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**MISSISSIPPI DEPARTMENT OF MENTAL HEALTH
MISSISSIPPI STATE HOSPITAL**
(Agency 3374)
Pearl, Mississippi

Financial Statements
Year Ended June 30, 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Mental Health
Mississippi Department of Mental Health
Mississippi State Hospital
Pearl, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the selected funds 2237400000, 3337400000, 5337400000, 5820337400, 6239900000, 8836100000, 8836500000, 8836800000, and 8836900000 of Mississippi State Hospital (Agency 3374) (the "Department"), an agency within the Mississippi Department of Mental Health ("MS DMH"), as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements will be consolidated into the State of Mississippi's Annual Comprehensive Financial Report.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

Accounting principles generally accepted in the United States of America require the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68") and presentation of the statements to recognize the net pension liability, deferred outflows and deferred inflows of resources, pension expense, and information about and changes in the fiduciary net position of the same basis as reported by the respective defined benefit pension plans. The Department did not adopt the requirements under GASB 68 at the fund level and the effects on the basic financial statements could not be quantified.

Additionally, it is the policy of the MS DMH not to provide for contingent litigation at the fund level and accordingly, no assessment of such contingency or related provision has been recorded for any such matters that may have existed at June 30, 2021.

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the selected funds 2237400000, 3337400000, 5337400000, 5820337400, 6239900000, 8836100000, 8836500000, 8836800000, and 8836900000 of the Department as of June 30, 2021, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Litigation

The State of Mississippi is a defendant in a lawsuit whereby the plaintiff, the United States of America, alleges that the State's mental health system violates Title II of the Americans with Disabilities Act (the "ADA"). The Southern District Court of Mississippi issued a liability opinion and a remedial order, which imposes a number of requirements on the State regarding its mental health system. The State appealed the district court's liability opinion, and the appeal remains outstanding. The Department is not a named party in the lawsuit. Although the Department is a state agency, the district court held that the State, not the Department was in violation of Title II. Likewise, the remedial order is addressed to the State, not to the Department, however the requirements of the remedial order impact the operations of the Department. The ultimate outcome and the impacts on the financial statements and operations cannot be determined and no provision for any liability or remediation is recorded at June 30, 2021.


Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis and the required supplementary information required under GASB 68 that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2022, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "HORNE LLP". The letters are stylized and slanted to the right.

Ridgeland, Mississippi
April 5, 2022

MISSISSIPPI STATE HOSPITAL
SELECTED FUNDS
BALANCE SHEET
As of June 30, 2021

	FUND 2237400000	FUND 333740000	FUND 5337400000	FUND 5820337400	FUND 6239900000	FUND 8836100000	FUND 8836500000	FUND 8836800000	FUND 8836900000	TOTAL
ASSETS										
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,500	\$ 2,000	\$ 14,214	\$ 26,359	\$ 44,073
Equity in State Treasury funds	5,327,257	18,985,432	-	940,150	259,558	-	-	-	-	25,512,397
Accounts receivable, net	-	472,307	-	-	-	-	-	-	-	472,307
Due from other State agencies	-	481,317	-	-	-	-	-	-	-	481,317
Inventory	-	1,408,740	-	-	-	-	-	-	-	1,408,740
Total current assets	5,327,257	21,347,796	-	940,150	259,558	1,500	2,000	14,214	26,359	27,918,834
Capital assets, net	-	41,167,443	-	-	-	-	-	-	-	41,167,443
Total assets	\$ 5,327,257	\$ 62,515,239	\$ -	\$ 940,150	\$ 259,558	\$ 1,500	\$ 2,000	\$ 14,214	\$ 26,359	\$ 69,086,277
LIABILITIES AND FUND BALANCE										
Bank overdraft in bank accounts	\$ 293,933	\$ 427,580	\$ -	\$ 74,185	\$ 1,200	\$ -	\$ -	\$ -	\$ -	\$ 796,898
Accounts payable	1,712,391	1,465,830	-	59,530	258,294	-	-	-	-	3,496,045
Due to other State agencies	2,579,259	777,245	-	-	-	-	-	-	-	3,356,504
Deferred revenues	-	-	-	859,897	-	-	-	-	-	859,897
Total liabilities	4,585,583	2,670,655	-	993,612	259,494	-	-	-	-	8,509,344
Fund balance										
Nonspendable	-	1,408,740	-	-	-	-	-	-	-	1,408,740
Restricted	-	10,756,199	-	-	-	-	-	-	-	10,756,199
Committed	12,235	-	-	-	-	-	-	-	-	12,235
Assigned	-	42,634,321	-	-	-	-	-	-	-	42,634,321
Unassigned	729,439	5,045,324	-	(53,462)	64	1,500	2,000	14,214	26,359	5,765,438
Total fund balance (deficit)	741,674	59,844,584	-	(53,462)	64	1,500	2,000	14,214	26,359	60,576,933
Total liabilities and fund balance	\$ 5,327,257	\$ 62,515,239	\$ -	\$ 940,150	\$ 259,558	\$ 1,500	\$ 2,000	\$ 14,214	\$ 26,359	\$ 69,086,277

