes and regulations that are identified in the Compliance Supplement; and
(c) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Condition	Based on matching testwork for the CCDF program, auditors noted that the MDHS was not able to provide monthly reporting worksheets of in-kind donations. Additionally, MDHS does not require subrecipients to attach supporting documentation for in-kind expenditures. Due to the lack of supporting documentation, the auditor was unable to verify the values placed of those in-kind contributions are in accordance with Uniform Grant Guidance.
Cause	The Mississippi Department of Human Services does not require sub-recipients to submit supporting documentation for in-kind contributions.
Effect	Failure to require sub-recipients to submit supporting documentation regarding their claims for in-kind contributions could result in the improper valuation of in-kind contributions, inaccurate reporting of those in-kind contributions on the quarterly AFC-696 reports, and improper matching of federal funds.
Recommendation	We recommend the Mississippi Department of Human Services require subrecipients to provide supporting documentation, such as a listing of contributions and the method of the valuation of those contributions, for in-kind contributions claimed by the Mississippi Department of Human Services on its quarterly AFC-696 reports.
Repeat Finding	No.
Statistically Valid	The sample is considered statistically valid.
View of Responsible Officials	

PERIOD OF PERFORMANCE

Significant Deficiency
Immaterial Noncompliance

2019-038	Controls Should Be Strengthened to Ensure Compliance with the Period of Performance for the CCDF Program.
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	1701MSCCDF 2017 1801MSCCDF 2018 1901MSCCDD 2019
Federal Agency	U.S. Department of Health and Human Services
Questioned Costs	$46,264

Criteria

The *Code of Federal Regulations (45 cfr 98.60)*, requires both the Federal and non-Federal share of the Matching Fund shall be obligated in the fiscal year in which the funds are granted and liquidated no later than the end of the succeeding fiscal year.

The *Code of Federal Regulations (2 cfr 200.62),* states that a non-Federal entity must have internal control over compliance designed to provide reasonable assurance that;

(a) Transactions are properly recorded and accounted for, in order to:
  (1) Permit the preparation of reliable financial statements and Federal reports;
  (2) Maintain accountability over assets; and
  (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;

(b) Transactions are executed in compliance with:
  (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and
  (2) Any other Federal statutes and regulations that are identified in the Compliance Supplement; and

(c) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Condition

During testwork performed over Period of Performance requirements, auditor noted two instances in which the liquidation of funds totaling $46,264 did not occur within the Period of Performance of the federal grants.

Cause

Subrecipient close-out reports were not submitted timely.

Effect

Expenditures were made to a federal award/grant beyond the period of performance, resulting in questioned costs.

Recommendation

We recommend the Mississippi Department of Human Services strengthen controls over the grant close-out process to ensure liquidations are performed during the grant period.

Repeat Finding

No.

Statistically Valid

The sample is considered statistically valid.

View of Responsible Officials

PROCUREMENT, SUSPENSION, AND DEBARMENT

Material Weakness
Material Noncompliance

2019-039	Strengthen Controls Over Procurement Policies and Awarding Subgrants for the TANF program.
CFDA Number	93.558 Temporary Assistance for Needy Families State Programs
Federal Award No.	G1901MSTANF 2019
Federal Agency	U.S. Department of Health and Human Services
Questioned Costs	$72,000

Criteria

Per the *Code of Federal Regulations (45 cfr 200.331(b)),* all pass-through entities must: … Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward…

Per the *Code of Federal Regulations (45 cfr 200.319(a)),* All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, or invitations for bids or requests for proposals must be excluded from competing for such procurements. Some of the situations considered to be restrictive of competition include but are not limited to: … (5) Organizational conflicts of interest.

Per the *Code of Federal Regulations (45 cfr 200.320(b)),* procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources." Additionally, per *Chapter 3 Section 205.02 of the State of Mississippi Procurement Manual* that was in effect during the time period these contracts were awarded, "Insofar as it is practical for small purchases of services greater than $50,000 and not exceeding $75,000, no less than three (3) sources shall be solicited to submit written responses that are recorded and placed in the procurement file… If this method is used, award shall be made to the vendor offering the lowest and best bid or proposal. In the event three written responses are not obtained, the agency shall include a memo to the procurement file explaining why this was not accomplished.

Per the *Code of Federal Regulations (45 cfr 200.404),* a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to: …(b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.

Additionally, per the *Code of Federal Regulations (45 cfr 200.62),* states that a non-Federal entity must have internal control over compliance designed to provide reasonable assurance that;

(a) Transactions are properly recorded and accounted for, in order to:
  - (1) Permit the preparation of reliable financial statements and Federal reports;
  - (2) Maintain accountability over assets; and
  - (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;

(b) Transactions are executed in compliance with:
  - (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and
  - (2) Any other Federal statutes and regulations that are identified in the Compliance Supplement; and

(c) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Condition

During testwork performed for the Procurement, Suspension, and Debarment requirements of the TANF program during fiscal year 2019, auditor noted the following:

For Procurement, Suspension and Debarment relating to subawards:

- Through discussions with MDHS upper management, auditor became aware of the prior Executive Director JD's direct involvement in the TANF subaward process. Executive Director JD, at his sole discretion, awarded subrecipients without following any type of competitive RFP process. Policies in place at the time these awards were granted stated that a scoring process would be utilized to ensure fair and equitable awards were distributed. The policies were disregarded.

- Agency did not perform risk assessments of subawards as noted in Finding 2019-030. Due to this failure to perform risk assessments, MDHS did not have any objective basis to evaluate the performance of subrecipients from prior grant years to ensure compliance with federal regulations.

For Procurement, Suspension and Debarment relating to Contractual Services:

- Two instances in which auditor noted the agreement was not secured in a manner that provided full and open competition. Throughout the audit process, the auditor determined that MDHS entered into agreements with contractors that had personal relationships with the former Executive Director, and/or did not engage in proper procurement processes (refer to Finding 2019-030). Based on this information, any costs associated with these contracts would be unreasonable. See details regarding two instances below:

  - Auditor noted a personal relationship between the former Executive Director JD and the president of NCC Ventures. Executive Director JD also hired an immediate family member of the president of NCC Ventures to work in MDHS' Executive office during the contract period.

Additionally, MDHS only sent out three invitations/solicitations to bid, and only NCC Ventures responded to the solicitation. The contract's scope included "studying and measuring how well the public workforce system is meeting employer needs" and "engaging employers on behalf of MDHS client to assist in improving opportunity and outcomes in the workforce." Federal procurement regulations require that a "reasonable number" of bids be evaluated. The remaining two businesses were not located in Mississippi and were not registered with the Mississippi Secretary of State's Office. When auditors inquired of personnel at the other two businesses solicited as to why they did not respond to the solicitation, one informed auditor that his expertise was in construction management and had nothing to do with the project scope of workforce development.

Total amount paid on the contract of $72,000 is questioned.

- Auditor noted a personal relationship between prior Executive Director JD and an officer of Restore2, LLC (BD). BD was a former employee of MDHS. Contract for $48,000 was executed by Restore2 and MDHS for opioid training sessions. Based on information uncovered during an investigation of these payments due to fraud, waste, and abuse, auditors noted that work on this contract was not performed as stated in supporting documentation and that the purpose and need of the contract was fabricated by former Executive Director JD.

Cause Staff were not aware or did not follow policies and procedures over the procurement of contractual services. Additionally, procurement procedures were not adequately performed in order to ensure open and free competition.

Effect Failure to abide by procurement guidelines of both federal and state regulatory authorities could result in inappropriate contracts and payments, which could result in a clawback of federal monies. Additionally, disregarding policies and controls could lead to fraud, waste, and abuse.

