

Mississippi Department of Human Services

TANF Forensic Audit: Internal Controls Assessment

December 15, 2021

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December 15, 2021

Robert. G. Anderson, Executive Director
Mississippi Department of Human Services
200 S. Lamar Street
Jackson, Mississippi 39201

RE: TANF Forensic Audit – Internal Controls Assessment

Dear Mr. Anderson:

CliftonLarsonAllen LLP was retained by Mississippi Department of Human Services (“MDHS”) to perform a forensic audit of MDHS Temporary Assistance for Needy Families (“TANF”) transactions during the period January 1, 2016 to December 31, 2019. Part of this engagement included testing a sample of current transaction to validate/confirm the current processes as communicated to CLA during interviews and through the current procedure manuals. For the current period testing, transactions were selected for the period from January 1, 2020 through June 30, 2021. The purpose of this report is to detail the procedures performed, the results of our work, and to provide recommendations to improve MDHS internal controls related to TANF disbursements.

We performed our engagement in accordance with the Statement on Standards for Forensic Services No. 1 (“SSFS No. 1”) of the American Institute of Certified Public Accountants (“AICPA”). This report does not constitute an audit, compilation, or review, in accordance with standards of the AICPA, the objective of which would be the expression of an opinion on any specified elements, accounts, or items. Accordingly, CLA does not express such an opinion. The professional standards promulgated by the AICPA prohibit CLA from rendering an opinion as to whether there has been any fraud or other criminal activity by anyone associated with this engagement. The professional standards promulgated by the ACFE prohibits Certified Fraud Examiners (CFEs) from expressing opinions regarding the guilt or innocence of any person or party. Therefore, CLA does not render such opinions.

Respectfully submitted,

CliftonLarsonAllen LLP

A handwritten signature in cursive script, appearing to read 'Jenny Brink'.

Principal

Table of Contents

I.	Executive Summary	1
II.	Background	8
III.	Scope of Services	10
IV.	Professional Standards Followed by CliftonLarsonAllen, LLP	11
V.	Information about CliftonLarsonAllen, LLP	12
VI.	Summary of Work Performed	14
VII.	Assessment of MDHS Internal Controls	17
1.	Subsidies, Loans, and Grants	17
a.	Overview of TANF Subsidies, Loans and Grants	18
b.	Implementation of Revised Internal Controls in the Current Audit Period	19
c.	Results of Testing	21
d.	Recommendations	29
2.	Services (Contracts)	31
a.	Overview of Current Period TANF Services (Contracts)	32
b.	Implementation of Revised Internal Controls in the Current Audit Period	33
c.	Results of Testing	33
d.	Recommendations	34
3.	Salary Disbursements	35
a.	Overview of Current Period TANF Salaries	35
b.	Implementation of Revised Internal Controls in the Current Audit Period	36
c.	Results of Testing	37
d.	Recommendations	41
4.	Travel	42
a.	Overview of Current Period Travel Disbursements	44
b.	Implementation of Revised Internal Controls in the Current Audit Period	44
c.	Results of Testing	45
d.	Recommendations	49
5.	Equipment and Commodities	51
a.	Overview of Current Period Equipment and Commodities	52
b.	Implementation of Revised Internal Controls in the Current Audit Period	52
c.	Results of Testing	53
d.	Recommendations	53
VIII.	Recommendations	54
IX.	Closing Paragraph	60

I. Executive Summary

CliftonLarsonAllen LLP (“CLA”) was retained by Mississippi Department of Human Services (“MDHS”) to perform forensic auditing services of MDHS TANF transactions during the period from January 1, 2016 to December 31, 2019 utilizing a risk-based approach that targeted higher risk transactions through analytics to identify entities (subrecipients) and transactions that required detailed testing.

The forensic audit was undertaken by MDHS as a result of the findings in the State of Mississippi Office of the State Auditor (OSA) Single Audit for the Year Ending June 30, 2019 report. In this report, the OSA communicated single audit findings for the state, including Finding Number 2019-030 relating to the Mississippi Department of Human Services (MDHS) material weakness and material noncompliance relating to federal awards including CFDA number 93.558 Temporary Assistance for Needy Families (“TANF”). The report explained that the OSA was alerted to significant areas of fraud risk by the Governor of Mississippi on June 21, 2019. An internal audit conducted by staff at MDHS uncovered a possible fraudulent scheme involving a third-party contractor in the TANF program and the Executive Director of MDHS at the time (John Davis). Investigators from the OSA Investigative Division, after having been advised of the scheme uncovered by staff at MDHS, conducted an investigation, after which a grand jury indicted six individuals involved in a conspiracy to steal approximately \$4 million in TANF funds.

As part of the forensic audit engagement, MDHS requested that CLA conduct an internal controls assessment of TANF awards and disbursements for the current period. The current period analyzed and tested by CLA included transactions occurring between January 1, 2020 to June 30, 2021.

This report communicates observations made by CLA of internal control deficiencies identified for the current period as it pertains to TANF grant expenditures by MDHS. This report also provides recommendations for the consideration of MDHS to improve the internal controls where deficiencies were observed. The expenditure categories tested included Subsidies, Loans and Grants; Services (contracts); Salary Disbursements; Travel; and Equipment and Commodities.

It is CLA’s conclusion that certain expenditure categories evidenced an improvement in internal controls compared to those observed during the forensic audit period. For example, in the expenditure category for Subsidies, Loans, and Grants, CLA noted that although an RFP process was not in place during the forensic audit period one was implemented and refined during the current period. Additionally, subgrantees are required to submit to MDHS monthly subgrantee expenditure reports, participant data, general ledger data, and other supporting documentation. These are some of the improvements identified; however, there were observations made by CLA during the current period internal control assessment as communicated in the highlights of observations listed below:

1. Subsidies, Loans, and Grants

For the current period, \$16,022,949 in TANF disbursements were made related to subsidies, loans, and grants. CLA selected a sample of 30 transactions, covering 16 subgrantees and \$1,606,239 in disbursements. MDHS communicated to CLA that there were several internal control processes that were established beginning with the year 2020 that included the creation of an Office of Compliance that is responsible for quality control reviews and monitoring of subgrantees. These internal control processes were refined as work progressed through the beginning of the year 2021.

