



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

June 11, 2021

**Single Audit Management Report**

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

Dear Mr. Anderson:

Enclosed for your review are the single audit findings and other audit findings for the Mississippi Department of Human Services for Fiscal Year 2020. In these findings, the Auditor's Office recommends the Mississippi Department of Human Services:

Single Audit Findings:

1. Strengthen Controls to Ensure Compliance with Subrecipient Allowable Cost Activities of the Supplemental Nutrition Assistance Program (SNAP), Child Care and Development Block Grant (CCDF), and Temporary Assistance for Needy Families (TANF) Programs;
2. Strengthen Controls to Ensure Compliance with Allowable Cost Requirements of the TANF Program;
3. Strengthen Controls to Ensure Compliance with Cash Management Requirements of the TANF Program;
4. Strengthen Controls to Ensure Compliance with the Matching Requirements of the CCDF Cluster;
5. Strengthen Controls to Ensure Compliance with the Award's Period of Availability/Period of Performance for the CCDF Program;
6. Strengthen Controls Over Procurement Policies and Awarding Subgrants for the TANF program;
7. Strengthen Controls Over On-site Monitoring for the SNAP, CCDF, TANF, Social Services Block Grant (SSBG) and Low Income Home Energy Assistance (LIHEAP) Programs; and
8. Strengthen Controls Over Subrecipient Monitoring Requirements for the TANF, CCDF, LIHEAP, and SSBG Programs.

Please review the recommendations and submit a plan to implement them by June 18, 2021. The enclosed findings contain more information about our recommendations.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

I hope you find our recommendations enable the Mississippi Department of Human Services to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and

Mississippi Department of Human Services

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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". The signature is written in a cursive style with a large initial 'S'.

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

Enclosures

## SINGLE AUDIT FINDINGS

In conjunction with our audit of federal assistance received by the State of Mississippi, the Office of the State Auditor has completed its audit of the State's major federal programs administered by the Mississippi Department of Human Services for the year ended June 30, 2020.

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

### **Report on Compliance for Each Major Federal Program**

We have audited the Mississippi Department of Human Services' compliance with the types of compliance requirements described in the *OMB Uniform Guidance Compliance Supplement* that could have a direct and material effect on the federal programs selected for audit that are administered by the Mississippi Department of Human Services for the year ended June 30, 2020.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the State of Mississippi's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) *Uniform Administrative Requirements, Cost Principles and Audit Requirements* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mississippi Department of Human Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. However, our audit does not provide a legal determination of the Mississippi Department of Human Services' compliance.

### **Results of Compliance Audit Procedures**

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Uniform Guidance and which are identified in this letter as items 2020-024, 2020-025, 2020-026, 2020-027, 2020-028, 2020-029, 2020-030, and 2020-031.

### **Internal Control over Compliance**

Management of the Mississippi Department of Human Services is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Mississippi Department of Human Services' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal controls over compliance in accordance with OMB Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Accordingly, we do not express an opinion on the effectiveness of Mississippi Department of Human Services' internal control over compliance.

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance identified in this letter as items 2020-024, 2020-025, 2020-026, 2020-029, 2020-030, and 2020-031 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance identified in this letter as items 2020-027 and 2020-028 to be significant deficiencies.

### **Findings and Recommendations**

#### **ACTIVITIES ALLOWED/ALLOWABLE COSTS**

##### *Material Weakness*

##### *Material Noncompliance*

**2020-024**                    Strengthen Controls to Ensure Compliance with Subrecipient Allowable Cost Activities of the Supplemental Nutrition Assistance Program (SNAP), Child Care and Development Block Grant (CCDF), and Temporary Assistance for Needy Families (TANF) Programs.

**CFDA Number(s)**    10.551 Supplemental Nutrition Assistance Program (SNAP)  
10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)  
93.558 Temporary Assistance for Needy Families (TANF)  
93.575 Child Care and Development Block Grant (CCDF)  
93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF)  
93.667 Social Services Block Grant (SSBG)

|                      |               |                   |              |
|----------------------|---------------|-------------------|--------------|
| <b>Federal Award</b> | 201818Q390345 | G1801MSCCDFB      | G1801MSLIAR  |
|                      | 12352841-B19  | G1801MSCCDFC-CMIA | G1801MSLIEAW |
|                      | 12352841-619  | G1901MSCCDFB      | G1801MSLIE4  |

|              |                   |              |
|--------------|-------------------|--------------|
| 12352841-519 | G1901MSCCDFC      | G1901MSLIEAR |
| 12352841-B10 | G2001MSCCDFC      | G1901MSLIEAW |
| 12352841/410 |                   | G1901MSLIEA4 |
| 12352841-610 |                   | G2001MSLIEAR |
| 12352841/910 |                   |              |
| G1801MSSORS  | G1901MSTANFS-CMIA |              |
| G1901MSSORS  | G2001MSTANFS-CMIA |              |
| G2001MSSORS  |                   |              |

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

**Questioned Costs** \$10,163,957 in total, which includes the following broken down by program:

\$536,785 for SNAP; \$1,273,753 for CCDF; and \$8,353,419 for TANF

**Background** During the FY 2019 MDHS audit, Auditors found numerous issues regarding fraud, waste, and abuse at two Mississippi Department of Human Services (MDHS) subrecipients - Mississippi Community Education Center (MCEC) and Family Resource Center of North Mississippi (FRC). Due to the issues noted during the prior year audit involving MDHS' lack of adequate subrecipient monitoring, auditors determined on-site testing of subrecipients to be necessary audit procedures to ensure allowability provisions are properly monitored and reported for the FY2020 audit of MDHS. Additionally, due to the known fraud, waste, and abuse found at both MCEC and FRC during the FY 2019 audit, and the federal and state investigations into the financial operations of these entities, auditors questioned the payments made to both organizations in total for SNAP, TANF, and CCDF grants for multiple years (over \$94 million). MDHS is currently undergoing a forensic audit to determine how much, if any, of the costs paid to these organizations those auditors deem appropriate. However, due to the risk involved, the on-going nature of the investigations, and the additional indictments faced by owners of MCEC for fraudulent activity for other federal grants, auditors felt it prudent to question the FY 2020 payments in total as well.