Recommendation We recommend the Mississippi Department of Human Services strengthen controls to ensure compliance with state and federal regulations over the procurement of contracts. Additionally, we recommend the Mississippi Department of Human Services establish updated grant award policies in regards to their responsibility as a federal grant pass through.

Repeat Finding No.

Statistically Valid The sample is considered statistically valid.

View of Responsible Officials

Significant Deficiency

2019-040 Controls Should Be Strengthened Over Procurement of Subrecipients for SNAP.

CFDA Number 10.551 Supplemental Nutrition Assistance Program (SNAP)
10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

Federal Award No. 2018 SNAP E&T 50%
2019 SNAP E&T 100%
2019 USDA Outreach
2019 TEFAP

Federal Agency U.S. Department of Agriculture

Questioned Costs None.

Criteria Per the *Code of Federal Regulations (45 cfr 200.331 (b)),* all pass-through entities must: … Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward…

The *Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)* specifies that a satisfactory control environment is only effective when there are adequate control activities in place. Effective control activities dictate agencies maintain written policies and procedures in maintaining a good control environment.

Additionally, the *Code of Federal Regulations (2 cfr 200.303(a)),* states agencies should, "Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the federal awards in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award." Without written policies and procedures, the auditor is unable to substantiate non-written policies.

Furthermore, the *Code of Federal Regulations (45 cfr 200.62)* states that a non-Federal entity must have internal control over compliance designed to provide reasonable assurance that;

(a) Transactions are properly recorded and accounted for, in order to:
   (1) Permit the preparation of reliable financial statements and Federal reports;
   (2) Maintain accountability over assets; and
   (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;

(b) Transactions are executed in compliance with:
   (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and
   (2) Any other Federal statutes and regulations that are identified in the Compliance Supplement; and

(c) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Condition When performing testwork related to SNAP Procurement, Suspension, and Debarment, auditors noted the following:

- Out of the eight items sampled, two were for Skills2Work partner assessments.

  Skills2Work is a workforce development project designed to leverage federal funds to help the State scale career and technical education programs so that they are more accessible to low-income families. Companies that want to become a partner in the program, and receive a reimbursement of up to 40 percent of the allowable program cost, must fill out an application, scope of services, budget narrative and estimate and apply at MDHS.

  MDHS stated that all Skills2Work industry "partners" are required to receive a partner assessment. These assessments are used to evaluate the partner's viability based on the program criteria and the ability to service those individuals who qualify for SNAP benefits.

  MDHS supplied auditors with a copy of the partner assessment template, but was unable to provide auditors with the actual assessments used to evaluate the partners for admission to the program. Auditors inquired if there were any written policies and procedures for the partner assessments, and were provided an additional copy of the partner assessment template and the *Subgrantee Manual* used for all MDHS subgrants. Auditors were able to find a brochure sent to partners about the program, and a toolkit template on the MDHS website, but no other information was provided by MDHS. Auditor determined that all policies were verbal, and that there were not adequate controls over the partnership assessments.

- Out of eight items sampled, one contract was for MCEC and one contract was for FRC. Due to the direct involvement of former Executive Director JD, auditor not verify these contracts were entered into using arms-length bargaining.

- Out of eight items sampled, MDHS did not provide any supporting documentation for the procurement of the remaining four contracts; therefore, auditor cannot ascertain whether procurement is valid.

Cause Inadequate procedures and a failure to follow other established policies by MDHS personnel. Policies for Skills2Work were verbal directives only, causing inconsistencies among staff.

Effect Without proper policies, procedures, and documentation to support costs, ineligible participants could be admitted to the Skills2Work program; thereby, causing an unallowable cost.

Recommendation We recommend Mississippi Department of Human Services strengthen the controls and prepare written policies and procedures over the procurement process of the Skills2Work program.

Repeat Finding No.

Statistically Valid The sample is considered statistically valid.

View of Responsible Officials

REPORTING

Significant Deficiency

2019-041 Controls Should Be Strengthened over the Submission of Required Federal Reports for the TANF Program.

CFDA Number 93.558 Temporary Assistance for Needy Families State Programs

Federal Award No. G1701MSTANF 2017
G1801MSTANF 2018
G1801MSTANF 2019

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

Questioned Costs None.

Criteria The *Code of Federal Regulations (45 cfr 265.3),* requires a "TANF Data Report" (ACF-199) for the Temporary Assistance to Needy Families (TANF) program to be completed and submitted in accordance with instructions provided by the Administration for Children and Families (ACF). Those instructions require States to submit quarterly reports for each open fiscal year of grant funds until all funds are expended; therefore, States will likely submit separate forms for multiple grant award years simultaneously. These reports are due and must be submitted 45 days after the end of each quarter.

Additionally, the *Code of Federal Regulations (45 cfr 200.62),* states that a non-Federal entity must have internal control over compliance designed to provide reasonable assurance that;

(a) Transactions are properly recorded and accounted for, in order to:
- (1) Permit the preparation of reliable financial statements and Federal reports;
- (2) Maintain accountability over assets; and
- (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;

(b) Transactions are executed in compliance with:
- (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and
- (2) Any other Federal statutes and regulations that are identified in the Compliance Supplement; and

(c) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Condition During testwork performed for TANF reporting for FY 2019, auditor noted the following:

- Data required to be submitted for the T-199 report, QE December 31, 2018 was not submitted within 45 days after the end of the reporting period. Data was submitted 144 days late; and

- Data required to be submitted for the T-199 report, QE June 30, 2019 was not submitted within 45 days after the end of the reporting period. Data was submitted 6 days late.

Cause Staff were either unaware or did not follow policies and procedures related to federal reporting requirements.

Effect Failure to timely review and submit reports could result in reporting penalties and could impact funding determinations.

Recommendation We recommend Mississippi Department of Human Services strengthen the controls over the preparation, review and timely submission of required performance and financial reports prior to submission to the Department of Health and Human Services.

Repeat Finding No.

Statistically Valid The sample is considered statistically valid.

View of Responsible Officials

SUBRECIPIENT MONITORING

Material Weakness
Material Noncompliance

2019-042 Controls Should Be Strengthened over On-Site Monitoring for the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), Child Care and Development Block Grant (CCDF), Low Income Home Energy Assistance Program (LIHEAP), and Social Services Block Grant (SSBG) Programs.

CFDA Number
10.551 Supplemental Nutrition Assistance Program
93.558 Temporary Assistance for Needy Families State Programs
93.667 Social Services Block Grant
93.575 Child Care and Development Block Grant
93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.568 Low Income Home Energy Assistance Program

Federal Award No.	G1701MSTANF 2017 G1801MSTANF 2018 G1801MSCCDF 2018	SNAP – Letter of Credit G1801MSSOSR 2018 G18B1MSLIEA 2018

Federal Agency United States Department of Agriculture, U.S. Department of Health and Human Services

Questioned Costs None.

Criteria

The terms and conditions of the grant agreements between the Mississippi Department of Human Services (MDHS) and the U.S. Department of Health and Human Services require MDHS to administer grants in compliance with the *Code of Federal Regulations (2 cfr 200).*

The *Code of Federal Regulations (2 cfr 200.331)* requires MDHS to properly identify subaward requirements to subrecipients, evaluate the risk of noncompliance for each subrecipient, and monitor the activities of subrecipients as necessary to ensure that subawards are used for authorized purposes, complies with the terms and conditions of the subawards and achieves performance goals.

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.

The *Code of Federal Regulations* (*2 cfr 200.328(a))*, states the non-Federal entity is responsible for oversight of the operations of the Federal award supported activities. The non-Federal entity must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved. Monitoring by the non-Federal entity must cover each program, function or activity. See also § 200.331 Requirements for pass-through entities.