Some of the most consequential changes included the implementation of a Request for Proposal (RFP) process to announce grant availability, the establishment and provision of training to its RFP evaluation committee and procurement staff, the provision of required training to subgrantees, the direction that the Executive Director of MDHS does not have the authority to override the evaluation committee recommendation not to fund a respondent, and the requirement that subgrantees submit to MDHS on a monthly basis a Subgrantee Monthly Claim Submission Checklist, Cash Advance/Cost Reimbursement Claim Form, Subgrantee Expenditure Report/Monthly Reporting Worksheet, Participant Data, General Ledger, and any other supporting documentation by uploading the documentation to the online system Smartsheet Dynamic View (“Smartsheet”).

Of the 16 subgrantees selected for testing, the updated process appeared to be functioning as described; however, there were observations made by CLA during the current period internal control assessment of subsidies, loans, and grants as follows:

- Faith-based organization certification was not obtained by MDHS for one subgrantee that is a faith-based organization.
- The TANF 2021 Subgrantee Monthly Claim Submission Checklist communicates vague requirements for supporting documentation to be submitted with expense reimbursements, which, in some instances, appears to have affected what the subgrantees submitted to MDHS as supporting documentation on a monthly basis.
- Requirements included in the RFPs issued mention 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 the applicable subgrant, the subgrantee shall acknowledge that said funding for said subgrant and for said advertising was provided by MDHS; however, this requirement is not listed in the MDHS Subgrant/Agreement Manual. One of the subgrantees tested appears to have not followed the advertisement requirement.
- MDHS does not appear to identify agreements made by subgrantees for costs that may be non-compliant with certain sections of the code of federal regulation, such as 2 CFR § 200.318 General Procurement Standards. One of the subgrantees awarded contracts with a related party, which was not identified during the RFP or contract approval process. MDHS communicated to CLA that the Procurement

Division has begun requiring attestations from subgrantees regarding agreements with related parties.¹

- The MDHS Subgrant/Agreement manual, revised January 1, 2020, and the MDHS TANF 2021 Subgrantee training Handouts appear to communicate inconsistent information relating to the timing of the closeout package, which appears to be a reason for many subgrantees submitting closeout packages in excess of the 45 days after closing as required by MDHS. MDHS communicated to CLA that it had updated the Subgrant Manual effective October 1, 2021, as well as the related training documents to reflect a requirement for subgrantees to submit grant closeout packages no later than 45 calendar days from the grant end. CLA received and confirmed the updated language in the Subgrant manual and related training materials.

CLA has made five recommendations for internal control improvements to the processes for subsidies, loans, and grants that include adding to its Subgrant/Agreement Manual a specific statement regarding faith-based restrictions (see recommendation A-1);² review and rejection of incomplete Subgrantee Monthly Claim Submission Checklists (see recommendation A-2); provision of guidance and clarification to subgrantees regarding specific types of supporting documentation that must be submitted with cost claims (see recommendation A-3); strengthening control procedures regarding the process for monitoring subgrantees (see recommendation A-4); and providing consistent requirements regarding the subgrantees' deadline of 45 days to submit the grant closeout packages (see recommendation A-5).

2. Services (contracts) other than direct assistance

For the current period, \$4,054,778 in TANF disbursements were made related to contractual services. CLA selected a sample of 10 transactions, covering 10 vendors and \$469,043.13. MDHS communicated to CLA that there were no additional internal controls implemented after the forensic audit period for contractual services. The observations made by CLA during the forensic audit period were not the results of inadequate processes or controls, but rather the results of not following the established process.

Of the 10 transactions selected, five included all the required documentation based on MDHS's current policies and procedures and complied with the required procurement policies and laws. Additionally, all 10 transactions selected followed the correct procurement process for their respective type of transaction. Each transaction also had an invoice that agreed to the disbursement amount. For the transactions with a contract, each contract was signed by the appropriate MDHS individual and had proper POs

¹ The requirement to have subgrantees provide an attestation regarding related parties was implemented after the internal control assessment conducted by CLA; therefore, CLA was unable to test this process

² It was communicated to CLA that the Office of Compliance updated the subgrant manual to clarify information and communicate needed changes. The updated subgrant manual was effective October 1, 2021 and is available on the Secretary of State website as well as on the MDHS website.

included in their documentation. All ten transactions tested were correctly recorded to the contractual services cost category.

Based on the testing performed, CLA observed certain deficiencies in internal controls during the current period, including:

- **Incomplete Documentation:** One transaction was missing the Administrative Review Memorandum and another transaction did not include the Suspension and Debarment clause within the contract.
- **Costs Were Over-Allocated to TANF:** Two transactions were fully charged to TANF; however, the services were for agency-wide purposes.
- **Costs Were Not Related to TANF:** One transaction was charged to TANF when it should have been charged to SNAP.

CLA has made two recommendations related to the processes for contractual services expenses to address the maintenance of supporting documentation (see recommendation B-1) and the allocation of contractual costs related to non-TANF services or agency-wide services (see recommendation B-2).

3. Salary Disbursements

For the current period, \$1,935,509 in TANF disbursements were made related to salary and benefit costs. CLA selected a sample of 2 employees for which to test payroll. Based on the results of testing for the two employees, a sample of 14 additional employees was selected for analysis.

MDHS communicated to CLA that there were three different methods by which salary and fringe benefit costs may be allocated or directly charged to TANF: 1) for employees who work on many different areas, such as individuals who are part of administration, their salary and fringe benefit costs are charged to a cost pool that is then allocated to different grants, including TANF, based on a cost allocation process; 2) for employees whose work is related to specific grants, their salary and fringe benefit costs are charged directly to the grant on which they focus 100% of their time; and 3) for employees whose work may relate to more than one grant, their salary and fringe benefit costs are default charged to a grant, and the employees are required to do a daily override for any activities not associated with the default grant. MDHS explained that for the Economic Assistance Division and Division of Workforce Development, the employee salary and fringe benefit costs are by default charged at 100% to TANF; however, because these employees may work on other grants as well, the employees are required to perform a daily override on their timesheets to indicate the number of hours they worked on something other than TANF tasks.

Based on the testing performed for the current period, CLA observed the same types of deficiencies in internal controls during the current period testing as it did during the forensic audit period testing which included:

- Employees whose payroll was established to default to TANF at 100%, failed to perform the necessary overrides to allocate their cost to other grants when their work focused on more than one grant.
- Employees whose payroll was fully charged to TANF were not fully dedicated to performing TANF exclusive tasks.

