



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
STATE AUDITOR

March 18, 2021

Financial 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 financial audit findings for the Mississippi Department of Human Services for the Fiscal Year 2020. In this finding, the Auditor's Office recommends the Mississippi Department of Human Services:

1. Strengthen the control environment to ensure suspected fraud, waste, and abuse is appropriately reported and responded to in the Agency;
2. Strengthen controls over the review processes for financial reporting; and
3. 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 March 31, 2021. 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,

A handwritten signature in blue ink that reads "Stephanie C. 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 selected accounts included on the financial statements of the Department of Human Services as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Department 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. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Accordingly, we do not express an opinion on the effectiveness of the Department of Human Services' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we did identify the following deficiencies, identified in this letter as items **2020-008** and **2020-009**, to be material weaknesses.

In addition, we noted certain control deficiencies involving internal control that require the attention of management. These matters are listed under the heading **OTHER CONTROL DEFICIENCY** as item **OTH-20-01**.

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

2020-009 Controls Should Be Strengthened to Ensure Suspected Fraud, Waste, and Abuse is Appropriately Reported and Responded to in the Agency.

Repeat Finding Yes – 2019-012

Criteria *The Clarifying Statements on Auditing Standards*, issued by the American Institute of CPAs, AU-C 250 states, in part, “It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity’s operations are conducted in accordance with the provisions of laws and regulations...”

Government Auditing Standards, July 2018 Revision, paragraph 6.41 establishes reporting requirements related to instances of fraud or noncompliance with provisions of laws, regulations, contracts, or grant agreements.

Additionally, *The Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and The 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 the fiscal year 2019 audit, we noted multiple internal control deficiencies and instances in which executive management of the Mississippi Department of Human Services (MDHS) circumvented controls that resulted in an untold amount fraud, waste, and abuse. The “tone at the top” of MDHS did not embrace ethical values or an atmosphere of integrity. The former Executive Director of MDHS (JD) resigned in fiscal year 2019, and was replaced three times during fiscal year 2020. Due to this lack of a consistent leadership, and the unknown pervasiveness of the fraud, waste, and abuse, many of the lingering effects of the prior year’s leadership still remained in fiscal year 2020. In particular, we noted that the agency did not adopt a clear and concise process for subrecipients and for fraud reporting in fiscal year 2020. These lack of policies contributed to a weak control environment, including the response to suspected fraud and increased need for more thorough risk assessment of subrecipients.

We noted the following instances during the fiscal year 2020 audit:

- During fiscal year 2020, executive management failed to timely alert regulatory authorities, including the Office of the State Auditor, of additional reported fraud regarding subrecipients. In February 2020, an individual with credible allegations of fraud about a third party subrecipient of MDHS reported multiple allegations of this fraud to personnel at MDHS. The individual cited specific examples of behaviors of a subrecipient that could result in material fraud, waste, and abuse. At this time, the Office of the State Auditor (OSA) was still actively auditing MDHS for fiscal year 2019. MDHS was aware at that time that the 2019 audit included multiple allegations of widespread fraud, waste, and abuse by two existing subrecipients. However, when we inquired of executive

management about the existence of any other reported fraud during that time, executive management did not relay the additional allegations to any auditors.

- In particular, during the formal exit conference held on April 22, 2020 for the fiscal year 2019 audit, we inquired of any additional known potential fraud that had occurred. At this time, MDHS was aware of the potential fraud of a subrecipient that was reported on February 19, 2020. However, MDHS did not express their knowledge of the potential fraud at this time.
- During the entrance conference for the fiscal year 2020 audit on July 20, 2020, we again asked MDHS executive staff of their knowledge of potential fraud that had occurred. MDHS again stated they were not aware of any potential fraud.
- During the fraud interview process that started on August 3, 2020 it was noted that potential fraud had occurred at a subrecipient and potential other issues with several other subrecipients were discussed. This information lead OSA audit staff to inquire of executive management of the potential fraud with said subrecipient(s). During this question/answer phase over the month of August, some members of executive management still did not inform auditors of the fraud, or expressed to auditors that the fraud tip was “minor” and involved an incident of an employee using a business car for personal use, and of an employee “sleeping on the job”. At two separate meetings, it was expressed by the MDHS OIG Division that MDHS was looking into the tip and that the report on the fraud was not final but the reported “tip” appeared to be “minor”.
- Due to the increased risk at MDHS for fraud, waste, and abuse, auditors requested to view a copy of the fraud compliant. Upon receiving the fraud tip form from the MDHS OIG, we noted that in addition to the personal use of the vehicle, there was also reports of an employee falsifying timesheets for employees not working at the subrecipient, bidding processes not being properly followed, portions of federal grant money being used to purchase personal items for staff and staff’s family members, and procurement card purchases with federal dollars being used for personal use. Many of the allegations of fraud in the tip were similar to issues discovered by auditors in the prior fiscal year report.
- Additionally, subrecipients Mississippi Community Education Center (MCEC) and The Family Resource Center (FRC) were still being funded with federal dollars in fiscal year 2020 after the suspected fraud was reported to executive management at MDHS by OSA and individuals at other state agencies.
- MDHS has chosen not to re-evaluate the subrecipient awards made in the Temporary Assistance for Needy Families (TANF) program for fiscal year 2019 after admitting that the process in awarding those grants was heavily manipulated by the former Executive Director (JD) and that at least two of the subrecipients misused grant funds during the year. It should be noted that grants that were renewed in January 2020 were required to submit proposals.
- MDHS did not perform final grant close-out procedures for all of the MCEC and FRC grants and did not verify that the amounts paid to both subrecipients in the form of large advances were actually utilized, and that any amount unexpended was returned to MDHS for all grants. MDHS stated they these procedures were not done due to the ongoing investigation into the matter.

