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Mississippi Department of Mental Health Mississippi State Hospital

Independent Auditor's Reports and Financial Statements

June 30, 2023



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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the General Governmental Funds of Mississippi State Hospital (Agency 3374) [Department], an agency within the Mississippi Department of Mental Health (MS DMH), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents of the selected funds.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Department as of June 30, 2023 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in *Note 1*, the financial statements present only the financial statements of the General Governmental Funds of the Department and do not purport to, and do not, present fairly the financial position of the State of Mississippi as of June 30, 2023 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis 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 also have issued our report dated June 21, 2024 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 solely 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 effectiveness of the Department's 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.

Forvis Mazars, LLP

**Jackson, Mississippi
June 21, 2024**

Mississippi Department of Mental Health
Mississippi State Hospital
Balance Sheet
June 30, 2023

ASSETS

| | |
|--|-----------------------------|
| Cash | \$ 360,334 |
| Equity in the state's internal investment pool | 17,773,646 |
| Accounts receivable, net | 795,760 |
| Due from other funds | 1,004,175 |
| Inventory | <u>1,952,402</u> |
| Total assets | <u><u>\$ 21,886,317</u></u> |

LIABILITIES AND FUND BALANCE

Liabilities

| | |
|--------------------|------------------|
| Accounts payable | \$ 4,821,402 |
| Warrants payable | 501,014 |
| Due to other funds | 3,360,345 |
| Unearned revenue | <u>524,345</u> |
| Total liabilities | <u>9,207,106</u> |

Fund Balance

| | |
|---|-----------------------------|
| Nonspendable for inventory | 1,952,402 |
| Restricted for health and social services | <u>10,726,809</u> |
| Total fund balance | <u>12,679,211</u> |
| Total liabilities and fund balance | <u><u>\$ 21,886,317</u></u> |

**Mississippi Department of Mental Health
Mississippi State Hospital
Statement of Revenues, Expenses, and Changes in Fund Balance
Year Ended June 30, 2023**

| | |
|---|---------------|
| Revenues | |
| Licenses, fees, and permits | \$ 8,960,364 |
| Federal grant revenue | 372,798 |
| Other revenue | 399,968 |
| | <hr/> |
| Total revenues | 9,733,130 |
| | <hr/> |
| Expenditures | |
| Salaries | 70,721,001 |
| Travel | 25,493 |
| Contractual services | 25,037,014 |
| Commodities | 6,125,643 |
| Capital outlay | 223,005 |
| | <hr/> |
| Total expenditures | 102,132,156 |
| | <hr/> |
| Deficiency of Revenues Under Expenditures | (92,399,026) |
| | <hr/> |
| Other Financing Sources (Uses) | |
| Transfers in | 96,325,368 |
| Transfers out | (6,644,942) |
| | <hr/> |
| Total financing sources (uses) | 89,680,426 |
| | <hr/> |
| Deficiency of Revenues and Other Financing Sources (Uses) Under Expenditures | (2,718,600) |
| | <hr/> |
| Fund Balance, Beginning of Year | 15,397,811 |
| | <hr/> |
| Fund Balance, End of Year | \$ 12,679,211 |
| | <hr/> |

Note 1. Significant Accounting Policies Background Information

Background Information

Mississippi State Hospital (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. 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. 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.

MS DMH is a state agency included in the State of Mississippi's Annual Comprehensive Financial Report (ACFR). The financial statements include the selected funds identified below, which are held by the Department. All significant interfund accounts and transactions have been eliminated for purposes of presentation of these financial statements.

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 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 the 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.

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).

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.

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 utilize 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.

Account Classifications

The account classifications used in the financial statement conform to the classifications recommended in Government Accounting, Auditing & Financial Reporting as issued by the Government Finance Officers Association.

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

Cash includes petty cash and cash held in checking accounts.

Equity in Internal Investment Pool

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

Accounts Receivables

Patient service revenue is reported at the amount that reflects the consideration to which the Department expects to be entitled for providing patient care. No allowance for uncollectible accounts is considered necessary at June 30, 2023.