**Criteria** *The Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the United States Government Accountability Office (GAO) Green Book* dictates that in order for organizations to have effective internal control, the organization should have an effective control environment. A component of an effective control environment is proper oversight ability, accountability and commitment to ethical values. A control environment is most effective when all five components of controls (control environment, risk assessments, information and technology, monitoring and communication, and existing control activities) are working together in tandem.

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

*The Code of Federal Regulations (2 cfr 200.404)* states "A cost is reasonable - if in its nature and amount, it does not exceed that which would be incurred by a prudent

person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the entity is predominately federally funded. In determining reasonableness of a given cost, consideration must be given to: (a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award. (b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award. (c) Market prices for comparable goods or services for the geographic area. (d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government. (e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost."

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

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

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

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

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

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

**"A1:** No. The first two statutory purposes (related to caring for children in their own homes and ending dependence) are expressly for the needy. Therefore, the statute envisions that States would serve only the needy when they are conducting activities or providing benefits that are reasonably calculated to accomplish TANF purpose one or two. This means that States would have to develop and apply criteria of financial need in these cases. However, States may use Federal TANF funds to

help both the needy and the non-needy with benefits or services that are reasonably calculated to accomplish TANF purpose three or four (which relate to reducing out-of-wedlock pregnancies and the formation and maintenance of two-parent families). In serving the non-needy, States may use only segregated Federal TANF funds.”

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

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

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

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

**Condition**

During fiscal year 2020, MDHS began the year with funding commitments to both MCEC and FRC. These funding commitments were made under the prior Executive Director’s (JD) leadership and direction. Both organizations were owed monies under grants from federal fiscal years 2018 and 2019; MCEC was also owed money from federal fiscal year 2020. MDHS began the fiscal year with a new Executive Director (CF) who began in August 2019. In June of 2019, MDHS reported possible fraudulent activity to the then Governor of Mississippi, who in turn reported it to investigators and auditors. OSA began the fiscal year 2019 single audit in July 2019, and reported to MDHS personnel in August 2019 that auditors

noted significant red flags with the amounts paid to MCEC and FRC. At this time, the Office of the State Auditor (OSA) and MDHS began to discuss the need for MDHS to procure a forensic audit to determine the extent of improper payments that were made by MCEC, FRC, and other possible subrecipients of TANF, SNAP, and CCDF. A Request for Proposals was drafted, and OSA and MDHS were in discussion about the process when MDHS informed OSA that they would not be procuring a forensic audit at that time. Additionally, in September 2019, OSA was informed that the Mississippi Community College Board (MCCB) had issued FRC a monitoring report detailing questionable costs, and that these concerns related to money passed through from MDHS. Due to the suspected fraud, waste, and abuse, and the intention of MDHS to not pursue a forensic audit, OSA requested copies of all MCEC and FRC financial records related to MDHS grants from MDHS personnel in order to perform risk based testing. MDHS did not have sufficient copies of information on hand to verify allowability of purchases; therefore, OSA requested the information directly from the two subrecipients in October of 2019. Executive Director (CF) and personnel from OSA met in October to discuss these document requests, the alleged fraud investigation, and the audit in general. At this time, MDHS was again informed of significant concerns with MCEC and FRC grants and spending, and executive leadership was aware of an open investigation. However, it was not until December 2019 that both MCEC and FRC were alerted by MDHS that their future grant awards would be “frozen” until the FY 2019 audit was completed.

Regardless of the information provided to MDHS about the alleged fraud, waste, and abuse at MCEC and FRC, the agency performed the following grant awards and modifications:

- In September 2019, MDHS modified a 2019 grant to MCEC by an increase of \$4,822,992;
- In November 2019, MDHS modified a 2019 grant to FRC by an increase of \$1,500,000;
- MCEC was paid \$8,091,212 in grant advances and reimbursements in FY 2020;
- FRC was paid \$2,072,745 in grant advances and reimbursements in FY 2020; and,
- MCEC was awarded new grants for federal fiscal year 2020 (these were later frozen, and no monies were awarded).

Nomenclature review of the financial records of MCEC and FRC for fiscal year 2020 verified that the entities funded similar payments in FY 2020 as they had in FYs 2017, 2018, and 2019. For example, funds were paid to lobbyists, a fitness boot camp, rental payments to family members, inflated rental payments of leased space owned by the principals of MCEC, payments for private school supplies, payments for construction and renovation of property, and payments to other nonprofits owned and operated by the owners of MCEC. Both organizations also did not have any supporting methodology for the allocation of costs – both direct and indirect – among the variety of grants received.

MDHS did not require the two subrecipients to submit detailed, supporting information relating to claim reimbursements; therefore, reasonableness and allowability of all payments to MCEC and FRC in FY 2020 are unable to be determined by MDHS before payments were made in advance or reimbursement to the two subrecipients.

The following funding was issued during FY 2020:

|                    | SNAP           | TANF             | CCDF             | Total             |
|--------------------|----------------|------------------|------------------|-------------------|
| MCEC - 2018 Grant  |                |                  | 1,134,864        | 1,134,864         |
| MCEC - 2019 Grant  | 468,894        | 6,419,563        |                  | 6,888,457         |
| MCEC - 2020 Grant  | 67,891         |                  |                  | 67,891            |
| <b>TOTALS MCEC</b> | <b>536,785</b> | <b>6,419,563</b> | <b>1,134,864</b> | <b>8,091,212</b>  |
| FRC - 2018 Grant   |                |                  | 138,889          | 138,889           |
| FRC - 2019 Grant   |                | 1,933,856        |                  | 1,933,856         |
| <b>TOTALS FRC</b>  | <b>-</b>       | <b>1,933,856</b> | <b>138,889</b>   | <b>2,072,745</b>  |
| <b>GRAND TOTAL</b> |                |                  |                  | <b>10,163,957</b> |

Due to the aforementioned issues, payments made to MCEC and FRC resulted in total questioned costs of \$10,163,957.