The *Code of Federal Regulations* (*2 cfr 200.328(b)(2)*), states the non-Federal entity must submit performance reports using OMB-approved government-wide standard information collections when providing performance information. As appropriate in accordance with above mentioned information collections, these reports will contain, for each Federal award, brief information on the following unless other collections are approved by OMB:
(i) A comparison of actual accomplishments to the objectives of the Federal award established for the period. Where the accomplishments of the Federal award can

be quantified, a computation of the cost (for example, related to units of accomplishment) may be required if that information will be useful. Where performance trend data and analysis would be informative to the Federal awarding agency program, the Federal awarding agency should include this as a performance reporting requirement.
(ii) The reasons why established goals were not met, if appropriate.
(iii) Additional pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

The *Code of Federal Regulations* (*2 cfr 200.331(6)(b)*), states: Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate Subrecipient monitoring described in paragraph (e) of this section.

Additionally, the *Code of Federal Regulations (45 cfr 200.62),* states that a non-Federal entity must have internal control over compliance designed to provide reasonable assurance that;
(a) Transactions are properly recorded and accounted for, in order to:
  (1) Permit the preparation of reliable financial statements and Federal reports;
  (2) Maintain accountability over assets; and
  (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;
(b) Transactions are executed in compliance with:
  (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and
  (2) Any other Federal statutes and regulations that are identified in the Compliance Supplement; and
(c) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Furthermore, The *Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Manual specifies that a satisfactory control environment is only effective when there are adequate control activities in place.

Condition

During testwork performed on subrecipient on-site monitoring for 84 subgrant contracts during state fiscal year 2019, auditor noted the following exceptions:

- During conversations with upper management of MDHS, auditor noted that prior Executive Director JD would circumvent controls of the monitoring process for certain subrecipients. Monitoring visits were called short and monitors were recalled to MDHS and reassigned if issues were found during monitor visits. This direct involvement of the former Executive Director and the disregard of controls resulted in a lack of integrity in the monitoring process. Monitoring reports could not be relied upon during testwork as auditors could not determine what, if any, appropriate monitoring actually occurred for subgrants. No other staff at MDHS reported to the Mississippi Office of the State Auditor that monitors were being recalled and controls were being circumvented by Executive Director JD. Additionally, testwork determined widespread fraud, waste, and abuse at two of the largest subrecipients of TANF funds. Monitoring reports for prior year grants did not indicate any questioned costs at these subrecipients, regardless of the subrecipients repeatedly participating in unallowable activities. Auditors noted substantial violations of the Subgrant Manual by both MCEC and FRC in regards to asset purchases, indirect costs, allowable costs, etc. These violations and the fraud, waste, and abuse uncovered during the audit verify that subrecipients were not properly monitored.

- Seven contracts, or 8 percent, in which corrective actions were not received from the subrecipient within 15 working days from the date the report was issued, or auditor could not verify corrective actions were received timely due to lack of audit trail.
    - Corrective Actions for one contract were received 21 days from the Initial Monitoring Report (IMR),
    - For six contracts, auditor could not verify corrective actions were necessary, or received timely, due to lack of audit trail;

- Eleven contracts, or 13 percent, in which the IMR was not issued within 60 working days from the date of the exit conference, or auditor could not determine when it was issued due to lack of audit trail.
    - IMRs were issued between 66 and 261 days late, with an average of 124 working days after the exit conference took place;

- Six contracts, or 7 percent, in which the IMR was not included in monitoring file; therefore, supervisory approval prior to issuance of the report to the subrecipient could not be verified;

- Six contracts, or 7 percent, in which we were unable to determine if questioned costs had been completely resolved as of the date of testwork;

- Six contracts, or 7 percent, in which the auditor could not verify monitoring took place during the contract period due to lack of documentation in monitoring file;

- Twenty-five (25) contracts, or 30 percent, in which the Monitoring Supervisor Checklist was dated after the IMR letter, or was not included in the file, therefore Monitoring Supervisor Review Checklist approval prior to issuance of the IMR letter could not be verified;

- Five contracts, or 6 percent, in which the On-Site Monitoring review of the Subrecipient was not performed during the subgrant period;

- Three contracts, or 3 percent, in which the Subgrants were not monitored in federal FY 2018; and

In addition, the MDHS Office of Monitoring (OM) did not evaluate the risk of noncompliance of its subrecipients in order to perform monitoring procedures based upon identified risks, as is a requirement of Uniform Guidance.

Cause Staff were either unaware or did not follow identified policies and procedures for monitoring requirement. Additionally, per documentation obtained by auditors, former Executive Director JD colluded with MDHS personnel to undermine the monitoring of subrecipients and circumvented controls in order to delay or stop monitoring of certain subrecipients.

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 subreceipients 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 controls over subrecipient monitoring. OM should evaluate the risk of noncompliance of each subrecipient and perform monitoring procedures based upon identified risks. We also recommend the agency ensure subawards are monitored timely and 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 Yes – 2018-046 in 2018; 2017-037 in 2017; 2016-027 in 2016; 2015-005 in 2015; 2014-017 in 2014; 2013-015 in 2013.

Statistically Valid The sample is considered statistically valid.

View of Responsible Officials

Material Weakness
Material Noncompliance

2019-043 Strengthen Controls Over Subrecipient Monitoring to Ensure Compliance with OMB Uniform Guidance Auditing Requirements.

CFDA Number
10.551 Supplemental Nutrition Assistance Program
93.558 Temporary Assistance for Needy Families State Programs
93.575 Child Care and Development Block Grant
93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund
93.667 Social Services Block Grant
93.568 Low Income Home Energy Assistance Program

Federal Award No.

G1801MSTANF 2018	G1801MSSOSR 2018
G1701MSCCDF 2017	G17B1MSLIEA 2017
G1801MSCCDF 2018	G18B1MSLIEA 2018
SNAP – Letter of Credit	

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

Questioned Costs None

Criteria

The Office of Management and Budget (OMB) 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 OMB 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.

Additionally, the *Code of Federal Regulations (45 cfr 200.62),* states that a non-Federal entity must have internal control over compliance designed to provide reasonable assurance that;

(a) Transactions are properly recorded and accounted for, in order to:
- (1) Permit the preparation of reliable financial statements and Federal reports;
- (2) Maintain accountability over assets; and
- (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;

(b) Transactions are executed in compliance with:
- (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and
- (2) Any other Federal statutes and regulations that are identified in the Compliance Supplement; and

(c) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Condition

During the audit of the Mississippi Department of Human Services (MDHS), auditor reviewed the Division of Program Integrity – Office of Monitoring (OM) audit files and Monitoring Tracking Document for MDHS Subgrantees for state fiscal year 2017. During our review, we noted the following weaknesses:

- Auditor noted the SFY 2017 Single Audit Tracking System utilized by the MDHS Office of Monitoring to track the status of OMB Uniform Guidance audits for DHS subrecipients does not include expenditures made by the sub-recipient nor does it include all sub-recipients who received federal funds from MDHS during FY 2017. The audit requirements of the *Code of Federal Regulations (2 cfr Part 200, subpart F)* are based on expenditures of Federal awards; therefore, subrecipients of MDHS could have expended Federal awards in excess of amounts that require a single audit that may have not been included on MDHS's tracking document. The agency was not able to provide an expenditure report to the auditors in order to ensure completeness of the monitoring files.