CLA has made three recommendations related to salary and benefit costs that include performing an assessment of the 61 employees whose salary is directly charged to TANF to determine if the actual work activities of these employees are TANF related (see recommendation C-1); providing necessary information/tools to Division Directors and supervisors so that they are fully knowledgeable of the process used to charge or allocate salary costs to different grants, including TANF (see recommendation C-2); and providing sufficient education and/or training to employees whose time is by default charged to a grant to ensure they are accurately informed of the default settings for their salary and benefit costs and the circumstances under which they should enter overrides to other grants (see recommendation C-3).

4. Travel

For the current period, \$76,773 in TANF disbursements were made related to travel costs.³ CLA selected a sample of eight transactions for testing, five direct bill and three reimbursements. MDHS provided to CLA an updated travel policy, effective July 1, 2020. The updated travel policy included several changes to travel related procedures, including: (1) requiring travel vouchers be submitted no later than 30 days after travel; (2) requiring additional documentation be attached to a travel voucher (e.g., car rental agreement and conference agenda); (3) requiring travel authorization forms for out-of-state travel; (4) requiring a hotel request form, which is submitted to the travel unit for booking accommodations; and (5) requiring flight arrangements be made through a travel coordinator.

For all eight transactions, sufficient information and documentation was provided to determine the purpose of travel. Travel vouchers and travel authorization forms were provided, when applicable. And all direct bill payments included hotel request forms, when applicable.

Based on the testing performed, CLA observed certain deficiencies in internal controls during the current period, including, but not limited to:

- Sufficient documentation: Although sufficient documentation and information was provided in order to determine the purpose of travel, certain transactions were missing supporting documentation, such as a rental car agreement, or DocuSign event log, or the documentation provided was incomplete. Supporting documentation for travel disbursements continues to be retained in multiple

³ For travel, CLA tested transactions between July 1, 2020 and June 30, 2021, as the updated travel policy was effective July 1, 2020.

departments instead of being retained with the evidence of payment. Documentation for travel costs was obtained through the MAGIC system, requested from the travel unit, and provided by the Economic Assistance division after a separate request.

- Documented TANF purpose: Travel vouchers, when available, often contained generic descriptions of the purpose of travel. Furthermore, additional detail related to the travel purpose was not documented in the underlying supporting documentation attached to the travel vouchers. For some transactions, CLA was able to determine allowability through written and verbal responses from employees and supervisors for all applicable disbursements tested.
- Allocation of travel costs: Based on the documentation and information provided, three transactions were determined to be related to TANF, three transactions should have been allocated to TANF and other funding sources as the travel costs did not solely benefit TANF, and one transaction should not have been charged to TANF as it was related to SNAP.
- Procedural deficiencies: CLA identified various other procedural deficiencies, including, but not limited to, a travel voucher submitted more than 30 days after travel, a meal reimbursement being higher than the policy allows, and a direct bill transaction being recorded to the incorrect personnel ID in MAGIC.

CLA has made ten recommendations related to the processes for travel expenses to address the sufficiency of supporting documentation (see recommendations D-1 through D-5), the documentation of the TANF (or other grant) purpose (see recommendation D-6), the allocation of travel costs related to non-TANF activities (see recommendations D-7 and D-8), and other procedural deficiencies (see recommendations D-9 and D-10).

5. Equipment and Commodities

For the current period, \$5,189 in TANF disbursements were made related to equipment and commodities. CLA selected a sample of four transactions for testing, totaling \$3,135. MDHS did not communicate any difference in the internal controls over purchases of Commodities and Equipment for the current period. The internal controls that required purchase requisitions, purchase orders, and documentation of receipts of goods was in effect during the forensic audit period. However, in practice, the internal controls were not functioning as designed or were not followed, which was evident through the results of the forensic audit period testing.

For the four transactions tested for the current period, CLA determined all four had complete documentation and were an allowable use of TANF funds. The underlying support for these transactions adequately provided evidence that the items were used for TANF related purposes. For two transactions, the support included the allocation method used to charge the disbursement partially to TANF. For the other two transactions, CLA confirmed the purchases were requested by employees that performed TANF-related activities, which would be an appropriate use of TANF funds.

The internal controls over purchases of Commodities and Equipment for the current period appear to be designed appropriately and functioning as designed. Therefore, CLA has not made any recommendations for this area.

The body of this reports details the procedures performed, the results of our work, and recommendations to improve MDHS internal controls related to TANF disbursements. For certain recommendations provided by CLA, MDHS provided a response. If a response was received from MDHS for a recommendation, that response is included immediately following the recommendation. Additionally, MDHS communicated to CLA that the current Senior Leadership team at MDHS does not include any deputies who previously served under John Davis. None of the members of the current Senior Leadership team were employed with the agency at the time of John Davis' tenure.

II. Background

Temporary Assistance for Needy Families (TANF)

Temporary Assistance for Needy Families (TANF) grant funding is issued by the United States federal government under Catalog of Federal Domestic Assistance (CFDA) number 93.558. The TANF program provides states and territories with flexibility in operating programs designed to help low-income families with children to achieve economic self-sufficiency. States use TANF to fund monthly cash assistance payments to low-income families with children as well as a wide range of services.

TANF is the cash assistance program formerly known as welfare. The TANF program was created in the 1996 welfare reform law. The federal legislation was enacted on August 22, 1996, as part of the Personal Responsibility and Work Opportunity Reconciliation Act.⁴ Mississippi implemented its TANF program on October 1, 1996.

MDHS TANF Program and Mississippi Office of the State Auditor

On April 22, 2020 the State of Mississippi Office of the State Auditor (“OSA”) issued its Single Audit for the Year Ending June 30, 2019 report. In this report, the OSA communicated single audit findings for the state, including Finding Number 2019-030 relating to the Mississippi Department of Human Services (MDHS) material weakness and material noncompliance relating to federal awards including CFDA number 93.558 Temporary Assistance for Needy Families. The report explained that the OSA was alerted to significant areas of fraud risk by the Governor of Mississippi on June 21, 2019. An internal audit conducted by staff at MDHS uncovered a possible fraudulent scheme involving a third-party contractor in the TANF program and the Executive Director of MDHS at the time. Investigators from the OSA Investigative Division, after having been advised of the scheme uncovered by staff at MDHS, conducted an investigation, after which a grand jury indicted six individuals involved in a conspiracy to steal approximately \$4 million in TANF funds.