Cause Executive management at MDHS was in flux during fiscal year 2020 due to the reported fraud, waste, and abuse in fiscal year 2019. The agency has still not adopted a comprehensive approach to responding to and reporting suspected fraud; additionally, the agency did not take all the needed steps to verify suspected fraud was investigated timely and misappropriated monies were returned.

Effect An organization that does not embrace ethical principles and implement a zero tolerance policy for fraud leaves itself open to fraud, waste, and abuse. Additionally, MDHS cannot restore public trust until known and suspected fraud is properly investigated and actions have been taken to replenish lost federal dollars.

Recommendation We recommend management at the Mississippi Department of Human Services implement a comprehensive fraud policy, for both individuals internal to the organization and external subrecipients. Additionally, management needs to timely report and respond to suspected and/or reported fraud.

2020-008 Controls Should Be Strengthened to Ensure Proper Review Processes for Financial Reporting

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) specifies that a satisfactory control environment is only effective when control activities exist. This includes but is not limited to the review process of transactions, proper support of transactions, proper documentation and support of methodologies used in accounting practices, proper support of information and communication within the agency, and a commitment to competence by management.

The Mississippi Agency Accounting Policies and Procedures (MAAPP) manual Section 27.20.20 states that the Department of Finance and Administration Office of Financial Reporting (DFA OFR) will assist the agencies in preparing GAAP conversion entries as part of the year end close out. As part of the GAAP packet submission, each agency is required to submit an acknowledgement that the entries posted by DFA OFR have been reviewed and accepted by the agency.

MAAPP manual Section 27.30.05 states that supporting schedules provide the details which support the adjusted MAGIC balances on the GAAP Trial Balance.

MAAPP manual Section 30.20.10 states, "While each state employee has personal responsibility for maintaining internal controls, the agency head is ultimately responsible and must assume ownership for internal control. All agency management must support the agency's internal control philosophy, promote compliance, and maintain control within their areas of responsibility. Chief financial officers have key oversight and policy enforcement roles over fiscal matters. Other agency managers may hold lead responsibility for compliance with non-financial aspects of laws, directives, policies, procedures, and the code of ethics... Agencies are to maintain adequate written documentation for activities conducted in connection with risk assessments, internal control reviews, and follow-up actions. This

documentation is to be available for review by agency management, the Office of State Auditor, and DFA.”

MAAPP manual Section 30.30.40 states, “The information and communication process entails identifying, capturing, and communicating relevant financial and non-financial information in a form and timeframe that enables employees to carry out their responsibilities. Successful communication occurs up, down, and across the agency. This process is effective if all personnel receive a clear message from top management that internal control responsibilities must be taken seriously.”

Condition

The Mississippi Department of Human Services (MDHS) operates by dividing daily operations into different departments with different functions. During the audit for fiscal year ended June 30, 2020, we noted that the different departments do not communicate and exchange information. For example, the Grant Schedule is created using information for state fiscal year end. These accruals and expenditures are not reconciled with the TANF Programmatic Division’s federal fiscal year end reporting. The agency does not have in place any overarching policies to ensure the integrity and accuracy of information between divisions. Additionally, policies and procedures in Budgets and Account and Grants Management divisions are often unwritten, or out of date. Lastly, information that was supposedly reviewed by MDHS personnel contained copious errors, miscalculations, or misstatements. These errors either indicate that staff is not competent to review the reports and transactions; or, personnel are merely signing off as reviewer as a formality without actually conducting the review. In the aggregate, these instances resulted in a material weakness in the agency’s overall control environment. Examples of these errors include:

- Lack of communication between departments regarding the reconciliation and accuracy of reported financial information. Information about the subgrant schedule was not reconciled between the programmatic division, accounting division, and budgeting information. Personnel could not provide auditors any two lists of amounts passed to subrecipients that agreed with each other during the financial audit. Each department only reconciled information for their own purpose and use, and no intra-departmental reconciliations were performed to verify the departments were using accurate information for reporting- both programmatic and for financial statement purposes.
- Lack of controls to ensure proper review and submission of the GAAP Packet information. The agency had to revise and resubmit the Grant Schedule and Federal Subgrant Activity Schedule on multiple occasions due to errors noted by auditors. The Grant Schedule did not reconcile to other programmatic reports, and agency personnel were initially unable to assist auditors in performing reconciliations in order to verify the accuracy of those reports or Grant Schedule.
- Lack of controls to ensure proper review and approval of accounts receivables transactions and account balances. Accounts receivable account 12000001 was understated in the amount of \$1,687,406 for fiscal year 2020 due to agency personnel using the wrong FNS 209 report to calculate the totals for GAAP entries.

Additionally, there were five instances in which controls could not be verified for the calculation of accounts receivable estimates. Rates that were utilized by the agency for these estimates could not be supported by agency personnel, and

there was no written methodology for how the rates were computed. Per a memorandum dated August 14, 2001 and based on conversations with the agency's accounting director, these rates have not been reevaluated since 2001, almost twenty years ago.

Lastly, four instances in which MDHS could not provide adequate support to support accounts receivables calculations for entries entered into the statewide accounting system – The Mississippi Accountability System for Government Information and Collaboration (MAGIC).

- Lack of controls to ensure proper review and approval of Journal Voucher transactions. In one instance, information provided by MDHS to support journal entries recorded by the Department of Finance and Administration (DFA) could not be relied upon due to the calculations and documentation being incorrect. Initially, when MDHS staff was alerted to an issue with the journal entries entered by DFA on MDHS behalf, MDHS personnel stated that MDHS did not approve or review the entry before it was posted. However, auditors were later given a signed statement by MDHS personnel, dated August 17, 2020, where MDHS personnel stated they reviewed, approved, and took responsibility for the transaction.

Additionally, in one instance the agency miscalculated an accrual entry causing an overstatement in accounting estimates by \$13,379,990.

Overall, MDHS lacks appropriate, written methodology to support the calculations made in the financial statements. This lack of written methodology results in an overall lack of controls at the agency. Auditors identified multiple errors and were able to verify a material portion of the calculations; however, without audit intervention these amounts could have materially misstated the agency's financials.

Cause

MDHS did not possess or enforce proper internal controls structures over financial reporting. Additionally, management has not enforced a commitment to competence at the agency, and has allowed multiple errors in financial reporting to remain undetected by agency personnel. Lack of written policies has contributed to agency personnel not performing adequate reviews over financial information. Lastly, different departments within the agency do not communicate and reconcile accounting information between them to verify the accuracy of that reported information.

Effect

Without proper internal control structures over financial reporting, erroneous financial statements and corresponding schedules could be compiled, resulting in a misrepresentation of the financial standing of MDHS.

Recommendation

We recommend management at the Department of Human Services evaluate internal control procedures over the review and approval of transactions, GAAP Packet information, and the Federal Sub-Grant Activity Schedule. Additionally, we recommend existing staff obtain the needed training to be able to accurately report and review financial information, and that the agency develop overarching policies aimed at ensuring communication about and reconciliation of financial statement information is performed regularly.

OTHER CONTROL DEFICIENCY

OTH-20-01 Controls Should Be Strengthened Over MAGIC Segregation of Duties, Business Role Assignments, and the Removal of MAGIC Access for Separated Employees.

Repeat Finding Yes, 2019-013 in 2019 and 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) specifies 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 Procedure* (MAAPP) manual section 30.60.00 requires MAGIC security roles 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.

Condition The Mississippi Department of Human Services (MDHS) submitted certifications to the Department of Finance and Administration (DFA) quarterly during state fiscal year 2020 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 2020, we noted:

- Five instances in which segregation of duties conflicts existed.
- Ten instances in which assignments with no identifiable role were listed on the MAGIC Quarterly Security Reports.
- One instance in which MAGIC access remained active for an agency employee after their employment ended.

Cause The agency did not properly monitor and/or review 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