**Cause**

MDHS did not appropriately monitor or review expenditures at the subrecipient level to ensure adherence to allowable cost and activities allowed guidelines. Personnel at MDHS are not properly trained or educated in regards to allowable cost provisions. Lastly, personnel at MDHS either disregarded established policies and procedures, or were not aware policies and procedures existed.

**Effect**

Uniform Grant Guidance includes remedies for non-compliance with federal regulations, including, but not limited to, requesting a dollar for dollar reduction in the subsequent year's grant award for any money misappropriated or misspent under the Temporary Assistance for Needy Families Grant. Additionally, the widespread fraud, waste, and abuse associated with MCEC and FRC has led to public distrust of MDHS, and a loss of integrity in the public welfare system in the State of Mississippi.

**Recommendation**

We recommend the Mississippi Department of Human Services:

- 1) Strengthen existing controls to ensure non-compliance with federal regulations does not continue;
- 2) Procure adequate and appropriate training for all staff who are involved in any federal allowable costs and activities allowed monitoring;
- 3) Increase awareness and training to subrecipients of allowable cost and activities allowed regulations.

**Repeat Finding**

Yes; 2019-030.

**Statistically Valid** No.

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***Material Weakness***

***Material Noncompliance***

**2020-025** Strengthen Controls to Ensure Compliance with Allowable Cost Requirements of the TANF Program.

**CFDA Number** 93.558 Temporary Assistance for Needy Families State Programs

**Federal Award No.** G1801MSTANF 2018  
G1901MSTANF 2019  
G2001MSTANF 2020

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

**Questioned Costs** \$377,852

**Criteria**

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

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

*The Code of Federal Regulations (2 cfr 200.404)* states “A cost is reasonable – if in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the entity is predominately federally funded. In determining reasonableness of a given cost, consideration must be given to... (b) The restraints or requirements imposed by such factors as: sound business practices; arm’s-length bargaining...”

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

The *MDHS Subgrant/Contract Manual*, which subgrants must attest to have read and understood prior to receiving grant awards, states in Section 6, under the heading “Open and Free Competition” that “all procurement transactions shall be conducted in a manner that provides maximum open and free competition consistent with...applicable federal law. Procurement procedures shall not restrict

or eliminate competition...Examples of what is considered to be restrictive of competition include, but are not limited to...noncompetitive contracts to consultants that are on retainer contracts...organizational conflicts of interest.

The *Mississippi Department of Human Services' Subgrant Agreement*, Section IX-COMPLIANCE WITH LAWS, RULES, AND REGULATIONS, states that, "If the Subgrantee advertises or prints brochures, flyers or any other material, printed or otherwise, relating to, or promoting, the services which it is providing through this Subgrant, it shall acknowledge that said funding for said Subgrant and for said advertising was provided by MDHS."

**Condition**

During the testing of allowable costs for the TANF grant for fiscal year 2020, auditors noted:

- Three instances in which the auditor was unable to determine the allowability of costs. In these instances, the former Executive Director (JD) circumvented controls and insisted MDHS grant the recipient, Heart of David, funds, and reimburse transactions without proper documentation or approval. These transactions resulted in a total questioned cost of \$199,169.
- The only required documentation for subrecipients to submit related to advanced and/or reimbursement payments are claim forms with amounts requested totaled by reporting category (Salaries, Contractual, etc.) and monthly expenditure reports by total amounts. Subrecipients do not submit invoices, receipts, or other supporting documentation to substantiate claims, or to allow MDHS to verify allowability of subgrant payments. Due to the extensive fraud, waste, and abuse found at the subrecipient level during the FY 2019 audit, auditor finds documentation as required by MDHS to be insufficient for MDHS to adequately determine the allowability of costs incurred by the subrecipients.
- MDHS updated its TANF state plan during the FY'19 audit period. However, when auditors requested a copy of the most recent state plan in fiscal year 2019 and fiscal year 2020, personnel provided OSA with the incorrect state plan. The updated state plan had updated thresholds for determining whether applicants qualified as "needy" as well as other eligibility and allowability policies and procedures. Auditors confirmed with MDHS staff on multiple occasions that the plans provided were in fact the most up to date plans, and received confirmation. Auditors were able to determine, however, that a new and updated state plan existed, and were able to obtain the copy of that state plan from the federal granting authority. It should also be noted that the incorrect state plan was also published on the MDHS webpage. It is MDHS personnel's obligation to understand the agency's most current information and internal regulations to ensure allowable cost provisions are met, and that payments to subrecipients are allowed.

Due to the increased risk of questioned costs relating from the lack of appropriate pre and post subrecipient payment review by MDHS, the audit team conducted detailed testing for allowable cost compliance requirements at three additional TANF subrecipients for the fiscal year 2020 audit.

During this testing, the following was noted:

**Subrecipient 1:**

- Subrecipient maintained no written policies, procedures, and/or methodologies for determining cost allocation rates for expenditures for the agency. The auditor noted that the subrecipient received multiple grants from different agencies and programs, however, 100 percent of the items tested were charged to the TANF grant.
- 58 instances in which TANF funds expended were either for or directly related to entertainment costs; therefore, costs are unallowable.

These instances resulted in questioned costs of \$41,101.

- Two instances in which TANF funds expended were for clothing items containing business logos that were used as advertisements for the subrecipient and not the program.