- Three instances in which the Office of Monitoring could not provide an OMB monitoring file for the sub-recipient; therefore, auditor could not determine compliance with OMB monitoring procedures;

- Nineteen (19) instances in which the Office of Monitoring failed to send out reminder letters within a timely manner. Reminder letters were mailed on February 6, 2019, on average 7.5 months after the due dates of audit reports; and

- Eighteen (18) instances where the OMB Uniform Guidance audit report for the subgrantee was not received by Office of Monitoring within nine months of the subgrantee's fiscal year end. Subgrantee audit reports were received on average 213 days after the nine-month deadline.

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

Effect Failure to properly monitor subrecipients could allow noncompliance with federal regulations to occur and go undetected, potentially resulting in fraud, waste, and abuse within the agency.

Recommendation We recommend the Mississippi Department of Human Services' Division of Program Integrity – Office of Monitoring (OM) strengthen controls over subrecipient monitoring for OMB Uniform Guidance audits to ensure recipients expending $750,000 or more in Federal funds during their fiscal year are appropriately monitored and that the appropriate federal audit is obtained. We further recommend that OM design a monitoring tool based on expenditures incurred by subrecipients to ensure all subrecipients are included on the tracking report and continue to follow-up with subgrantees in a timely to ensure compliance with audit requirements.

Repeat Finding Yes – 2018-047 in 2018; 2017-038 in 2017; 2016-028 in 2016; 2015-009 in 2015; 2014-016 in 2014.

Statistically Valid The sample is considered statistically valid.

View of Responsible Officials

SPECIAL TESTS AND PROVISIONS

Significant Deficiency

2019-044 Controls Should Be Strengthened over the Review of Foster Care Maintenance Payment Rates and the Calculation of Foster Care Maintenance Payments.

CFDA Number 93.658- Foster Care Title IV-E

Federal Award No. G1801MSFOST 2018

	G1901MSFOST 2019
Federal Agency	U.S. Department of Health and Human Services
Questioned Costs	None.
Criteria	*Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) specifies that a satisfactory control environment is only effective when there are adequate control activities in place. Effective control activities dictate that the agency perform a multi-level review of the rates being entered into Mississippi Automated Child Welfare System (MACWIS), as well as at least annual tests over MACWIS to ensure the system is properly calculating Foster Care Maintenance payments. Additionally, the *Code of Federal Regulations (45 cfr 200.62),* states that a non-Federal entity must have internal control over compliance designed to provide reasonable assurance that; (a) Transactions are properly recorded and accounted for, in order to: (1) Permit the preparation of reliable financial statements and Federal reports; (2) Maintain accountability over assets; and (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award; (b) Transactions are executed in compliance with: (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and (2) Any other Federal statutes and regulations that are identified in the Compliance Supplement; and (c) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.
Condition	During testwork performed related to Foster Care Special Tests and Provisions, auditor noted that proper controls are not in place to ensure the accuracy of payment rates within the MACWIS system, nor are controls in place to ensure the accuracy of payment calculations.
Cause	Staff is unaware of the importance of an internal control structure.
Effect	Failure to implement proper internal controls could result in inaccurate payment rates and payment calculations.
Recommendation	We recommend the Mississippi Department of Human Services strengthen controls over the review of payment rates being entered into MACWIS, as well as perform tests over the accuracy of payment calculations within MACWIS.
Repeat Finding	No.
Statistically Valid	Sample is considered statistically valid.
View of Responsible Officials	

OTHER AUDIT FINDING

In planning and performing our audit of the federal awards received by the Mississippi Department of Human Services for the year ended June 30, 2019, 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 internal 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

ELIGIBILITY

Control Deficiency

OTH – 19-01 Controls Should Be Strengthened over Segregation of Duties and Granting Access to MAVERICS.

CFDA Number 93.558 Temporary Assistance for Needy Families State Programs

Federal Award G1901MSTANF 2019

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

Questioned Costs None.

Criteria Good internal controls state that segregation of duties must be in place to help prevent and detect misappropriation of funds due to error or fraud. Because of the high percentage of employees with access to MAVERICS, it is necessary to maintain controls over who can both enter and approve benefits so that an unnecessary risk to MDHS does not exist. MAVERICS serves as the primary TANF computer interface for Eligibility determinations for the State of Mississippi.

Under *TANF Eligibility Determination Process in Chapter 7, Certification and Authorization*, of the TANF policy published on the MDHS website, Authorization is an official act, usually performed by the county director or their designee, certifying as to the eligibility or continuing eligibility of any assistance payments group. The authorization requests the issuance of a TANF benefit and authorizes the expenditures of public tax funds.

Additional criteria from the MDHS Management Information Systems (MIS) Division policy states that system administrators will conduct Self-Audits of all user accounts on a semi-annual basis, at a minimum.

Condition During testwork performed on MAVERICS User Access during fiscal year 2019, we noted the following:

- Of the 40 MAVERICS profiles examined, two instances were noted in which a RACF profile was active for a terminated employee; and

- Of the 40 MAVERICS profiles examined, two instances where employees had been inactive for more than 90 days.

Cause Agency does not effectively follow policy or procedures for deleting or amending MAVERICS user access.

Effect Failure to strengthen controls over MAVERICS access could allow basic TANF benefits can be certified/approved by personnel not authorized to certify/approve a payment.

Recommendation We recommend the Mississippi Department of Human Services strengthen controls over access to MAVERICS.

Repeat Finding Yes; OTH-18-04 in 2018; OTH–17-04 in 2017

Statistically Valid No.

View of Responsible Officials

End of Report

STATE OF MISSISSIPPI
Tate Reeves, Governor
DEPARTMENT OF HUMAN SERVICES
Robert G. Anderson
Executive Director

SINGLE AUDIT FINDINGS

April 29, 2020

Shad White, State Auditor
State of Mississippi
Office of the State Auditor
P.O. Box 956
Jackson, MS 39205

Dear Mr. White:

Thank you for providing the Single Audit Findings for the Mississippi Department of Human Services ("MDHS") for our review and response, which we received on April 22, 2020. These 100-plus pages represent months of hard work by the Office of the State Auditor and will be essential in helping MDHS carry out its mission to serve the most needy and vulnerable among us. Importantly, as executive director, I want to personally thank you and your team for the diligent work on behalf of the State as we move together to continue to improve our systems and processes and to implement measures to correct issues identified from previous years.

Your detailed recommendations and findings are helpful. We have begun to work through the information provided and prepare these responses for MDHS and it is clear that we will not be able to respond fully in the short period of time permitted by your deadline of April 29, 2020. As your office is no doubt working with a limited staff to provide core essential operations due to the COVID-19 pandemic – as evidenced by the fact that we received these findings via Zoom video meeting – MDHS is likewise working with limited essential staff. Moreover, many of our staff are working remotely at this time and still others necessary to respond to the Single Audit findings are fully engaged in the critical work of ensuring relief is distributed to the most vulnerable in Mississippi during this pandemic.

Despite the unique circumstances, we have tried to provide the most complete response possible. We may supplement this response in the days ahead even though these responses may not be included in the version of the Single Audit Findings that will be placed on the State Auditor's website.

2019-030 The Mississippi Department of Human Services Should Strengthen Controls to Ensure Compliance with Subrecipient Allowable Cost Activities.

Response: MDHS **concurs** that it should strengthen controls to ensure compliance with subrecipient allowable cost activities of SNAP, CCDF, TANF and SSBG programs. Former Executive Director JD circumvented internal controls set in place by MDHS regarding procurement, monitoring, and other allowable costs controls to direct monies to certain subrecipients, who then directed federal monies to individuals associated with JD. Additionally, JD acted in an *ultra vires* manner and used his position as Executive Director to convince employees at MDHS to collude with him in circumventing controls. JD intentionally abused his position. As a result, MDHS employees charged with monitoring subrecipients/subgrantees failed to do so appropriately and also failed to review expenditures at the subrecipient level to ensure that costs were allowed and that activities held followed federal guidelines. Lastly, MDHS concurs that some personnel at MDHS either disregarded established policies and procedures or were not aware policies and procedures existed and unwittingly assisted JD in his scheme.