Relating to Finding Number 2019-030, the OSA Single Audit Report made seven recommendations for MDHS to take swift and immediate action to re-instill trust in the public welfare system in Mississippi. On April 30, 2020, to begin addressing Recommendation Number 3 made in the OSA Single Audit report, MDHS publicly issued a Request for Information (RFI) for forensic audit services relating to the federal Temporary Assistance of Needy Families (TANF) MDHS grant.⁵ As part of the forensic audit, MDHS called for an assessment of MDHS current internal controls related to processing TANF agreements (Subgrants/contracts) and MDHS issued payments to TANF subrecipients. CLA responded to the RFI and other requests of MDHS and was ultimately retained by MDHS on November 2, 2020 to conduct a forensic audit of the TANF program as outlined in the contract between

⁴ Source: <https://www.congress.gov/bill/104th-congress/house-bill/3734/text>

⁵ The MDHS published RFI was RFX No. 3150002847.

MDHS and CLA (“MDHS-CLA Contract”), with the OSA established to serve as a third party to the contract.

CLA has completed the forensic audit work and issued two related reports on September 29, 2021.⁶ This report contains the results of the MDHS current internal controls assessment of TANF awards and disbursements.

⁶ As called for in the scope of work, CLA issued the *TANF Forensic Audit: Procedures & Results* report and the *TANF Forensic Audit: Findings of Possible Fraud, Waste, & Abuse* report.

III. Scope of Services

CLA performed an internal controls assessment on the MDHS TANF transactions from January 1, 2020 to June 30, 2021, referred to as the “current period” throughout this report. The internal controls assessment included the following:

- 1) Detailed analysis and sample selection of Current MDHS expenditures to assess internal controls related to TANF expenditures in the following cost categories: Subsidies, Loans, and Grants; Services (Contracts); salaries; travel; and purchases of equipment and commodities.⁷
- 2) Testing of the sample selected to assess for weaknesses or deficiencies of MDHS internal accounting and operating controls to address compliance with controls and risk of fraud and misconduct (see item 3.2.3.1.1 in the MDHS-CLA Contract).
- 3) Provide recommendations to improve MDHS internal controls (see item 3.2.3.1.2 in the MDHS-CLA Contract).

Additional detailed discussion of the procedures performed is included in Section VI. *Summary of Work Performed* beginning on page 14.

⁷ These cost categories were included in the internal control assessment because unallowable costs and/or procedural deficiencies were identified in the forensic audit.

IV. Professional Standards Followed by CliftonLarsonAllen, LLP

The overall scope of work and approach was conducted utilizing standards in accordance with the Statement on Standards for Forensic Services No. 1 (“SSFS No. 1”) of the American Institute of Certified Public Accountants (“AICPA”). This report does not constitute an audit, compilation, or review, in accordance with standards of the AICPA, the objective of which would be the expression of an opinion on any specified elements, accounts, or items. Accordingly, CLA does not express such an opinion.

Because of the unique nature of fraud, and because our engagement was limited to the matters described in the MDHS-CLA Contract, fraud and/or financial irregularities may exist within the organization that we may not have identified during the performance of our procedures. However, if during the performance of our services other matters had come to our attention suggesting possible financial improprieties and/or irregularities, we would have communicated such matters to MDHS and OSA.

The professional standards promulgated by the AICPA prohibit CLA from rendering an opinion as to whether there has been any fraud or other criminal activity by anyone associated with this engagement. Therefore, CLA does not render such opinions.

V. Information about CliftonLarsonAllen, LLP

Established on January 2, 2012, as the nation's newest top 10 accounting firm, CLA is well positioned with knowledge, insight, and industry-specific accounting, tax, and consulting services. CLA is the result of a union between Clifton Gunderson and LarsonAllen, both established more than 60 years ago. CLA has a national forensic and governmental practice.

According to Accounting Today, CLA is the 8th largest accounting firm by revenue. With a nationwide network of experienced professionals, clients include law firms, school districts, CEOs, leaders in education, municipalities, governmental agencies, the law enforcement community, commercial businesses, and not-for-profit agencies. The CLA Forensic Services team is a highly respected and sought-out authority in fraud prevention, detection, and investigation. Our multi-disciplined team is comprised of Certified Public Accountants, Certified Fraud Examiners, professionals Certified in Financial Forensics, Certified Internal Auditors.

William A. Early, Jr., CPA, is a principal in CLA's governmental practice and was responsible for the oversight of this engagement. Bill has over 22 years of experience as the engagement principal and quality review principal for a wide range of large, complex governmental audit engagements. During his career Bill has developed a specialty for state and local government audit and accounting services. He is also well versed in OMB Uniform Guidance (UG) compliance audits, and has managed, planned, and performed single audits for a variety of governmental agencies.

Sean Walker, CPA, CFE, CGFM, CGMS, is the Eastern region state and local government leader and has been serving regulated industries clients since 1999. Sean assisted the engagement team on technical aspects related to TANF. He is one of the few practitioners within the governmental auditing field that currently serves as a principal on a state-wide financial and single audit. Sean specializes in providing accounting, financial auditing, and consulting to large and complex governmental audit engagements. He is involved in the government industry on a national basis and is a frequent speaker on government accounting, auditing, and single audits for professional associations around the country. Sean also serves as a consulting technical partner on CLA's clients on government accounting and auditing, including OMB Uniform Guidance.

Jenny Dominguez, CPA/CFF, CFE, is a principal in the Forensic Services practice of CLA and was responsible for the overall execution of this engagement. Her practice areas include accounting and auditing, fraud investigations and examinations, forensic accounting, internal control review and analysis, and litigation support. Her experience includes seven years with Ernst & Young as a fraud investigator and forensic accountant, three years with Kroll as a financial fraud investigator, and two years as an independent consultant in the field of forensic accounting and litigation support before joining CLA at a management position over 11 years ago.