Prepaid Expenses and Deferred Charges

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis. The prepaid is due to timing and represents an early payment on the Department's Medicaid match for the next fiscal year.

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. The Department also has a due from the federal government related to the amount of drawdown funds required by the Department based on the grants it manages.

Inventory

Inventory consists primarily of pharmaceuticals and supplies and are valued at the lower of cost or market.

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.

Unearned revenue is recorded when federal grants are received prior to the related expenditures being recognized.

Revenue Recognition

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 program is Medicaid, which accounts for a significant amount of the Department's revenue. The laws and regulations under which the Medicaid program operates are complex and subject to interpretation and frequent changes. As part of operating under this program, 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.

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 states' share. The FMAP rate is generally determined annually and has a statutory minimum of 50% and a statutory maximum of 83%.

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. The Consolidated Appropriations Act of 2023 amended the FFCRA to phase down the

**Mississippi Department of Mental Health
Mississippi State Hospital
Notes to Financial Statements
June 30, 2023**

FMAP increase during calendar year 2023. Receipt of the FFCRA FMAP increase by a state was subject to meeting certain conditions. For the quarter ended June 30, 2023, the FMAP increase was 5 percentage points.

Mississippi's weighted average FMAP rate for the state fiscal year ended June 30, 2023, including the FFCRA FMAP increase, was 83.76%.

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. 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.

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 (State Legislature).

Assigned - this classification includes amounts where constraints are imposed on the use of resources through the intent of the 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.

Mississippi Department of Mental Health
Mississippi State Hospital
Notes to Financial Statements
June 30, 2023

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 State of Mississippi 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.

Note 3. Agency Transfers, Due From & Due To

At June 30, 2023, due from and due to other funds consisted of:

| | <u>Due From</u> | <u>Due To</u> |
|--|---------------------|---------------------|
| Division of Medicaid | \$ 1,004,021 | \$ 2,862,458 |
| Department of Finance and Administration | - | 497,887 |
| Hudspeth Regional Center | 154 | - |
| | <u>\$ 1,004,175</u> | <u>\$ 3,360,345</u> |

Transfers in and out of other state agencies, including other department funds, occurring through June 30, 2023, consisted of:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|--|----------------------|-----------------------|
| Division of Medicaid | \$ 35,522,560 | \$ (5,114,573) |
| Department of Finance and Administration | - | (825,986) |
| Department of Mental Health | 1,702,772 | (703,933) |
| Department of Environmental Quality | - | (450) |
| East Mississippi State Hospital | - | - |
| Hudspeth Regional Center | 154 | - |
| State General Appropriations | 59,099,882 | - |
| | <u>\$ 96,325,368</u> | <u>\$ (6,644,942)</u> |

Note 4. 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 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 2023, PERS members were required to contribute 9.00% of their annual covered salary, and the Department is required to contribute at an actuarially determined rate, which was 17.40% of annual covered payroll. The contribution requirements of PERS members are established and may only be amended by the State Legislature.

Effective July 1, 2024, the employer's contribution is increasing to 17.90% of annual covered payroll and will increase at a rate of 0.50% per year through 2028.

Note 5. 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 (District Court) alleging that the State's mental health system violates Title II of the Americans with Disabilities Act (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. In September 2023, the Court of Appeals reversed the remedial order and closed the matter. The Department has no liability related to this matter.

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* – Independent Auditor’s Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Mississippi State Hospital (Agency 3374) [Department], an agency within the Mississippi Department of Mental Health (MS DMH), a general governmental fund of the State of Mississippi, which comprise the balance sheet as of June 30, 2023, and the related statement of revenues, expenses, and changes in net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 21, 2024, which contained an *Emphasis of Matter* paragraph regarding the Department reflected in the financial statements and a *Required Supplementary Information* paragraph regarding the omission of required supplementary information for management’s discussion and analysis.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Department’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Department’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 material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements 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 Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Forvis Mazars, LLP

**Jackson, Mississippi
June 21, 2024**