At the conclusion of FY2019, swift and immediate action was taken by MDHS to expose the intentional fraudulent scheme perpetrated by JD and some MDHS personnel, to prevent future intentional fraudulent behavior, and to restore trust in the public welfare system in Mississippi. Numerous actions were taken before June 2019 and additional measures have been implemented since then to address the deficiencies outlined in the Single Audit Findings, to prevent fraud and instill trust.

On or about June 21, 2019, Deputy Executive Director JB reported evidence of fraud and intentional misconduct to then Governor, PB's Chief of Staff. MDHS understands that the Governor's Office reported the same to the Office of the State Auditor, after which a criminal investigation ensued. That criminal investigation, and this expanded single audit covering multiple years, are the direct products of the initial report made by MDHS personnel to the Governor's Office.

Additionally, MDHS concurs with the recommendations of the OSA specifically as follows and incorporates those recommendations as the foundation for the MDHS Corrective Action Plan (CAP) related to this finding:

1) Pursue any legal remedies available against those that have contributed to the widespread fraud, waste and abuse detailed in this report;
    a. MDHS has partnered with the OSA criminal investigation since it was initiated in late June 2019 based on MDHS's self-report to the Governor's Office. MDHS has at all times cooperated fully by continuing to conduct an internal investigation and sharing all findings from that internal investigation with the OSA criminal investigators and continues to do so to the present date. The OSA criminal investigation has resulted in six indictments, including an indictment of former MDHS Executive Director, JD, and MDHS has been assured by the State Auditor and his staff that additional indictments are forthcoming. As cooperative partners in the OSA criminal investigation, it would be inappropriate for MDHS to initiate additional collateral criminal proceedings. Instead, MDHS supports the OSA criminal investigation through the full and continuing disclosure of all evidence as it is found. This demonstrates a united front for

the State of Mississippi as it prosecutes all intentional wrongdoing by former Executive Director JD and others involved in the scheme.

MDHS has and will continue to cooperate fully with the parallel federal investigation and the ongoing state criminal investigation.

b. Responsible Party: Executive Director Robert G. Anderson
c. Anticipated completion date: Pursuit was initiated in June 2019, completion date is impossible to determine at this time.

2) Pursue any legal remedies to seize property at MCEC and FRC that was purchased with federal monies in accordance with the policies of the *MDHS Subgrant Manual;*
   a. The MDHS has suspended usual and customary closeout procedures for all 2019 subgrants with MCEC and FRC. Instead, MDHS has pursued an administrative closeout while our partners at the OSA completed the single audit and continued the aforementioned ongoing criminal investigation. In December 2019, prior to the criminal indictment of six conspirators, then MDHS Executive Director CF and General Counsel AS met with the OSA to inquire, among other matters, about the extent and nature of the findings related to MCEC and FRC to determine if the agency should proceed with issuing additional subgrants to each entity. At that time, MDHS learned for the first time that the extent and nature of misconduct by some MCEC principals was serious and egregious enough to warrant suspension of all funding to that entity. Future funding was immediately suspended awaiting finalization of the single audit and criminal investigations. At that time, the OSA was completing the MCEC audit, and had not yet begun to inspect FRC. MDHS suspended funding to FRC at that time based on concerns raised by OSA about the practices of former Executive Director JD.

      MCEC: In early 2020, MDHS gave MCEC notice that all leases would be terminated, that all real property must be vacated by no later than March 31, 2020, and that all property, equipment, commodities, and any items purchased with MDHS grant monies must be returned to 750 North State Street. MDHS began to work with some MCEC personnel to inventory and secure all property at 750 North State Street. MDHS became aware, as a result of this OSA single audit report on April 22, 2020, of additional property allegedly purchased with federal grant funds. The alleged property was not reported on inventory lists produced by MCEC; MDHS is evaluating all legal options to pursue the additional property, including but not limited to a civil suit seeking assistance from the Mississippi Attorney General, FBI, and HHS-OIG.
   b. Responsible Party: General Counsel Andrea Sanders
   c. Anticipated completion date: Given the COVID-19 pandemic, it is impossible for MDHS to project a completion date for legal remedies at this time.
3) Procure an independent certified public accounting firm to conduct a widespread forensic audit of MDHS to determine the extent of fraud, waste and abuse in any other programs, as well as the TANF program, and of MCEC and FRC to support any attestation made by MDHS of the allowability of costs, and report any suspected criminal activity to the Mississippi Office of the State Auditor;

a. MDHS has begun the procurement process to conduct a widespread forensic audit spanning 1/1/16 through 12/31/19 as recommended by the OSA. On or about April 30, 2020, MDHS will send a Request for Information (RFI) to four nationally recognized Certified Public Accounting Firms with extensive experience in government fraud, waste and abuse auditing. Responses to the RFI are due thirty (30) days from the release date. Once the responses are received, a firm will be selected based on experience, capacity, and proposed cost. MDHS anticipates that the OSA will serve as a third party to the contract as a continuation of the ongoing cooperation between MDHS and OSA, and as an additional measure of transparency in the audit process. The RFI contemplates a 9-12 month timeframe for completion of the audit. Additionally, while the RFI limits the initial audit to TANF subgrants, it contains a provision to expand the audit into additional funding streams based on the findings and recommendations of the selected audit firm.

   MDHS plans to share the findings as appropriate with federal oversight partners, the OSA, the Governor of the State of Mississippi, and any criminal prosecutorial authority as indicated. Additionally, MDHS plans to use all findings to continue to evaluate and strengthen the effectiveness of internal controls, and agency policies and procedures.

b. Responsible Party: Executive Director Robert G. Anderson

c. Anticipated completion date: Given that the RFI process has just begun and no forensic audit firm will be selected for at least another 30 days, it is impossible to project a completion date at this time.

4) Conduct internal investigations to determine how much former and current MDHS staff knew of and participated in the widespread fraud, waste and abuse, and report any suspected criminal activity to the Mississippi Office of the State Auditor;

   a. The MDHS Office of Inspector General (OIG) initiated an internal investigation in the Spring of 2019. As indicated previously, the results of that investigation were reported by MDHS personnel to the Office of the Governor of Mississippi, and ultimately led to the current OSA criminal investigation. Since that time, the MDHS OIG and members of the Executive Management Team have continued to investigate and report information as it is found to the OSA.

      The following key personnel changes have resulted from that investigation and the expanded investigation by the OSA:

      1. On or about June 21, 2019, Governor PB suspended then Executive Director JD. JD's absence from the building allowed personnel at MDHS greater access to records, computers, and other electronic devices, all of which were secured, and immediately remitted to OSA investigators. Additionally, OSA investigators were given full access to MDHS email, accounts, internal records and correspondence. In early July 2019, JD announced his retirement effective July 31, 2019.
      2. On August 1, 2019, CF, a retired FBI Special Agent in Charge, was named MDHS Executive Director. CF conducted his own internal investigation, and interviewed all Division Directors, Executive Director's Office personnel, and Executive Management Team. CF assembled a new Executive Management Team, including existing Deputy Executive Director of Program, moved the Inspector General to

Deputy Executive Director of Administration, appointed a new Inspector General, and created new positions of General Counsel and Special Assistant to the ED to assist with continued internal investigations. From July to September 2019, numerous personnel left the agency.