Ana Rodriguez, CPA, CFE, is a manager in the Forensic Services practice of CLA. Ana was responsible for supervising the field work and assisted Ms. Dominguez throughout this engagement. Her practice areas include accounting and auditing, fraud investigations and

examinations, forensic accounting, internal control review and analysis, and litigation support. Ms. Rodriguez has over seven years of experience in the forensic accounting and fraud investigation fields.

Aires Coleman, CPA, is a director in CLA's governmental practice and assisted the engagement team with technical aspects of TANF. Aires has more than 20 years of experience with auditing and accounting services; mainly focusing on *Government Auditing Standards*. She is recognized as one of CLA's single audit technical professionals. Aires manages single audits for state and local governmental entities well as performs presentations and trainings on the OMB *Uniform Guidance (UG)*. Aires provides extensive knowledge, skills, and experience with federal compliance requirements as well as value-added best practices.

VI. Summary of Work Performed

The following sections provide additional detail related to the specific procedures performed by CLA per the approved scope of work in the MDHS-CLA Contract as it relates to the internal control assessment procedures only.

1. Interviews and Analytics

1) Conduct interviews of MDHS staff

CLA conducted approximately ten interviews of MDHS current and former staff to understand the current and former procedures and internal controls used at MDHS related to TANF agreements and payments. Table 1 lists the names and titles of the individuals interviewed and the date of the interview.⁸

Table 1: List of MDHS Staff Interviews

No.	Name	Title	Date
1	Bridgette Bell	Chief Financial Officer	11/18/2020
2	David Barton	Deputy Executive Director for Economic Programs	11/19/2020
3	Marie McLaurin	Subgrant Claims Unit Director	11/20/2020
4	Bryan Wardlaw	Chief Procurement Officer	11/20/2020
5	Carla Conyers	Subgrant Agreements Unit Director	11/23/2020
6	Hadley Eisenberger	Inspector General	11/23/2020
7	Kimberly Smith	Director for Workforce Development	12/7/2020
8	Debra Dixon	Budgets, Cost Allocation, and Grants Management Director	12/7/2020
9	Sandra Griffith	Chief Compliance Officer	12/8/2020
10	Sandra Griffith	Chief Compliance Officer	6/15/2021
11	Kameron Harris	Deputy Compliance Officer	6/15/2021
12	Laketha Gilmore	Director of Monitoring	6/15/2021
13	Bryan Wardlaw	Chief Procurement Officer	7/20/2021
14	Wendy Wilson	Contracts Unit Supervisor	7/20/2021
15	Carla Conyers	Subgrant Agreements Unit Director	7/20/2021
16	Marie McLaurin	Subgrant Claims Unit Director	7/20/2021

As necessary throughout the forensic audit, CLA had additional contact and discussions with the individuals interviewed. Additionally, CLA was in contact with additional individuals who were identified as the points of contact to provide CLA with the necessary access to documents, reports, and/or data.

⁸ Individual titles listed represent the title of the individual as of the date of the interview.

2) Obtain, review, and summarize MDHS procedures manuals

CLA received from MDHS the Budgets and Accounting policies and procedures, travel policy, and subgrant manual for the current period. CLA reviewed these documents and summarized the information within as CLA prepared the internal controls assessment and testing criteria against which selected transactions were tested.

3) Perform analytical review on MDHS financial data

CLA performed various analyses on the financial data of MDHS in order to summarize and trend the TANF related transactions. Based on the results of the analyses, and results of work performed for the forensic audit period, CLA selected a current period sample for testing.

2. Systems Evaluations

1) Document current MDHS internal controls related to processing TANF transactions

CLA conducted several follow-up interviews to understand the current internal controls and also received current procurement manuals, standard operating procedure documents, the current subgrant agreement manual, and RFP-related documentation.⁹ CLA used information learned through the interviews and review of current documents to document the MDHS current internal controls in order to design the criteria to test a sample of current transactions.

2) Test a sample of transactions to validate the current processes related to TANF

CLA tested a sample of 40 transactions for the current period. These 40 transactions included expenditures in categories for which CLA had noted internal control deficiency observations during the forensic audit period. This included the expenditure categories listed in the following subsection (*3. Testing, Validation, and Examination*).

3. Testing, Validation, and Examination

1) Conduct testing for TANF Subsidies, Loans, and Grants

CLA tested a sample of payments made by MDHS for TANF subsidies, loans, and grants. The purpose of this testing was to compare the costs against TANF requirements, state law, and current MDHS policies and procedures, and federal guidelines.

⁹ Procurement manuals provided included the Mississippi Department of Information Technology Services Procurement handbook, the Mississippi Department of Finance and Administration Office of Personal Service Contract Review Rules and Regulations, and the State of Mississippi Procurement Manual.

- 2) Conduct testing for payments made by MDHS for services (contracts) other than direct assistance to recipients

CLA tested a sample of payments made by MDHS for TANF services (contracts) other than direct assistance. The purpose of this testing was to determine allowability pursuant to federal requirements, state law, and MDHS policies and procedures, as well as the existence of appropriate supporting documentation.

- 3) Conduct testing for salary disbursements

CLA tested a sample of payments made by MDHS for TANF salaries. The purpose of this testing was to determine that payment was made to a legitimate employee for legitimate hours work and was in accordance with the employment contract. CLA also performed procedures and spoke with MDHS staff in an attempt to verify that salaries charged to TANF were for TANF-related work activities.

- 4) Conduct testing for payments related to travel

CLA tested a sample of payments made by MDHS for TANF travel. The purpose of this testing was to determine that the travel was for a legitimate purpose, was allowable, had advance approval, and had sufficient supporting documentation.

- 5) Conduct testing for payments related to purchases of equipment and commodities

CLA tested a sample of payments made by MDHS for the purchase of TANF equipment and commodities. The purpose of this testing was to determine if the cost was for a legitimate purpose, was allowable, had advance approval, had sufficient supporting documentation, and had evidence of receipt of goods.

4. Reporting

As requested by MDHS, the procedures performed and results of testing related to internal controls for the forensic audit period and current period are documented in this report. Although CLA assessed for allowability under TANF when reviewing supporting documentation, CLA is not reporting costs as allowable or unallowable in this report. To the extent CLA identified costs that did not support a TANF purpose or did not contain sufficient supporting documentation to confirm a TANF purpose, CLA has reported on the nature and extent of those costs.