These instances resulted in questioned costs of \$3,791.

- 171 instances in which auditor could not determine what funding source was used for expenditures due to subrecipient comingling funds without proper processes in place to distinguish funding sources.
- Three instances in which proper documentation supporting expenditures was not maintained by the subrecipient and auditor could not determine the allowability or reasonableness of the expenditures. These instances resulted in questioned costs of \$1,451.
- Five instances in which expenditures did not reasonably promote the objectives of the TANF program. These instances resulted in questioned costs of \$83,133.

In total, auditor noted \$129,476 of questioned costs at Subrecipient 1.

**Subrecipient 2:**

- Subrecipient 2 maintained no written policies, procedures, and/or methodologies for determining cost allocation rates for Salary and Fringe expenditures. Furthermore, auditor noted that costs over rent, commodities, telephone and internet, and equipment were not properly allocated.
- Travel reimbursement expenditures relating to a Title V grant were reimbursed erroneously with TANF funds. These expenditures resulted in questioned costs of \$1,029.

- One instance in which reasonableness and accuracy of mileage reimbursement could not be determined due to employee having two residences.

In total, auditor noted \$1,029 of questioned costs at Subrecipient 2.

**Subrecipient 3:**

- Reimbursement for advertising expenditures in the amount of \$1,000 did not meet the advertisement requirements set forth in MDHS' Subgrant agreement.
- Reimbursement for facility rental expenditures in the amount of \$18,200 were not supported by a valid rental agreement covering the reimbursement periods. Additionally, auditor noted that subrecipient was paying the aforementioned facility rental fees to a for-profit entity comprised of the same founders and/or directors as subrecipient. Due to the relationships noted between the subrecipient and the private company, the facility rental is not considered arm's-length bargaining.
- Reimbursements for commodities in the amount of \$2,085 and Indirect costs in the amount of \$709 were not adequately supported. Therefore, the reasonableness and allowability of costs could not be determined.
- MDHS determined that "equipment" related to a reimbursement claim was unallowable; however, MDHS did not collect reimbursement for the entirety of the claim. MDHS reimbursed subrecipient \$1,414 for 30 tablets purchased. MDHS noted during monitoring of the subrecipient that 42 tablets were purchased for \$979 with TANF funds. MDHS determined these purchases to be unallowable TANF expenditures and received a refund check from the subrecipient in the amount of \$979. The remaining \$433 of the purchase was not returned to MDHS.
- Reimbursements for workforce training fees associated with a Business Technology and Office Skills program from April to June 2020 were to pay for serving 60 individuals; however, subrecipient was only able to provide support detailing 12 individuals being served beginning in May 2020.

Auditor noted that MDHS advanced \$25,751 in February 2020 for three months of startup fees, supplies, and materials. Subrecipient could not provide documentation of enrollment or attendance of individuals to the Business Technology and Office Skills Program during the three months that the advancement of funds included.

Furthermore, fees associated with the Business Technology and Office Skills program offered by Subrecipient were paid a private entity composed of some of the same incorporators and/or directors as Subrecipient; therefore, auditor determined these workforce training programs to not be entered into at arm's-length bargaining.

In total, auditor noted \$48,178 of questioned costs at Subrecipient 3.

Due to the unique circumstances involving each of the questioned costs at the three subrecipients tested, it is not feasible to project the error rate of questioned costs to the entire population.

|                            |  |
|----------------------------|--|
| <b>Cause</b>               | Staff were either unaware or did not follow policies and procedures related to Activities Allowed and Allowable Costs of TANF funds. The Mississippi Department of Human Services also continued to provide federal funding to subrecipients with known issues of fraud, waste, and abuse without additional scrutiny of payments. |
| <b>Effect</b>              | Failure to verify expenditures are allowable and appropriately pay expenditures out of federal or private funds can lead to federal funding being withdrawn or expenditures being paid with incorrect funds. This can also lead to fraud, waste, and abuse within an agency.   |
| <b>Recommendation</b>      | We recommend the Mississippi Department of Human Services strengthen control procedures in order to properly verify expenditures are allowable and appropriate. We also recommend that the agency appropriately pay expenditures out of the correct federal or private funds.  |
| <b>Repeat Finding</b>      | Yes; 2019-032.   |
| <b>Statistically Valid</b> | No.  |

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## CASH MANAGEMENT

### *Material Weakness*

### *Material Noncompliance*

|                          |   |
|--------------------------|---|
| <b>2020-026</b>          | <u>Strengthen Controls to Ensure Compliance with Cash Management Requirements of the TANF program.</u>  |
| <b>CFDA Number</b>       | 93.558 Temporary Assistance for Needy Families State Programs   |
| <b>Federal Award No.</b> | G1801MSTANF 2018<br>G1901MSTANF 2019<br>G2001MSTANF 2020  |
| <b>Federal Agency</b>    | U.S. Department of Health and Human Services  |
| <b>Questioned Costs</b>  | None.   |
| <b>Criteria</b>          | The <i>Code of Federal Regulations (2 cfr 200.514(C)(4))</i> states, “When internal control over some or all of the compliance requirements for a major program are likely to be ineffective in preventing or detecting noncompliance, the planning and performing of testing described in paragraph (c)(3) of this section are not required for those compliance requirements. However, the auditor must |

report a significant deficiency or material weakness in accordance with § 200.516 Audit findings, assess the related control risk at the maximum, and consider whether additional compliance tests are required because of ineffective internal control.”

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

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

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

**Condition**

MDHS does not require subrecipients to submit adequate supporting documentation for claims. Therefore, auditor was unable to determine the allowability of costs for some subrecipients. Additionally, auditors noted that MDHS made advanced payments to subrecipients during the fiscal year without following the appropriate federal regulations.