3. Governor TR was inaugurated January 14, 2020. Governor TR was briefed on the status of the ongoing investigation by the OSA and existing MDHS Executive Management Team.
4. March 4, 2020, RA was appointed as MDHS Executive Director by Governor TR, effective on March 16, 2020. RA was selected because of his extensive experience as a federal prosecutor and as a program integrity professional with extensive experience involving white collar crime, embezzlement, and public fraud, waste and abuse.
5. ED RA contracted with two retired investigators, one of them a former IRS CID agent and one a former investigator for a District Attorney's Office, to conduct an internal personnel investigation which includes, but is not limited to interviews of all Division Directors, Executive Management Team members, and other identified staff. That investigation is ongoing. All investigative reports will be made directly to ED RA. Expansion of the investigation will be at his discretion, and final reports will instruct all personnel decisions. ED RA will personally conduct interviews with all Executive Management Staff after the internal investigators make a final report. ED RA reviews all emails of internal staff if the internal investigation uncovers questionable actions taken by MDHS employees.
6. ED RA has completely redesigned the MDHS Executive Organizational Chart making the following changes:
   i. Created for the first time, an Office of Compliance, staffed with a Director with more than 20 years of experience in government compliance; a Policy Director; a senior attorney serving as the Civil Rights and Privacy Officer, and other support personnel.
   ii. Divided the responsibility of the Deputy Director of Programs into two positions to give each Director no more than three programs to administer, allowing for increased oversight and greater accountability of each program.
   iii. Additional changes may be made based on the completion of the internal investigation, internal interviews, e-mail review and observation of staff.

b. Responsible Party – Executive Director Robert G. Anderson
c. Anticipated completion date – completion of internal investigation set for May 15, 2020.

5) Strengthen existing controls to ensure full compliance with federal regulations;

MDHS concurs with this recommendation, and has taken or plans to take numerous measures to strengthen internal controls. This single audit was expanded to include FY2017 and FY 2018, therefore MDHS includes measures taken during or after the same timeframe. The measures include the following:

Creation of Office of Inspector General:

a. The Office of Inspector General (OIG) was created at the insistence of MDHS Deputy Executive Directors in response to concerns about irregularities in the contracting process, subrecipient award process, and claims payment directives coming from the Executive Director or his designees. OIG consolidated Program Integrity, Internal Audit, Quality Control, Monitoring, Administrative Appeals, and Investigations functions, and placed them under one Deputy Executive Director. Previously the functions had been separated and did not communicate with each other regularly, making it difficult to identify and respond to irregularities as they occurred. Once established, the OIG made key personnel changes, and revised processes within all functions.
b. Responsible Party: Deputy Executive Director David Barton
c. Completion Date: August 2018

Internal Investigation Prior to JD's Departure:

a. Covert Internal Investigation initiated by OIG with cooperation of the Deputy Executive Director of Programs, the CFO, Senior Attorneys assigned to the Executive Deputy Directors, and others. The investigation culminated in evidence that was reported to the Governor in June 2019.
b. Responsible Party: Deputy Executive Directors David Barton and Jacob Black
c. Completion Date: June 2019

Ongoing Investigations:

a. Internal Investigation continued by OIG with cooperation of the Deputy Executive Director of Programs, the Deputy Executive Director of Administration, the CFO, Senior Attorneys assigned to the Executive Deputy Directors, and others. After departure of former Executive Director JD, these individuals acquired access to documents previously not available. Once referred to OSA investigators, all supplemental documents discovered were produced that contained volumes of documentary, electronic, video, and accounting evidence. More recently, these documents have been provided to the OSA single audit team. MDHS continues to provide any evidence as discovered.
b. Responsible Party: Deputy Executive Director David Barton and Inspector General Hadley Eisenberger
c. Anticipated completion date: This is an ongoing process and it is not possible to project a precise completion date at this time.

Strengthened Internal Controls:

a. MDHS provided the following trainings to MDHS employees with most occurring after former Executive Director JD was no longer associated with MDHS: initial purchasing process training, follow-up purchasing process training, subgrantee training for TANF subgrants, procurement training for division directors, budget training, fact sheet training, internal Budgets and Accounting training that included DFA training with the contract, payroll, accounts payable and account receivable units, internal audit training on identifying and conducting risk assessments for the division directors and other trainings. Additionally, MDHS has strengthened procedures concerning tracking of procurement requests, invoices, travel costs, and bank reconciliations. MDHS also published an Internal Audit Plan for 2020, which will be conducted on an annual basis. Please also see responses to 2019-030 (6) and 2019-030 (7) below for additional corrective actions implemented in relation to this recommendation.
b. Responsible Party: Executive Director Robert G. Anderson
c. Anticipated completion date: This is an ongoing process as the specified trainings will occur on a more frequent cycle.

6) Procure adequate and appropriate training for all staff who monitor any federal allowable costs and activities;
    a. Effective May 1, 2020, MDHS will establish an Office of Compliance, which will have both an internal compliance function and an external compliance function. Part of the role of the new Office of Compliance will be to educate subrecipients of allowable costs and activities allowed by them under existing state and federal regulations. The Office of Compliance will work in tandem with OIG and will ultimately assume responsibility for the quality control functions involving both SNAP and TANF and the monitoring functions involving subrecipients in those programs while OIG focuses on internal audits, investigations and administrative hearings. Please also see responses to 2019-030 (5) and 2019-030 (7) for additional corrective actions implemented in relation to this recommendation.
    b. Responsible Party: Executive Director Robert G. Anderson and Chief Compliance Officer Sandra Griffith
    c. Anticipated completion date: May 1, 2020

7) Increase awareness in subrecipients of allowable cost and activities allowed regulations.
    a. Complete Revision of the Subgrant Manual that includes MDHS approval of lower-tiered subrecipients, allow sixty-day cash advance with cost reimbursement thereafter only after submission of monthly general ledgers. Internal risk assessment will be performed on all subgrants. Competitive procurement procedures will be used for TANF subgrants and MDHS will provide technical assistance for subgrants, with subgrantee attendance at annual training performed by MDHS or partners required.

b. Responsible Party: Inspector General Hadley Eisenberger
c. Completion date: January 2020

2019-031 Strengthen Controls to Ensure Compliance with Allowable Cost Requirements of the Supplemental Nutrition Assistance Program (SNAP).

Response: MDHS **partially concurs** with the finding. The Agency concurs with the finding as it relates to the administrative costs of MCEC staff. While the administrative costs of these staff were approved by FNS in the SNAP Employment and Training (E&T) State Plan, MCEC failed to keep required documents to support the allocation of the administrative costs of these employees.

The Agency does not concur with the questioned training costs paid per eligible student for training by KLLM in accordance with the agency's SNAP E&T State Plan. MDHS staff served onsite at KLLM to determine SNAP eligibility for students in need of supplemental nutrition assistance and SNAP E&T eligibility for interested SNAP recipients. MDHS also determined eligibility for reimbursement based on SNAP E&T participation. MDHS then notified MCEC of students who were eligible to be included on the monthly billing roster. The agency only reimbursed for eligible SNAP recipients participating in the E&T in accordance with the agency's SNAP E&T State Plan.

The total number of SNAP E&T participants trained by KLLM equaled 160 and this number multiplied by the federally approved reimbursement rate equals $671,872.99.

Corrective Action Plan:

a. For corrective steps related to proper monitoring of subrecipients such as MCEC, please refer to the agency's response to Finding 2019-030 above. Also, MHDS has terminated the SNAP E&T agreement with MCEC effective February 10, 2020.
b. Responsible Party: Work Force Development Director Sandra Giddy
c. Anticipated completion date: The removal of MCEC as a subrecipient was effective February 10, 2020; other ongoing corrective measures and anticipated completion dates appear in the agency's response to Finding 2019-030 above and are incorporated herein.