See accompanying notes to the financial statements

MISSISSIPPI STATE HOSPITAL
SELECTED FUNDS
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended June 30, 2021

	FUND 2237400000	FUND 333740000	FUND 5337400000	FUND 5820337400	FUND 6239900000	FUND 8836100000	FUND 8836500000	FUND 8836800000	FUND 8836900000	TOTAL
REVENUES										
Net patient service revenue - Medicaid	\$ -	\$ 29,107,602	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	29,107,602
Net patient service revenue - Medicare and Social Security	-	9,397,763	-	-	-	-	-	-	-	9,397,763
State General Fund and Support Special Fund appropriations	60,446,073	425,455	6,003	-	3,161,883	-	-	-	-	64,039,414
Fiduciary fund revenue	-	-	-	-	-	-	-	-	4,771,795	4,771,795
Other revenue	-	93,993	-	-	-	2,202	2,000	22,761	-	120,956
Total revenues	60,446,073	39,024,813	6,003	-	3,161,883	2,202	2,000	22,761	4,771,795	107,437,530
EXPENDITURES										
Salaries and fringe benefits	53,699,470	14,678,385	-	-	-	-	-	-	-	68,377,855
Travel	-	2,613	-	-	-	-	-	-	-	2,613
Contractual services, commodities and other expenditures	-	15,375,734	6,003	1,191,143	3,161,819	702	-	8,547	-	19,743,948
Depreciation and capital outlay	-	1,668,593	-	-	-	-	-	-	-	1,668,593
Interest	-	650	-	-	-	-	-	-	-	650
Fiduciary fund expenditures	-	-	-	-	-	-	-	-	4,745,436	4,745,436
Total expenditures	53,699,470	31,725,975	6,003	1,191,143	3,161,819	702	-	8,547	4,745,436	94,539,095
Excess (deficiency) of revenues over expenditures	6,746,603	7,298,838	-	(1,191,143)	64	1,500	2,000	14,214	26,359	12,898,435
OTHER FINANCING SOURCES (USES)										
Transfers out	(6,017,164)	(2,217,342)	-	-	-	-	-	-	-	(8,234,506)
COVID-19 grant revenue	-	-	-	1,137,681	-	-	-	-	-	1,137,681
Loss on sale of capital assets	-	(36,172)	-	-	-	-	-	-	-	(36,172)
Total financing sources (uses)	(6,017,164)	(2,253,514)	-	1,137,681	-	-	-	-	-	(7,132,997)
Excess (deficiency) of revenues and other financing sources (uses) over expenditures	729,439	5,045,324	-	(53,462)	64	1,500	2,000	14,214	26,359	5,765,438
Fund balance, beginning of year	12,235	54,799,260	-	-	-	-	-	-	-	54,811,495
Fund balance (deficit), end of year	\$ 741,674	\$ 59,844,584	\$ -	\$ (53,462)	\$ 64	\$ 1,500	\$ 2,000	\$ 14,214	\$ 26,359	\$ 60,576,933

See accompanying notes to the financial statements.

MISSISSIPPI DEPARTMENT OF MENTAL HEALTH
MISSISSIPPI STATE HOSPITAL
SELECTED FUNDS
Year Ended June 30, 2021

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Background Information

Mississippi State Hospital (the "Department") is a Mississippi State Agency directly under the Mississippi Department of Mental Health ("MS DMH") whose main function is to provide acute and continued care through psychiatric units, a medical surgical hospital, a certified nursing facility and function as the statewide service facility for forensic services. The Department has three major programs to help carry out its goals and objectives, including:

1. MI – Institutional Care Program provides comprehensive range of inpatient psychiatric services, chemical dependency treatment, or nursing home care to patients who reside in the State of Mississippi.
2. MI – Support Services Program provides a comprehensive range of services designed to serve the needs of the patients and employees of the Department. This program coordinates the Department's efforts to meet its objectives and report to administrative agencies within state government.
3. Specialized Treatment Facility Program provides psychiatric residential treatment services for adolescents who are diagnosed with a mental disorder.