**Cause**

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

|                            |   |
|----------------------------|---|
| <b>Effect</b>              | Failure to follow cash management regulations can lead to subrecipients holding federal funds and utilizing those funds for other purposes rather than the programmatic intent. Additionally, requesting drawdowns inappropriately from the federal pass through entity can cause loss of available interest payments made at the state and federal levels.   |
| <b>Recommendation</b>      | We recommend the Mississippi Department of Human Services strengthen controls in order ensure federal funds are drawn down in accordance with the <i>Cash Management Information Act</i> and are designed to minimize the time elapsing between the transfer of funds from the United States Treasury and to the disbursement of funds. Additionally, we recommend the Mississippi Department of Human Services strengthen control procedures in order to properly verify expenditures to correctly draw amounts necessary for the program. |
| <b>Repeat Finding</b>      | Yes; 2019-035.  |
| <b>Statistically Valid</b> | No.   |

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#### **MATCHING, LEVEL OF EFFORT, EARMARKING**

##### ***Significant Deficiency Immaterial Noncompliance***

|                         |   |
|-------------------------|---|
| <b>2020-027</b>         | <u>Strengthen Controls to Ensure Compliance with Matching Requirements of the CCDF Cluster.</u>   |
| <b>CFDA Number</b>      | 93.575 Child Care and Development Block Grant<br>93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund  |
| <b>Federal Award</b>    | 1701MSCCDF 2017<br>1801MSCCDF 2018<br>1901MSCCDF 2019<br>2001MSCCDF 2020  |
| <b>Federal Agency</b>   | U.S. Department of Health and Human Services  |
| <b>Questioned Costs</b> | None.   |
| <b>Criteria</b>         | <p>Per the <i>Code of Federal Regulations (2 cfr 200 Appendix XI, Compliance Supplement)</i>, In-Kind contributions should be valued in accordance with 2 <i>cfr sections 200.306, 200.434 and 200.414</i> along with the terms and conditions of the award.</p> <p>Additionally, the <i>Code of Federal Regulations (2 cfr 200.62)</i>, states that a non-Federal entity must have internal control over compliance designed to provide reasonable assurance that;</p> <p>(a) Transactions are properly recorded and accounted for, in order to:</p> |

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

Furthermore, the MDHS Subgrantee Manual page 26 and 27, states subrecipients should be able to provide documentation to support Matching Non-Cash Contributions. This documentation should verify that expenses reported as in-kind match were in proportion to the benefits received by the subgrant that was matched.

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| <b>Condition</b>           | Based on matching testwork for the CCDF program, auditors noted that MDHS was not able to provide monthly reporting worksheets of in-kind donations. Additionally, MDHS does not require subrecipients to attach supporting documentation for in-kind expenditures. Due to the lack of supporting documentation, the auditor was unable to verify the values placed of those in-kind contributions are in accordance with Uniform Grant Guidance. |
| <b>Cause</b>               | MDHS does not require sub-recipients to submit supporting documentation for in-kind contributions.  |
| <b>Effect</b>              | Failure to require sub-recipients to submit supporting documentation regarding their claims for in-kind contributions could result in the improper valuation of in-kind contributions, inaccurate reporting of those in-kind contributions on the quarterly AFC-696 reports, and improper matching of federal funds.  |
| <b>Recommendation</b>      | We recommend the Mississippi Department of Human Services require subrecipients to provide supporting documentation, such as a listing of contributions and the method of the valuation of those contributions, for in-kind contributions claimed by the Mississippi Department of Human Services on its quarterly AFC-696 reports.   |
| <b>Repeat Finding</b>      | Yes; 2019-037.  |
| <b>Statistically Valid</b> | Yes.  |

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**PERIOD OF PERFORMANCE**

*Significant Deficiency*  
*Immaterial Noncompliance*

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|-------------------------|--|
| <b>2020-028</b>         | <u>Strengthen Controls to Ensure Compliance with the Period of Performance for the CCDF Program.</u>   |
| <b>CFDA Number</b>      | 93.575 - Child Care and Development Block Grant<br>93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund   |
| <b>Federal Award</b>    | 1801MSCCDF 2018  |
| <b>Federal Agency</b>   | U.S. Department of Health and Human Services   |
| <b>Questioned Costs</b> | \$39,391   |
| <b>Criteria</b>         | <p>The <i>Code of Federal Regulations (45 cfr 98.60)</i>, requires both the Federal and non-Federal share of the Matching Fund be obligated in the fiscal year in which the funds are granted and liquidated no later than the end of the succeeding fiscal year.</p> <p>The <i>Code of Federal Regulations (2 cfr 200.62)</i>, states that a non-Federal entity must have internal control over compliance designed to provide reasonable assurance that;</p> <p>(a) Transactions are properly recorded and accounted for, in order to:</p> <ul style="list-style-type: none"><li>(1) Permit the preparation of reliable financial statements and Federal reports;</li><li>(2) Maintain accountability over assets; and</li><li>(3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;</li></ul> <p>(b) Transactions are executed in compliance with:</p> <ul style="list-style-type: none"><li>(1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and</li><li>(2) Any other Federal statutes and regulations that are identified in the Compliance Supplement; and</li></ul> <p>(c) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.</p> |
| <b>Condition</b>        | During testwork performed over Period of Performance requirements, auditor noted three instances in which the liquidation of funds totaling \$39,391 did not occur within the Period of Performance of the federal grants.   |
| <b>Cause</b>            | Subrecipient close-out reports were not submitted timely, and staff were either unaware of or did not follow policies and procedures to ensure expenditures made to federal awards/grants were made within the period of performance.  |
| <b>Effect</b>           | Expenditures were made to a federal award/grant beyond the period of performance, resulting in questioned costs.   |
| <b>Recommendation</b>   | We recommend the Mississippi Department of Human Services strengthen controls over the grant close-out process, as well as properly review transactions to ensure liquidations are performed during the grant period.  |

**Repeat Finding** Yes; 2019-038

**Statistically Valid** Yes.

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## PROCUREMENT, SUSPENSION, AND DEBARMENT

### *Material Weakness*

### *Material Noncompliance*

**2020-029** Controls Should Be Strengthened Over Procurement Policies for the Awarding of Subgrants and Contracts for the TANF Program.