VII. Assessment of MDHS Internal Controls

This section summarizes the assessment of the MDHS internal controls for TANF-related disbursements for the current audit period (January 1, 2020 through June 30, 2021). The results are presented by the category of expenditure incurred.

1. Subsidies, Loans, and Grants

As noted during the testing of subsidies, loans, and grants during the forensic audit period, CLA classified all of the subsidies, loans, and grants into two types: subgrant awards (paid to subgrantees) and other subsidies, loans, and grants, which included all other types of payments except for direct assistance payments and subgrant awards.

Through the testing performed for the MDHS TANF subgrant awards, CLA tested various attributes related to processes followed both by MDHS and the subgrantee. CLA found various procedural and documentation deficiencies. Some of the most pervasive deficiencies included, but were not limited, to:

- MDHS Subgrant Signature Sheet was signed and executed after the beginning date of the award period for some awards.¹⁰
- Some subgrantees did not sign the MDHS Standard Assurances and Certifications form.
- Subgrantee did not provide MDHS with a Subgrantee Audit Information form MDHS-DPI-002 in some instances.
- MDHS did not obtain expense documentation that supported the subgrantee's reimbursement claim form for most claim reimbursements processed to subgrantees.
- MDHS did not document that monitoring activities were performed for multiple subgrant awards or monitoring documentation was not retained.
- MDHS did not complete the closeout process within the required 45-day period for multiple subgrant awards.
- MDHS did not retain the closeout documents for multiple subgrant awards.

¹⁰ MDHS communicated that the "award period" is a recommended award period, subject to obtaining all necessary signatures on the subgrant agreement. None of the subgrantee disbursements were made prior to the execution of the subgrant agreements and the expenses by the subgrantees did not occur prior to the grant effective date.

As noted during the testing of other subsidies, loans, and grants during the forensic audit period, CLA identified incomplete documentation for one transaction. That transaction was missing a copy of the MDHS written monitoring reports.

a. Overview of TANF Subsidies, Loans and Grants

Subsidies, loans, and grants disbursements discussed in this section are all payments charged to the subsidies, loans, and grants category, with exception for direct assistance, which were not tested as part of the current processes. The expenditures for subsidies, loans, and grants expenditures discussed in this section included payments for subgrant awards and other subsidies, loans, and grants, as defined above. CLA conducted various interviews with MDHS staff, which included inquiry regarding the current processes surrounding subsidies, loans, and grants payments. There were no specific concerns expressed to CLA by MDHS staff with respect to current processes. Table 2 summarizes the subsidy, loan, and grant disbursements by fiscal year.

Table 2: Summary of MDHS Subsidy, Loan, and Grant Disbursements¹¹

Fiscal Year	Amount
2020 ¹²	\$ 4,696,869
2021	11,326,080
Total	\$ 16,022,949

Sample Selection Process

From the TANF disbursement ledger, CLA identified all payments related to subsidies, loans, and grants and excluded transactions that were determined to be direct assistance.

CLA performed trend analysis to review transactions by vendors/payees, general ledger accounts, and grant numbers, respectively, over time for the scope period of January 1, 2020 through June 30, 2021. Based on the results of the trend analysis as well as the results of the forensic audit period testing, CLA identified transactions for detail testing. The resulting sample size was 30 transactions, covering 16 recipients (subgrantees) and 12% of the total subsidy, loan, and grant disbursements in the current audit period.¹³ The sample size was selected to test the design and operating

¹¹ The MDHS general ledger was filtered for disbursements with the Cost Category "S, L, and G," to identify relevant disbursements. Transactions with a fund number starting with "8" indicating direct assistance were excluded. Transactions with a description containing "Transfer to Subgrantee," which were communicated to CLA were the payment to subgrantees, were included.

¹² Fiscal year 2020 consisted of the 6-month period January 1, 2020 to June 30, 2020. The period July 1, 2019 to December 31, 2019 was tested in the forensic audit period and was excluded for the current period testing.

¹³ During the forensic audit period, there was some inconsistency on the Commitment Item Text description that was used for payments to subgrantees. During the current period, MDHS appears to have been more

effectiveness of the internal controls in place. CLA performed a test of the MDHS procedures and did not perform a detail testing on the transactions of the subgrantees.

b. Implementation of Revised Internal Controls in the Current Audit Period

MDHS communicated to CLA that additional internal controls were implemented after the forensic audit period in order to address internal control deficiencies that existed during the forensic audit period. The following list includes, but is not limited to, examples of key changes to the internal controls which MDHS communicated had been established beginning with the year 2020 and were refined as a work in progress through the beginning of 2021:

- MDHS implemented the use of a Request for Proposal (RFP) process to announce grant availability. The RFP encourages respondents to identify the TANF service categories that best reflects the respondent organization delivery strengths and experience. The RFP also specified the related TANF initiative for which the grant was available.¹⁴
- MDHS provides training to its RFP Evaluation Committee and procurement staff.
- Training relating to grant administration is provided to subgrantees when there is new funding or a new subgrantee. MDHS also indicated that training may be required when there is new funding, a revision to the MDHS Subgrant/Agreement Manual, or possibly on an annual basis. CLA received a copy of the MDHS TANF 2021 Subgrant Training Slides and Handouts, which summarized the new training.¹⁵
- Part of the RFP process includes an evaluation of proposals received, and Evaluation Committee members evaluate and score proposals based solely on

consistently using the description “GRANTOR PAYMENTS NONTAXABLE” for the disbursements to subgrantees. The sample selected included this description.

¹⁴ During the forensic audit period, MDHS did not have an RFP process to start a grant process cycle. For the current period, the RFP process was used. RFP number 20200104 Nov. TANF 2021 Services APA/PI reflects some of the most recent changes to the internal controls for subsidies, loans, and grants. For example, the RFP communicates that upon award, subgrantees will be required to prepare and submit demographic and outcome reports designed by MDHS, subgrantees shall submit these reports by an MDHS designated due date, and subgrantees must also demonstrate their ability to collect and provide MDHS with data elements necessary to measure program effectiveness.

¹⁵ CLA did not perform an evaluation of the training materials or its efficacy. The training was provided to the subgrantees by Workforce Development and Partnership Management, Budgets and Accounting – Subgrants and Claims unit, Office of Compliance – Monitoring Unit, and Administrative Services – Federal Property Division. The goals of the training were to help and guide subgrantees to provide services and accurate programmatic reporting according to the subgrant agreement, to accurately and timely submit Claim Forms and Close Out Packets with appropriate documentation, and to maintain a detailed and specific general ledger and adequate supporting documentation in accordance with the MDHS Subgrant Manual.

information that is presented to them as provided by each respondent or through clarifications requested by MDHS.