The consolidated financial statements include the selected funds identified below, which are held by the Department. All significant interfund accounts and transactions have been eliminated in consolidation.

Purpose of Funds

Fund 2237400000 – is related to general funds which are used to pay the annual Medicaid match among other things.

Fund 3337400000 – is related to all services rendered by the Department of which the primary source of revenues is the Mississippi Division of Medicaid and Medicare.

Fund 5337400000 – is related to grant revenues received from the Department of Education and any associated expenditures.

Fund 5820337400 – is related to grant revenues received for COVID-19 and any associated expenditures.

Fund 6239900000 – is related to the Healthcare Expendable Fund created by Mississippi State Legislature.

Fund 8836100000 – is related to all services associated with housing at the Department.

Fund 8836500000 – is the petty cash fund.

Fund 8836800000 – is related to all utilities associated with the Department.

Fund 8836900000 – is related to all services rendered by the Specialized Treatment Facility of which the primary source of revenues is the Mississippi Division of Medicaid.

MISSISSIPPI DEPARTMENT OF MENTAL HEALTH
MISSISSIPPI STATE HOSPITAL
SELECTED FUNDS
Year Ended June 30, 2021

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

Basis of Presentation

The accompanying fund financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB").

Fund Accounting

The financial activities of the Department are recorded in individual funds and account groups used to report financial position and changes in fund balance. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations. The Department funds presented herein utilizes the governmental fund category, which is further divided into separate "fund types". General funds are used to account for the proceeds of revenue sources that are not legally restricted to expenditures for specified purposes. Special revenue funds are intended to be used to report specific revenue sources that are limited to being used for a particular purpose.

Measurement Focus and Basis of Accounting

Governmental fund financial statements are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become measurable and available, and expenditures are generally recognized when they are incurred.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues, expenditures and other changes in fund balances during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include petty cash and cash held in checking accounts.

Equity in State Treasury

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

Receivables

Accounts receivable is for net patient service revenue and is reported at the amount that reflects the consideration to which the Department expects to be entitled. It is the Department's policy generally not to record patients accounts receivable until the amount can be quantified and the collection is certain.

MISSISSIPPI DEPARTMENT OF MENTAL HEALTH
MISSISSIPPI STATE HOSPITAL
SELECTED FUNDS
Year Ended June 30, 2021

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

Due To and Due From

Transactions between other State agencies, including other department funds, that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as due from or due to other State agencies.

Inventory

Inventories consist primarily of pharmaceuticals and supplies and are valued at the lower of cost or market.

Compensated Absences

The Department provides paid leave, which generally will accumulate or carry over if not used by the employee. GASB requires such paid leave benefits to be accrued as a liability at each balance sheet date; however, it is the policy of MS DMH and the Department not to accrue for such liability. In accordance with this reporting policy, the Department did not record a provision for this liability at June 30, 2021 or 2020. The impact cannot be reasonably quantified.

Capital Assets, Net

Capital asset additions are recorded at cost. Depreciation is computed using the straight-line method with useful lives of the property ranging from three to 40 years. Maintenance, repairs, replacements and improvements of minor importance are expensed. Major replacements and improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Federal Grants

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

Net Patient Service Revenue

The Department has agreements with third-party payors that provide for payments to the Department at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered, and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered in the recognition and accrual of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The primary third-party programs include Medicare and Medicaid, which account for a significant amount of the Department's revenue. The laws and regulations under which Medicare and Medicaid programs operate are complex and subject to interpretation and frequent changes. As part of operating under these programs, there is a possibility that government authorities may review the Department's compliance with these laws and regulations. Such review may result in adjustments to program reimbursement previously received and subject the Department to fines and penalties. Although no assurance can be given, management believes it has complied with the requirements of these programs.