**CFDA Number** 93.558 Temporary Assistance for Needy Families State Programs

**Federal Award No.** G1901MSTANF 2019  
G2001MSTANF 2020

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

**Questioned Costs** None.

**Criteria** Per the *Code of Federal Regulations, Title 2-Subtitle A- Subchapter D- Part 200.318*, The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to, the following: Rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Additionally, MDHS' Evaluation Committee Guidelines state that "Each solicitation contains the scoring criteria by which the evaluation committee will score submitted applications. Evaluation committee members are tasked with initially reviewing and scoring applications individually. The evaluation committee is then convened to view the average of individual scores and comments to specifications and to collectively reach a consensus score for each solicitation requirement. Each evaluation committee member is provided a score sheet to record their scores and comments....", as well as "A score of 75 is the minimum score allowed to be considered for award."

Furthermore, MDHS' RFP Procedures Manual states that MDHS will maintain copies of score sheets and any and all pertinent documentation related to the process from beginning to end.

Finally, *The Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Manual* specifies that a satisfactory control environment is only effective when there are adequate control activities in place. Effective control activities dictate that the agency perform appropriate, multi-level reviews over the contracting process.

|                            |   |
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| <b>Condition</b>           | <p>During testwork over procurement requirements of the TANF program, auditor noted:</p> <ul style="list-style-type: none"><li>• For Procurement, Suspension, and Debarment relating to Subgrants, the Mississippi Department of Human Services did not require at least three proposal reviewers to individually score proposals received from subrecipients. Therefore, auditor was unable to determine that the proposals were evaluated by at least three reviewers, total scores per grading sheet were accurately calculated, total scores were in agreement with reviewers' comments, subrecipient(s) received an actual score of at least 75, and awarding of funds was based on the ranking and recommendation of reviewers.</li><li>• For Procurement, Suspension and Debarment relating to Contractuals, auditor noted one instance in which proper controls were not followed over the contracting process for capital lease agreement(s). This capital lease was modified in 2018 and should have gone through the Administrative Review Memorandum (ARM) process; however, MDHS could not provide documentation supporting the ARM process.</li></ul> |
| <b>Cause</b>               | <p>Staff were not aware or did not follow policies and procedures over the procurement of contractual services, or adequate controls were not in place over granting subgrants and entering into procurement contracts.</p>   |
| <b>Effect</b>              | <p>Failure to abide by federal procurement guidelines, as well as internal policies and controls, could result in inappropriate contracts and payments as well as fraud, waste, and abuse. All of which could result in a claw-back of federal monies.</p>  |
| <b>Recommendation</b>      | <p>We recommend the Mississippi Department of Human Services strengthen controls to ensure compliance with federal regulations and internal policies over the procurement of contractual services as well as the awarding of subgrants.</p>   |
| <b>Repeat Finding</b>      | <p>Yes; 2019-039</p>  |
| <b>Statistically Valid</b> | <p>Yes.</p>   |

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## SUBRECIPIENT MONITORING

### *Material Weakness*

### *Material Noncompliance*

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|--------------------|---|
| <b>2020-030</b>    | <p><u>Strengthen Controls over On-Site Monitoring for the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), Child Care and Development Block Grant (CCDF), Low Income Home Energy Assistance Program (LIHEAP), and Social Services Block Grant (SSBG) Programs.</u></p> |
| <b>CFDA Number</b> | <p>10.551 Supplemental Nutrition Assistance Program<br/>93.558 Temporary Assistance for Needy Families State Programs<br/>93.667 Social Services Block Grant</p>  |

93.575 Child Care and Development Block Grant  
93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund  
93.568 Low Income Home Energy Assistance Program

**Federal Award No.** G1901MSTANF 2019 SNAP – Letter of Credit  
G1801MSTANF 2018 G1901MSSOSR 2019  
G1901MSCCDF 2019 G19B1MSLIEA 2019

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

**Questioned Costs** None.

**Criteria** The terms and conditions of the grant agreements between the Mississippi Department of Human Services (MDHS) and the U.S. Department of Health and Human Services require MDHS to administer grants in compliance with the *Code of Federal Regulations (2 cfr Part 200)*. The *Code of Federal Regulations (2 cfr Part 200.331)* designates MDHS as a pass through entity to properly identify subgrant requirements to subrecipients, evaluate the risk of noncompliance for each subrecipient, and monitor the activities of subrecipients as necessary to ensure that subgrants are used for authorized purposes, complies with the terms and conditions of the subgrants and achieves performance goals.

The auditor evaluated MDHS’s compliance with subrecipient monitoring requirements based on written policies and procedures designed by MDHS’s Division of Program Integrity – Office of Monitoring (OM) to satisfy during-the-award monitoring requirements. OM procedures require an on-site monitoring review of each subrecipient contract at least once during the subgrant period. A tracking mechanism is used to ensure all subrecipient contracts are properly identified and monitored. Monitoring tools/checklists are used during each on-site monitoring review to provide guidance and to document a review was performed. The on-site monitoring workpapers are reviewed and approved by OM supervisory personnel prior to issuance of a written report, the Initial Report of Findings & Recommendations, which is used for communicating finding(s) and/or questioned costs to subrecipients. The written report should be issued within 30 working days from the date of the exit conference, which is normally held on the last day of the on-site review.