2019-032 Controls Should Be Strengthened to Ensure Compliance with Allowable Cost Requirements of the TANF Program.

Response: MDHS **partially concurs** with the Law of 16 finding, **partially concurs** with the Heart of David finding, and **concurs** with the Restore2/Recover2 finding.

Corrective Action Plan: Law of 16

a. MDHS did not agree with Law of 16 content or the actual training in general; however, hotel room costs are allowable and those costs were properly apportioned across the

Agency cost pool. MDHS does agree Law of 16 conference costs should have only been paid once against the TANF grant. MDHS also agrees that entertainment and branded items are not allowable costs. MDHS will implement training for MDHS staff and MDHS subgrantees regarding allowable TANF cost activities.

b. Responsible Party: CFO Bridgette Bell
c. Anticipated completion date: Please refer to MDHS response to 2019-030 above on all measures already taken by MDHS and all future corrective actions.

Corrective Action Plan: Heart of David (HOD)

a. MDHS does concur that the HOD subgrant lacked performance metrics. MDHS partially concurs that the HOD scope was inadequate. MDHS does concur that HOD did not provide certification of the restriction on conducting religious activities with federal monies. MDHS does concur that conflict of interest may exist due to prior Executive Director JD's personal relationship with an officer of HOD. MDHS updated its Subgrant Manual and subgrant process to address the above issues. MDHS will identify any faith-based organization during the award process and provide guidance on required documentation to ensure each subgrantee's certification of the restriction against conducting religious activities with federal monies. MDHS recovered ended its relationship with HOD on December 31, 2019, and has no other subgrant agreements with HOD. MDHS recovered property purchased by HOD through its MDHS subgrants at an estimated value of $39,000.
b. Responsible Party: CFO Bridgette Bell will be the point of contact on this CAP.
c. Completion Date: Please refer to MDHS response to 2019-030 above on all measures already taken by MDHS and all future corrective actions.

Corrective Action Plan: Restore2/Recover2

a. MDHS concurs with the Restore2/Recover2 finding. MDHS notes that "Recover2" was a typographical/clerical error that has been corrected. Since September 2019, MDHS implemented a requirement that procurement and contracting requests for personal services contracts be electronically submitted through a single point of entry (SPE) via SmartForm link. Through that requirement, any requests submitted through the SmartForm must be initiated only from the appropriate MDHS programmatic or administrative division level. Only properly submitted requests are received through this SPE originating from appropriate MDHS programmatic or administration divisions, then requests are processed for procurement. MDHS Executive Management level staff may not submit procurement and contracting requests for personal services contracts through this SPE.

   In March 2019, MDHS provided training to MDHS Division Directors regarding State procurement laws and regulations as well as MDHS internal procurement processes. MDHS procurement staff have completed the Certified Mississippi Purchasing Agent training offered by the Mississippi Department of Finance & Administration's Office of Personal Service Contract Review Board (OPSCRB). MDHS plans to have all procurement staff trained and certified through this program by December 31, 2020, or as soon as practicably possible based on the OPSCRB training schedule.
b. Responsible Party: CFO Bridgette Bell

c. Completion Date: Please also refer to MDHS response to 2019-030 above on all measures already taken by MDHS and all future corrective actions for anticipated completion date.

2019-033 Controls Should be Strengthened to Ensure Compliance with Allowable Cost Requirements of the CCDF Cluster.

Response: MDHS **partially concurs** that controls should be strengthened to ensure compliance with eligibility and benefit payment requirements of the CCDF Cluster.

Corrective Action Plan: Eligibility Determination

a. DECCD worked with MDHS OIG to establish a dedicated team of three staff reviewers and one supervisor who currently conducts 150 monthly case reviews as part of the standard operating procedure that commenced in September of 2018. Also in September of 2018, the OIG quality control team began holding monthly meetings with childcare supervisors to discuss staff errors, missing documentation, and any improper payments. The OIG quality control team worked with DECCD to develop an additional quality control review focusing on a provider review procedure that focuses on monitoring provider attendance records and copayments. This process involves OIG monitors going onsite to a provider's location to review attendance and copayment records. The monitoring procedures and the technology needed to support the monitoring process were fully implemented in December 2019. The monitoring was initiated and this process is currently being reviewed to determine how the process can be further scaled to expand the monitoring of providers. As a result of these steps including adding additional staff and developing new procedures to our quality control program, the payment error rate has decreased from 36.43% in FFY 2014, to 27.7% in FFY 2017 to 5.61% for FFY 2019, which is well below the allowable federal error rate of 10%. The steady decline in payment error rates indicates that the quality control program has made vast improvements and will continue to do so in the future.
b. Responsible Party: Division Director of DECCD, Kristi McHale
c. Anticipated completion date: The corrective action plan has already been implemented and will continue moving forward.

Corrective Action Plan: Subgrant Questioned Costs

a. MDHS concurs that internal controls should be strengthened to ensure the expenditures charged under the grant are allowable and supported. DECCD has already taken corrective action by hiring Mary Littles, DECCD Director of Finance. She is specifically responsible for reviewing submitted claims forms and supporting documentation to ensure compliance.
b. Responsible Party: Division Director of DECCD, Kristi McHale
c. Anticipated completion date: This corrective action is already completed. Please also refer to MDHS response to 2019-030 for all measures already taken by MDHS and all future corrective actions.

2019-034 Strengthen Controls Over Review of Computations and Data for Allowable Cost Activity Used in the Manual Cost Allocation Process and Review of Indirect Costs Allocated to Federal Programs.

Response: MDHS **concurs** that controls need to be strengthened over review of computations and data for allowable cost activity used in the manual cost allocation process and review of indirect costs allocated to federal program.

Corrective Action Plan:

a. MDHS is currently implementing new procedures to include automated cost allocation. Currently, those procedures are in the test phase.
b. Responsible Party: CFO Bridgette Bell
c. Anticipated completion date: October 1, 2020. Please also refer to MDHS response in 2019-030 on all measures already taken by MDHS and all future corrective actions.

2019-035 Controls Should Be Strengthened to Ensure Compliance with Cash Management Requirements of the TANF Program.

Response: MDHS **concurs** that controls should be strengthened to ensure compliance with cash management requirements of the TANF program.

Corrective Action Plan:

a. Please refer to MDHS response in 2019-030 on all measures already taken by MDHS and all future corrective actions.
b. Responsible Party: CFO Bridgette Bell
c. Anticipated completion date: This is an ongoing process and it is not possible to project a precise completion date at this time.

2019-036 Controls Should Be Strengthened to Ensure Compliance with Eligibility and Benefit Payment Requirements of the CCDF Cluster.

Response: MDHS **concurs** that controls should be strengthened to ensure compliance with eligibility requirements of the CCDF Cluster.

Corrective Action Plan:

a. The Division of Early Childhood Care and Development (DECCD) worked with the MDHS OIG to establish a dedicated team of three staff reviewers and one supervisor who currently conduct 150 monthly case reviews as part of the standard operating procedure that commenced in September 2018. Also in September 2018, the OIG quality control team began holding monthly meetings with childcare supervisors to discuss staff errors, missing documentation and any improper payments. The OIG quality control team worked with DECCD to develop an additional quality control review process focusing on a provider review procedure that requires monitoring provider attendance records and copayments. This process involves OIG monitoring personnel going onsite to a provider's location to review attendance and copayment records. The monitoring procedures and the technology needed to support the monitoring process were fully implemented in December 2019. The monitoring was initiated and this process is currently being reviewed to determine how the process can be further scaled to expand the monitoring of providers. As a result of these steps, including adding additional staff and developing new procedures to our quality control program, the payment error rate has decreased from 36.43% in FFY 2014, to 27.7% in FFY 2017 to 5.61% for FFY 2019, which is well below the allowable federal error rate of 10%. The steady decline in payment error rates indicates that the quality control program has made vast improvements and will continue to do so in the future.

b. Responsible Party: Division Director of DECCD, Kristi McHale

c. Anticipated completion date: The corrective action plan has already been implemented and will continue in place moving forward.