MISSISSIPPI DEPARTMENT OF MENTAL HEALTH
MISSISSIPPI STATE HOSPITAL
SELECTED FUNDS
Year Ended June 30, 2021

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

Medicaid Match

Medicaid is jointly funded by the federal government and the states. The federal government's share of most Medicaid expenditures is called the federal medical assistance percentage ("FMAP") and the remainder is referred to as the state share. The FMAP rate is generally determined annually and has a statutory minimum of 50% and a statutory maximum of 83%. Mississippi's weighted average FMAP rate for the state fiscal year ended June 30, 2021 was 77.565 percent.

During the Coronavirus Disease 2019 ("COVID-19") public health emergency period, the Family First Coronavirus Response Act ("FFCRA") provided a 6.2 percentage point increase to the regular FMAP rates for all states beginning on January 1, 2020 through the last day of the calendar quarter in which the COVID-19 public health emergency period ended. Receipt of the FFCRA FMAP increase by a state was subject to meeting certain conditions.

Deferred Revenue

Deferred revenue represents grant revenue received prior to all eligibility requirements being met. Deferred revenue is reported as a liability until the eligibility requirements are met.

Transfers In and Transfers Out

Transactions for services rendered by one State agency, including other department funds, to another are treated as revenues of the recipient fund and expenditures of the disbursing fund. Reimbursements of expenditures made by one State agency, including other department funds, for another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Transfers to and transfers from other State agencies represent flows of assets between funds of the State without equivalent flows of assets in return and without a requirement for payment.

Risk Management

The Department is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; error and omissions; and natural disasters. The State of Mississippi has elected to finance most exposures to risk through the retention of risk. The State of Mississippi utilizes the internal service Risk Management Fund to account for these activities.

It is the policy of the MS DMH not to record any estimated liabilities and contingencies in the financial statements of the Department until such time as specific expenses are allocated by the Department. Accordingly, the Department's financial statements do not reflect any such liabilities or contingencies and potential disclosures related to litigation and risk that could be reasonably estimated and quantified prior to the issuance of these financial statements.

Fund Balances

The Department presents defined fund balance categories to demonstrate the nature and extent of the constraint placed on the fund balances. The classifications used in the financial statements are based on the following methodology:

Unassigned – the residual classification for the general fund and includes all amounts not contained in the other classifications.

MISSISSIPPI DEPARTMENT OF MENTAL HEALTH
MISSISSIPPI STATE HOSPITAL
SELECTED FUNDS
Year Ended June 30, 2021

NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Continued

Nonspendable – this classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

Restricted – this classification includes amounts that may only be spent for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – this classification includes amounts that can be used only for the specific purposes determined by enabling legislations by the Mississippi State Legislature.

Assigned – this classification includes amounts where constraints are imposed on the use of resources through the intent of the Mississippi State Legislature or by its delegation to each agency director.

The Department considers restricted amounts to have been spent when the expenditure is incurred for purposes determined for which both restricted and unrestricted fund balances are available.

New Accounting Standards Adopted

Governmental Accounting Standards Board Statement No. 84 ("GASB 84")

The Department adopted GASB 84, *Fiduciary Activities*, in fiscal year 2021. This statement is meant to provide guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes. Fiduciary activities meeting certain criteria (i.e., pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds and custodial funds) will now be reported in a fiduciary fund as part of the basic financial statements. The adoption of GASB 84 did not have a significant impact on the funds included herein.

Note 2. Equity in State Treasury Funds

Custodial credit risk is the risk that in the event of the failure of a financial institution, the government will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Department's deposit policy for protection of custodial risk is handled under a statewide collateral program. The collateral for public entities' deposits in financial institutions is held by the depository bank in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the state's funds are protected through a collateral pool administered by the Mississippi State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the Mississippi State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

MISSISSIPPI DEPARTMENT OF MENTAL HEALTH
MISSISSIPPI STATE HOSPITAL
SELECTED FUNDS
Year Ended June 30, 2021

NOTES TO BASIC FINANCIAL STATEMENTS

Note 3. Interfund Transfers, Due To and Due From

At June 30, 2021, due from other State agencies, including other department funds, consisted of:

	<u>June 30, 2021</u>
Department of Mental Health	\$ 262,907
Division of Medicaid	172,076
East Mississippi State Hospital	<u>46,334</u>
Total	<u>\$ 481,317</u>

At June 30, 2021, due to other State agencies, including other department funds, consisted of:

	<u>June 30, 2021</u>
Division of Medicaid	\$ 2,692,128
Department of Mental Health	586,990
Various	<u>77,386</u>
Total	<u>\$ 3,356,504</u>

Transfers from and (to) other State agencies, including other department funds, for the year ended June 30, 2021 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Division of Medicaid	\$ -	\$ 7,619,356
Department of Mental Health	-	614,250
Department of Environmental Quality	<u>-</u>	<u>900</u>
Total	<u>\$ -</u>	<u>\$ 8,234,506</u>

MISSISSIPPI DEPARTMENT OF MENTAL HEALTH
MISSISSIPPI STATE HOSPITAL
SELECTED FUNDS
Year Ended June 30, 2021

NOTES TO BASIC FINANCIAL STATEMENTS

Note 4. Capital Assets

The Department's investment in capital assets consisted of the following as of June 30, 2021:

	Beginning Balance	Additions	Reductions	Ending Balance
Land and land Improvements	\$ 381,596	\$ -	\$ -	\$ 381,596
Buildings and Improvements	85,159,411	302,654	-	85,462,065
Fixed equipment and major moveable	16,750,116	596,724	(506,714)	16,840,126
Total capital assets	102,291,123	899,378	(506,714)	102,683,787
Less accumulated Depreciation	(59,656,800)	(2,330,086)	470,542	(61,516,344)
Capital assets, net	\$ 42,634,323	\$ (1,430,708)	\$ (36,172)	\$ 41,167,443

For the year ended June 30, 2021, depreciation expense was approximately \$1,713,000.

Note 5. Defined Benefit Pension Plan

The Department participates in the Public Employees' Retirement System of Mississippi ("PERS"), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by Mississippi State law and may be amended only by the Mississippi State Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. This information may be obtained by contacting PERS.

During 2021, PERS members were required to contribute 9 percent of their annual covered salary and the Department is required to contribute at an actuarially determined rate, which was 17.40 percent of annual covered payroll. The contribution requirements of PERS members are established and may only be amended by the Mississippi State Legislature. During 2021, the Department incurred expenditures of approximately \$8,581,000 in connection with required contributions to PERS.

Effective July 2014, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68") required state and local governments to recognize the net pension liability, deferred outflows and deferred inflows of resources, pension expense, and information about and changes in the fiduciary net position on the same basis as reported by the respective defined benefit pension plans. The Department did not adopt the requirements of GASB 68 at the fund level and as such, the impact of GASB 68 has not been recorded in the accompanying financial statements of the Department. This impact cannot be reasonably quantified.

MISSISSIPPI DEPARTMENT OF MENTAL HEALTH
MISSISSIPPI STATE HOSPITAL
SELECTED FUNDS
Year Ended June 30, 2021

NOTES TO BASIC FINANCIAL STATEMENTS

Note 6. Contingencies and Commitments

The Department has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with terms and conditions of grant agreements and applicable federal regulations, including the expenditures of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the Department. The amount, if any, of expenditures that may be disallowed by the grantors cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

In August 2016, the United States sued the State of Mississippi in the United States District Court for the Southern District of Mississippi alleging that the State's mental health system violates Title II of the Americans with Disabilities Act (the "ADA") and in September 2019, the district court issued a liability opinion holding that the State was in violation of Title II of the ADA. In September 2021, the district court issued a remedial order which imposed a number of requirements on the State regarding its mental health system. In October 2021, the State appealed the district court's liability opinion and orders to the United States Court of Appeals for the Fifth Circuit. The appeal currently remains pending. The Department is not a named party in the lawsuit. Likewise, the remedial order is addressed to the State, not the Department, however the requirements of the remedial order impact the operation of the State's mental health system. The ultimate outcome and the impacts on the financial statements and operations cannot be determined and no provision for any liability or remediation is recorded at June 30, 2021.

Note 7. Subsequent Events

The Department has evaluated subsequent events through April 5, 2022, which is the date the financial statements were available to be issued.