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

The *Code of Federal Regulations (2 cfr 200.328(b)(2))*, states the non-Federal entity must submit performance reports using OMB-approved government-wide standard information collections when providing performance information. As

appropriate in accordance with above mentioned information collections, these reports will contain, for each Federal award, brief information on the following unless other collections are approved by OMB:

(i) A comparison of actual accomplishments to the objectives of the Federal award established for the period. Where the accomplishments of the Federal award can be quantified, a computation of the cost (for example, related to units of accomplishment) may be required if that information will be useful. Where performance trend data and analysis would be informative to the Federal awarding agency program, the Federal awarding agency should include this as a performance reporting requirement.

(ii) The reasons why established goals were not met, if appropriate.

(iii) Additional pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

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

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

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

(1) Permit the preparation of reliable financial statements and Federal reports;

(2) Maintain accountability over assets; and

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

(b) Transactions are executed in compliance with:

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

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

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

Furthermore, The *Internal Control – Integrated Framework* published by the *Committee of Sponsoring Organizations of the Treadway Commission (COSO) Manual* specifies that a satisfactory control environment is only effective when there are adequate control activities in place. Effective control activities dictate that the agency perform appropriate, multi-level reviews over the monitoring process.

#### **Condition**

During testwork performed on subrecipient on-site monitoring for 77 subgrant contracts during state fiscal year 2019, auditor noted the following exceptions:

- Based on inquiry with MDHS personnel, Former Executive Director (JD) overrode existing controls in the monitoring process of some recipients to

avoid MDHS personnel scrutiny into purchases.

- Two contracts, or 3 percent, in which auditor could not verify monitoring took place due to no Initial Report, Supervisor's Checklist, Fiscal Tool, or Programmatic Tool included for the subrecipient on the FY 2019 Monitoring Reviews Smartsheet.
- Six contracts, or 7 percent, in which the Supervisor's Checklist was not included for subrecipient on the FY 2019 Monitoring Reviews Smartsheet; therefore, auditor could not verify Supervisory Review of the Monitoring process.
- Nineteen contracts, or 25 percent, in which Initial Report of Findings and Recommendations or No Findings Letter were not included for subrecipient on FY 2019 Monitoring Reviews Smartsheet, were issued before the Supervisor's Checklist was signed and approved, or auditor could not verify Supervisor's approval before Initial Report issuance.
- Thirteen contracts, or 17 percent, in which subrecipient was not monitored during grant period, or auditor could not verify monitoring due to no Initial Report or No Findings Letter included for subrecipient on FY 2019 Monitoring Reviews Smartsheet.
- Two contracts, or 3 percent, in which the Programmatic Tool was not included for subrecipient on FY 2019 Monitoring Reviews Smartsheet, or was not in format readable by auditor.
- Twenty-four (24) contracts, or 31 percent, in which Initial Report was not issued within 30 working days of the exit conference, or auditor could not verify attribute due to Initial Report not being included on FY 2019 Monitoring Reviews Smartsheet.
- Four contracts, or 5 percent, in which Corrective Actions were not received within 30 days of Initial Report being issued, or Auditor could not determine if Corrective Actions were received within the appropriate timeframe after the issuance of the Initial Report due to lack of support from subrecipient on FY 2019 Monitoring Reviews Smartsheet.
- One instance, or 1 percent, in which monitoring for a subrecipient was postponed due to a request by upper management.

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

**Cause**

Staff were either unaware or did not follow identified policies and procedures for monitoring requirement.

**Effect**

MDHS programmatic funding divisions rely upon OM monitoring procedures to verify compliance with program regulations and to identify potential problem areas

needing corrective action. Failure to properly monitor subrecipients in a timely manner could allow noncompliance with federal regulations to occur and go undetected, potentially resulting in questioned costs.

**Recommendation** We recommend the Mississippi Department of Human Services’ Division of Program Integrity - Office of Monitoring (OM) strengthen controls over subrecipient monitoring. OM should evaluate the risk of noncompliance of each subrecipient and perform monitoring procedures based upon identified risks. We also recommend the agency ensure subgrants are monitored timely and that the “Report of Findings & Recommendations” prepared as a result of the on-site monitoring be issued in a timely manner to enable immediate corrective action procedures to be initiated. We further recommend that the agency maintain all supporting monitoring tools, reports, and correspondence in the monitoring file.

**Repeat Finding** Yes – 2019-042 in 2019; 2018-046 in 2018; 2017-037 in 2017; 2016-027 in 2016; 2015-005 in 2015; 2014-017 in 2014; 2013-015 in 2013.

**Statistically Valid** Yes.

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**Material Weakness**

**Material Noncompliance**

**2020-031** Strengthen Controls Over Subrecipient Monitoring to Ensure Compliance with OMB Uniform Guidance Auditing Requirements.

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

**Federal Award No.** SNAP – Letter of Credit  
 TANF – G1901MSTANF  
 CCDF – G1801MSCCDF, G1901MSCCDF  
 SSBG – G1901MSSOSR  
 LIHEAP – G18B1MSLIEA, G19B1MSLIEA

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

**Questioned Costs** None.

**Criteria** *The Internal Control - Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) specifies that a satisfactory control environment is only effective when there are adequate control activities in place. Adequate controls would allow for a tracking system that includes all sub-recipients receiving federal funds from the agency as well as the maintenance of OMB monitoring files.*

The Office of Management and Budget (OMB) Uniform Guidance states the pass-through entity is responsible for (1) ensuring that subrecipients expending \$750,000 or more in Federal awards during their fiscal year have met the audit requirements of OMB Uniform Guidance and that the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issuing a management decision on findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

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

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

The *Code of Federal Regulations (2 cfr §200.331(f))* states all pass-through entities (PTE's) must verify that every subrecipient is audited as required by Subpart F - Audit Requirements of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 200.501 Audit requirements.