2019-037: Controls Should Be Strengthened to Ensure Compliance with the Matching Requirements of the CCDF Cluster.

Response: MDHS **concurs** that controls should be strengthened to ensure compliance with the matching requirements of the CCDF Cluster.

Corrective Action Plan:

a. The CCDF Cluster enters into subgrant agreements, also called slot agreements under an RFP issued in 2015. The agreements require a 25% match, which may be met by an in-kind match. DECCD will request supporting documentation from the current slot providers. The slot agreements will expire on August 31, 2020 and the program does not intend to issue new slot programs at this time.

b. Responsible Party: Division Director of DECCD, Kristi McHale, and CFO Bridgette Bell

c. Anticipated completion date: October 1, 2020. Please also refer to MDHS response in 2019-030 on all measures already taken by MDHS and all future corrective actions.

2019-038 Controls Should Be Strengthened to Ensure Compliance with the Period of Performance for the CCDF program.

Response: MDHS **concurs** that controls should be strengthened to ensure compliance with the period of performance for the CCDF program.

Corrective Action Plan:

a. Correspondence will be sent to all subgrants that fit this category that new procedures will be implemented concerning subgrantee closeouts to be submitted in a shorter timeframe for the agency to adequately meet liquidation period.
b. Responsible Party: Division Director of DECCD, Kristi McHale, and CFO Bridgette Bell
c. Anticipated completion date: October 1, 2020. Please also refer to MDHS response in 2019-030 on all measures already taken by MDHS and all future corrective actions.

2019-039 Strengthen Controls Over Procurement Policies and Awarding Subgrants for the TANF Program.

Response: MDHS **concurs** that it needs to strengthen controls over procurement policies and awarding subgrants for the TANF program.

Corrective Action Plan:

a. Since September 2019, MDHS implemented a requirement that procurement and contracting requests for personal services contracts be electronically submitted through a single point of entry (SPE) via SmartForm link. Through that requirement, any requests submitted through the SmartForm must be initiated only from the appropriate MDHS programmatic or administrative division level. Only properly submitted requests sent through this SPE originating from appropriate MDHS programmatic or administrative divisions are processed for procurement. MDHS Executive level staff may not submit procurement and contracting requests for personal services contracts through this SPE.

   In March 2019, MDHS provided training to MDHS Division Directors regarding State procurement laws and regulations as well as MDHS internal procurement processes. MDHS procurement staff have completed the Certified Mississippi Purchasing Agent training offered by the Mississippi Department of Finance & Administration's Office of Personal Service Contract Review Board (OPSCRB). MDHS plans to have all procurement staff trained and certified through this program by December 31, 2020 or as soon as practicably possible based on the OPSCRB training schedule.
b. Responsible Party: CFO Bridgette Bell
c. Anticipated completion date: December 31, 2020. Please also refer to MDHS response in 2019-030 on all measures already taken by MDHS and all future corrective actions.

2019-040 Controls Should Be Strengthened Over Procurement of Subrecipients for SNAP.

Response: MDHS **concurs** with the finding due to information recently brought to the attention of the agency after the management response was completed and agrees with the need for written policies related to the assessment of Skills2Work partners.

Corrective Action Plan:

a. The agency will prepare written policies and procedures for the procurement process for the Skills2Work program.
b. Responsible Party: Work Force Development Director, Sandra Giddy
c. Anticipated completion date: October 1, 2020. Please refer to MDHS response to 2019-30 above on all measures already taken by MDHS and all future corrections action.

2019-041 Controls Should Be Strengthened over the Submission of Required Federal Reports for the TANF Program.

Response: MDHS **partially concurs** that controls should be strengthened over the submission of required federal reports for the TANF program.

Corrective Action Plan:

a. MDHS disagrees that the submission of the T-199 report, QE on December 31, 2018, was done so untimely. MDHS submitted said report by the due date; however, ACF failed to respond to the submission of the report until July 2019. At that time, ACF notified the agency that ACF failed to have all required data needed for submission. Thus, at that time MDHS amended the original submission. Supporting documentation was provided in the management response regarding this finding.

   MDHS does agree that the T-199 report, QE on June 30, 2019 was provided six (6) days late due to an employee responsible for submitting the data file excused from work due to jury duty. Upon his return, said report was submitted. New procedures have been established to ensure multiple employees know the process.
b. Responsible Party: Economic Assistance Division Director, Mark Williamson, and Chief Information Officer, Mark Allen
c. Anticipated completion date: June 30, 2020

2019-042 Controls Should be Strengthened over On-Site Monitoring for SNAP, TANF, CCDF, LIHEAP, and SSBG Programs.

Response: MDHS **concurs** that controls should be strengthened over On-Site monitoring for SNAP, TANF, CCDF, LIHEAP, and SSBG Programs.

Corrective Action Plan:

a. Please refer to MDHS response in 2019-030 on all measures already taken by MDHS and all future corrective actions.
b. Responsible Party: Chief Compliance Officer, Sandra Griffith, and Inspector General, Hadley Eisenberger
c. Anticipated completion date: May 1, 2021, along with measures in response to 2019-30.

2019-043 Strengthen Controls Over Subrecipient Monitoring to Ensure Compliance with OMB Uniform Guidance Auditing Requirements.

Response: MDHS **concurs** that it needs strengthen controls over subrecipient monitoring to ensure compliance with OMB Uniform Guidance auditing requirements.

Corrective Action Plan:

a. Please refer to MDHS response in 2019-030 on all measures already taken by MDHS and all future corrective actions.
b. Responsible Party: Chief Compliance Officer, Sandra Griffith, and Inspector General, Hadley Eisenberger
c. Anticipated completion date: May 1, 2021. Please refer to MDHS response to 2019-30 above on all measures already taken by MDHS and all future corrections action.

2019-044 Controls Should Be Strengthened over the Review of Foster Care Maintenance Payment Rates and the Calculation of Foster Care Maintenance Payments.

Response: On behalf of CPS, MDHS **concurs** that controls should be strengthened over the review of foster care maintenance payment rates and the calculation of foster care maintenance payments.

Corrective Action Plan:

a. In addition to the individual case reviews in place, MDCPS will put a secondary review in place to ensure a multi-level review of the rates being entered into MACWIS. Additionally, MDCPS will put at least an annual test of MACWIS in place to ensure the system is processing payments correctly. This test will include a review of sample payments to ensure payments were calculated correctly by the system.
b. Responsible Party: MDCPS, Kris Jones
c. Anticipated completion date: October 1, 2020

Although this has been a tedious and lengthy undertaking, we appreciate the cooperative process and attention to detail demonstrated during the audit work conducted by Stephanie Palmertree and other field staff throughout the audit. As noted earlier, these findings and the corrective actions set forth herein will be critical to the Mississippi Department of Human Services' efforts to regain control of internal operations and restore trust in the agency's mission of providing crucial assistance to Mississippi's most vulnerable population.

Sincerely,

Robert G. Anderson

Robert G. Anderson
Executive Director
RGA: mm