- Evaluation Committee members must submit a signed Conflict of Interest Statement.
- Procurement Standard Operating Procedures (SOPs) were revised throughout calendar years 2020 and 2021, including, but not limited to, revised SOPs for Evaluation and Award, Procurement Services, Subgrant Agreements, Subgrant Agreement Modifications, Subgrant Agreements Payments and Refunds, Subgrant Initiation Process, Audit Confirmation Request, Cash Advance/Cost Reimburse Claims, Attaching Documents in DocuSign, Cash Advance/Cost Reimbursement Claim Form, Subgrant Closeout, and Processing Refunds.
- The Executive Director’s approval of the Evaluation Committee’s recommendation is only a confirmation of the Committee’s recommendation and affirmation of its independence, and the Executive Director cannot override the Committee’s recommendation to not fund a respondent.
- MDHS issued a memorandum on February 12, 2021 pertaining to the Subgrant Units for the different signature authorities for award amounts up to \$3 million and award amounts greater than \$3 million.¹⁶
- The MDHS Subgrant/Agreement Manual was revised on January 1, 2020. Some of the changes included the requirement that if subgrantees desire to enter into a lower-tier sub-recipient agreement, it must be submitted to MDHS for approval before any funds may be transferred, and the ability of subgrantees to request up to three subgrant modifications during the subgrant period. The prior Subgrant/Agreement manual did not require subgrantees to submit to MDHS for approval an agreement to enter into a lower-tier sub-recipient agreement. The prior period Subgrant/Agreement manual allowed for up to two budget modifications. It was communicated to CLA that the Office of Compliance updated the subgrant manual to clarify information and communicate needed changes. The updated subgrant manual has an effective date of October 1, 2021 and is available on the Secretary of State website as well as on the MDHS website.
- Subgrantees are required to submit their TANF 2021 Subgrantee Monthly Claim Submission Checklist, Cash Advance/Cost Reimbursement Claim Form, Subgrantee Expenditure Report/Monthly Reporting Worksheet, Participant Data, General Ledger, and any other supporting documentation by uploading the documentation to the online system Smartsheet Dynamic View (“Smartsheet”). According to the MDHS TANF 2021 Subgrant Training Handouts, Smartsheet is

¹⁶ The Signature Authority Thresholds are defined as such: (1) \$0 up to \$3 million is signed by the Deputy Executive Directors, Deputy Administrator, and General Counsel. The Deputy Executive Directors include the Principal Deputy Executive Director and Director of Compliance, Economic Assistance Programs Deputy Administrator, Deputy Executive Director for Age-Related Programs, Deputy Executive Director for Administration, General Counsel and Deputy Executive Director for Division of Early Childhood Care & Development, and Deputy Executive Director. (2) Over \$3 million also requires the signature by the MDHS Executive Director.

the portal where subgrant claims are submitted. According to the MDHS Chief Procurement Officer, MDHS began revising the list of required documents in 2020 after noticing that subgrantees were not consistently providing certain documents, including the Participant Data and the General Ledger. The result of the revisions was codifying the required documents in the TANF 2021 Subgrantee Monthly Claim Submission Checklist, which went into effect for fiscal year 2020-2021.

- MDHS created an Office of Compliance that oversees and controls the monitoring of its subgrants.¹⁷
- Subgrantees must submit a list of third-tier recipients of grant funds for MDHS approval prior to the transfer of any funds.
- Subgrantees receive an automated email warning them that the subgrant award is nearing the end of the agreement period and that the closeout package is due either once all the funds are expended or within 45 days after the end of the agreement period.

CLA utilized these revised internal controls procedures to develop the testing criteria for the current period subgrant agreements. Whenever CLA encountered a question pertaining to the policies, MDHS provided a response and clarification. The ultimate objective was to determine whether the internal controls currently in place appear to function as designed to ensure subgrants are awarded and administered by MDHS in a manner that is consistent with federal requirements related to allowability and that sufficient appropriate documentation is retained for payments issued. Unless noted below in the Results of Testing section, it is CLA's conclusion that MDHS has implemented the internal controls described in this subsection for the current period for the award and administration of TANF grants.

c. Results of Testing

Based on the testing performed, CLA determined that the sample transactions tested were allowable by TANF and supported by sufficient documentation as required by the internal controls defined in the MDHS Subgrant/Agreement Manual, revised January 1, 2020. CLA did have some procedural observations relating to the current processes to award and administer TANF grants; however, there were no observations relating to the monitoring process. The results of CLA's testing of the current internal controls are categorized by observation and are summarized below.

¹⁷ Sandra Griffith, Chief Compliance Officer, communicated to CLA that she was hired on May 1, 2020 to build the Office of Compliance. According to an undated MDHS press release, "[MDHS Executive Director Robert] Anderson created the position of Chief Compliance Officer to ensure the agency and employees follow the laws, regulations, standards, and ethical practices that apply to the agency, thereby detecting and preventing violations of rules. The Compliance Office will also take on responsibility for quality control reviews and monitoring of subgrantees in a partnership role with the Office of Inspector General. The Chief Compliance Officer arrives May 1, 2020." <https://www.mdhs.ms.gov/mdhs-issues-rfi-for-a-forensic-audit-of-the-agency/>

(1) Observations of Internal Controls Compliance

CLA noted during testing that some internal controls related to the subgrant agreements and the performance requirements of the subgrantees appeared to be in place and/or operating effectively. For example, CLA noted that the newly implemented requirement to provide training to subgrantees related to grant administration appeared to be in place. MDHS provided CLA with training sign-in sheets for all 16 subgrantees tested, which served as evidence that the subgrantees attended an MDHS training. One subgrantee that CLA interviewed, the Juanita Sims Doty Foundation, stated that its representatives attended a training that covered reporting, budgets, policies, and provided forms to be supplied on regular basis. MDHS also provided CLA with copies of the MDHS TANF 2021 Subgrant Training Handouts and MDHS TANF 2021 Subgrant Training Slides, which contained materials that MDHS communicated were presented at the trainings.