The *Code of Federal Regulations (2 cfr §200.332)* states that all pass-through entities must:

(d) Monitor the activities of the subrecipient as necessary to ensure that the subgrant is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subgrant; and that subgrant performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:

- (1) Reviewing financial and performance reports required by the pass through entity.
- (2) Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and written confirmation from the subrecipient,

highlighting the status of actions planned or taken to address Single Audit findings related to the particular subgrant.

The *Code of Federal Regulations (2 cfr § 200.512(a)(1))* states the audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.

Furthermore, MDHS' Policy regarding the Responsibilities of the Monitoring Unit Related to Uniform Guidance Audit Requirements Audits includes:

- (1) Providing an Initial Notice Letter to subrecipients to notify them of the audit requirements under the OMB Uniform Guidance Audit Requirements and providing the Subrecipient Audit Information Form to document that an audit is not required for subrecipients that expend less than \$750,000.
- (2) Issuing a Reminder Letter to subrecipients that have not submitted either an audit report or SAIF form to document that an audit was not required.
- (3) Issuing a Demand Letter to subrecipients that fail to submit an audit report or SAIF form to document that an audit was not required.
- (4) Identifying any audit findings contained in the audit reports and notifying the responsible MDHS Funding Division so that the audit findings can be resolved within the six-month deadline imposed under OMB Uniform Guidance Audit Requirements.
- (5) Maintaining an audit file for each MDHS subrecipient which includes an archive copy of the audit report or Subrecipient Audit Information Form, the Uniform Guide for Initial Review of Audit Reports, copies of the transmittal memorandum sent to each MDHS Funding Division, copies of any reminder letters sent to the subrecipient, and the Audit Finding and Questioned Costs Tracking Record and a copy of the clearance letter issued by the MDHS Funding Division for those subrecipients with audit findings.

Finally, *MDHS Subgrant/Agreement Manual* states that all MDHS subrecipients are required to complete the MDHS Subrecipient Audit Information Form (MDHS-DPI-002). This form must be submitted to the Division of Program Integrity - Office of Monitoring no later than ninety (90) calendar days after the end of the subrecipient's fiscal year. This form is necessary to certify the sources and amounts of all Federal awards received and expended by the subrecipient.

### **Condition**

During the audit of MDHS, auditors reviewed the Division of Program Integrity – Office of Monitoring (OM) audit files and Single Audit Tracking Document for MDHS Subrecipients for state fiscal year 2018. During the review, the auditor noted the following weaknesses:

- The SFY 2018 Single Audit Tracking System utilized by the DHS Office of Monitoring to track the status of OMB Uniform Guidance audits for DHS subrecipients does not include expenditures made by the sub-recipient nor does it include all sub-recipients who received federal funds from MDHS during FY 2018. The audit requirements of the *Code of Federal Regulations (2 CFR Part 200, subpart F)* are based on expenditures of Federal awards; therefore,

subrecipients of DHS could have expended Federal awards in excess of amounts that require a single audit that may have not been included on DHS's tracking document. The agency was not able to provide an expenditure report to the auditors in order to ensure completeness of the monitoring files.

- Three instances in which the Uniform Guide for the Initial Report of Uniform Guidance Audit Reports was not included on the FY 2018 Single Audit Tracking Smartsheet; therefore, auditor could not verify the Office of Monitoring reviewed and approved the submitted SAIF form or audit reports.
- Two instances in which the FY 2018 Single Audit Tracking Smartsheet did not contain a SAIF form or audit report for the subrecipient; therefore, auditor could not verify compliance with the monitoring process.
- One instance in which auditor could not verify initial, reminder, and/or demand letters were sent to the Subrecipient due to these letters not being included on the FY 2018 Single Audit Tracking Smartsheet.
- Five instances in which the Office of Monitoring did not receive the SAIF form within 90 days of the subrecipient's fiscal year end. Average submission was 190 working days late.
- Twenty-nine (29) instances in which the Office of Monitoring did not receive the subrecipient audit report within 9 months after subrecipient's fiscal year end. Average submission was 32 working days late.
- Thirteen (13) instances in which MDHS did not comply with the requirements prescribed by MDHS' internal policies regarding the remedy of subrecipient audit findings. In the "Responsibilities of the Monitoring Unit Related to Uniform Guidance Audit Requirement Audits" document provided by the Office of Monitoring (OM), point #7 states: "Identifying any audit findings contained in the audit reports and notifying the responsible MDHS Funding Division so that the audit findings can be resolved within the six-month deadline imposed under OMB Uniform Guidance Audit Requirements." Also, upon OM reviewing submitted subrecipient audits, if an audit finding was noted, OM sends a memo to the Funding Division for the specific subrecipient requiring the Funding Division to "provide this office (OM) with a written corrective action plan for the finding within fifteen (15) working days." MDHS could not provide any supporting documents showing these policies were being followed, nor could they provide any documentation showing a follow-up request by OM to ensure MDHS remains compliant with their own policies, as well as with the Uniform Guidance prescribed by OMB.

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

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

|                            |   |
|----------------------------|---|
| <b>Recommendation</b>      | We recommend the Mississippi Department of Human Services' Division of Program Integrity – Office of Monitoring (OM) strengthen controls over subrecipient monitoring for OMB Uniform Guidance audits to ensure recipients expending \$750,000 or more in Federal funds during their fiscal year are appropriately monitored and that the appropriate federal audit is obtained. We further recommend that the Mississippi Department of Human Service's Office of Monitoring design a monitoring tool based on expenditures incurred by subrecipients to ensure all subrecipients are included on the tracking report and continue to follow-up with subrecipients in a timely to ensure compliance with audit requirements. |
| <b>Repeat Finding</b>      | Yes – 2019-043; 2018-047 in 2018; 2017-038 in 2017; 2016-028 in 2016; 2015-009 in 2015; 2014-016 in 2014.   |
| <b>Statistically Valid</b> | Yes.  |

**End of Report**