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

Board of Mental Health
Mississippi Department of Mental Health
Mississippi State Hospital
Pearl, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the selected funds 2237400000, 3337400000, 5337400000, 5820337400, 6239900000, 8836100000, 8836500000, 8836800000, and 8836900000 of Mississippi State Hospital (Agency 3374) (the "Department"), an agency within the Mississippi Department of Mental Health ("MS DMH"), which comprise the balance sheet as of June 30, 2021 and the related statement of revenues, expenditures and changes in fund balances for the year then ended and the related notes to the financial statements and have issued our report thereon dated April 5, 2022, which contained a modified opinion with an Other Matter paragraph regarding the omission of management's discussion and analysis and the required supplementary information required by GASB 68.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements of the selected funds 2237400000, 3337400000, 5337400000, 5820337400, 6239900000, 8836100000, 8836500000, 8836800000, and 8836900000 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in dark ink that reads "HORNE LLP". The signature is written in a cursive, slightly stylized font.

Ridgeland, Mississippi
April 5, 2022



Finding Number	Finding and Recommendation
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2021.015	
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Agency Name	
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Mississippi Department of Mental Health Mississippi State Hospital Pearl, Mississippi	
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Finding Type	
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2021.015 <u>Financial Statement Close Process</u>	
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Condition	
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Procedures such as periodic reconciliations of subsidiary details to the general ledger and analysis of all significant accounts to evaluate the accuracy of the ending balances are key components in ensuring the accuracy of accounting data and information included in the financial statements. Complete and adequate documentation of the procedures performed and evidence of an appropriate level of review are also key components of an effective internal control and financial statement close process. The Department did not maintain supporting documentation of their analysis and related review of certain significant accounts and, for certain accounts, could only provide general ledger activity of which the net of such activity resulted in the ending balance. This results in an incomplete financial close process.	
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Criteria	
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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.	
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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.	
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This condition is a deficiency in internal control that we determined did not constitute significant deficiencies or material weaknesses yet was significant enough to warrant communication.	
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Cause	
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The Department did not maintain supporting documentation of their analysis and related review of certain significant accounts and, for certain accounts, could only provide general ledger activity of which the net of such activity resulted in the ending balance.	
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Effect

The impact of not performing an analysis or maintaining adequate documentation of the analysis and control procedures performed results in insufficient or incomplete documentation of significant accounts and negatively impacts the financial statement close process.

Recommendation

We recommend the Department formalize and implement procedures as part of their financial statement close process to adequately perform and document the reconciliation of all significant accounts and subsidiary details to the general ledger and the resolution of any differences identified in the process. In connection with this process, we recommend the procedures include obtaining a complete understanding and documentation of all significant entries recorded by the Department of Finance and Administration in the accounts and records of the Department. Adequate documentation of such procedures should be maintained, as well as documentation of appropriate review by a person with adequate segregation of duties to the account being analyzed.

Views of Responsible Officials

The views of the responsible officials of the Mississippi State Hospital are incorporated as an attachment to this document.

Sincerely,

A handwritten signature in dark ink that reads "HORNE LLP". The letters are stylized and slanted to the right.

Ridgeland, Mississippi
April 5, 2022



JAMES G. CHASTAIN, DIRECTOR

MISSISSIPPI STATE HOSPITAL

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April 6, 2022

Mr. Kade Moody, CPA, FHFMA, CHFP
Partner, Horne, LLP
661 Sunnybrook Road, Suite 100
Ridgeland, MS 39157

RE: Formal Response to OSA Finding Letter

Dear Mr. Moody,

Mississippi State Hospital has reviewed the Finding and Recommendation letter issued as a result of the audit of our agency conducted by your firm. We submit the following formal response:

Mississippi State Hospital takes its responsibility to perform and document the reconciliation of all significant accounts and the related subsidiary detail very seriously. Annually, MSH conducts a review of trial balance accounts noting any unusual activity or materially incorrect balances and actively seeks to correct balances when needed. In addition, MSH utilizes instructions provided by the Department of Finance and Administration to access data relied on when making accrual entries to execute a thorough review of said data and to ensure our agreeance with such inclusion. We pride ourselves on exercising due professional care during this exercise and submit signed trial balances with our GAAP packet confirming such review only when we are confident in the material correctness of our agency's trial balance.

The lack of a physical presence during this year's audit was unfortunate. We hope our dedication to this task is more evident in future years, and we look forward to working with you and your team to further refine processes we have in place.

Thank you,



James G. Chastain, FACHE
Director, MS State Hospital

A FACILITY OF THE MISSISSIPPI DEPARTMENT OF MENTAL HEALTH

ACCREDITED BY THE JOINT COMMISSION ON ACCREDITATION OF HEALTHCARE ORGANIZATIONS