CLA also noted that the current internal controls related to the monitoring process also appeared to have improved. MDHS provided to CLA copies of the MDHS monitoring letters, documents related to programmatic monitoring via desk review, MDHS forms MDHS-DPI-002 – MDHS Subgrantee Audit Information Form, Standard Assurance Tests, MDHS Subgrantee Risk Assessment Matrices, MDHS Subgrant Monitoring Entrance-Exit Conference Forms, Initial Reports of Findings and Recommendation or No Findings Letters, Final Decision Letters (if applicable), and copies of repayment checks for unallowable costs (if applicable).¹⁸ MDHS noted that four of the 16 subgrantees did not have monitoring documents available for review either because the monitoring review was recently completed in September 2021, the monitoring review just began, or the grant monitoring had not yet started. These explanations appeared reasonable in relation to the start date of each of the subgrantee TANF award periods.

(2) Faith-Based Organization Certifications

Of the sample selected, one subgrantee, Rose of Sharon Family Resource Center, was a faith-based organization. According to 45 CFR § 260.34(d) – When do the Charitable Choice Provisions of TANF Apply, “A religious organization that participates in the TANF program will retain its independence from Federal, State, and local governments and may continue to carry out its mission, including the definition, practice and expression of its religious beliefs, provided that it does not expend Federal TANF or State MOE funds that it receives directly to support any inherently religious activities, such as worship, religious instruction, or proselytization.” The

¹⁸ The MDHS monitoring letter states, “The Mississippi Department of Human Services, Monitoring Unit will conduct a fiscal and programmatic monitoring via desk review of the sub-grant(s).” The MDHS Subgrant/Agreement Manual, revised November 2, 2016, section 9 – Monitoring states, “Subgrants may be monitored by performing a desk review of supporting documentation for expenditures reported under the subgrant.” The MDHS Subgrant/Agreement Manual, revised January 1, 2020 does not refer to a “desk review;” however, it still includes the same language, “Reviewing documentation supporting expenses reported under MDHS subgrants.”

executed agreement for this subgrantee did not contain specific certifications via form or statement, regarding the faith-based restriction. Based on our discussion with the MDHS Chief Procurement Officer, Bryan Wardlaw, the faith-based restrictions are part of the Standard Assurances and Certifications in the MDHS Division of Workforce Development Subgrant Agreement. Subgrantees must acknowledge and sign Exhibit E, MDHS Subgrant/Agreement Manual Acceptance Form, which is an acceptance of the terms in the MDHS Subgrant/Agreement Manual, revised January 1, 2020, section 3 – Regulations. Section 3 – Regulations outlines the applicable regulations that subgrantees must adhere to, such as 2 CFR § 200 and its subparts; however, 45 CFR § 260.34 (faith-based restriction) is not specifically mentioned in section 3 – Regulations. Without such certification, faith-based organizations may unintentionally conduct inherently religious activities with federal monies. See recommendation A-1 on page 29.

(3) Subgrantee Monthly Claim Submission Checklist and Other Supporting Documentation

As previously stated, MDHS implemented a new requirement during calendar year 2020 for subgrantees to submit their TANF 2021 Subgrantee Monthly Claim Submission Checklist, Cash Advance/Cost Reimbursement Claim Form, Subgrantee Expenditure Report/Monthly Reporting Worksheet, Participant Data, General Ledger, and any other supporting documentation by uploading the documentation to Smartsheet. According to the MDHS Chief Procurement Officer, MDHS began revising the list of required documents in 2020 after noticing that subgrantees were not consistently providing certain documents, including the Participant Data and the General Ledger.¹⁹ The result of the revisions was codifying the required documents in the TANF 2021 Subgrantee Monthly Claim Submission Checklist, which went into effect for fiscal year 2020-2021.

Twenty-two of the 30 transactions were for TANF awards in the fiscal year 2020-2021, which were required to adhere to the new requirements for supporting documentation that were not implemented in prior years.²⁰ According to the TANF 2021 Subgrantee Monthly Claim Submission Checklist dated October 27, 2020 (included in the MDHS TANF 2021 Subgrant Training Handouts), subgrantees are required to submit specific documents with each monthly cost claim form, including:

¹⁹ The Participant Data is a report that the subgrantees must provide MDHS on a monthly basis to communicate the individuals served. This report is required to be submitted in Microsoft Excel format and labeled [subgrantee name] [agreement number] TANF 2021 [claim month] [claim year] [document name].

²⁰ For those grants selected with disbursements in the fiscal year 2019-2020, CLA observed that certain documents were not included because the checklist requirement was being developed at that time and was not fully implemented and refined until fiscal year 2020-2021. Observations noted in this section relate to the fiscal year 2020-2021.

- Participant Data
- Cash Advance Claim Support Form (only allowed for the first 60 days of the agreement period and should be the projected cost for the first 60 days)
- Cost Reimbursement Claim Support Form
- Reporting Worksheet
- General Ledger for the entire entity
- Any other supporting documentation “you feel is needed to support the claim form or reporting worksheet.” (The instructions indicate that if supporting documentation is not needed for submission., subgrantees are asked to keep the documentation on file; supporting documentation submitted must be in one combined PDF and labeled as instructed.)

The subgrantees are also required to complete and sign the TANF 2021 Subgrantee Monthly Claim Submission Checklist. The MDHS Subgrant Training, dated October 27, 2020, states, “When you submit your documentation monthly, either for Cash Advance or Cost Reimbursement, a signed checklist is required. Please check the box for each item that you will be submitting, sign, and attach in Smartsheet.” CLA observed during a discussion with MDHS representatives the following:

- At least one subgrantee failed to check off each item on the TANF 2021 Subgrantee Monthly Claim Submission Checklist that they submitted.²¹
- The TANF 2021 Subgrantee Monthly Claim Submission Checklist did not contain a field to record the name of the subgrantee, which could result in the checklist getting misplaced if it became separated from the other documentation.
- The TANF 2021 Subgrantee Monthly Claim Submission Checklist contains an item for “any other supporting documentation you feel is needed to support the claim form or reporting worksheet.” This phrase is a vague requirement that could result in inconsistent submissions by subgrantees and be difficult to enforce.

²¹ CLA conducted a virtual meeting with MDHS representatives on September 15, 2021 in which MDHS representatives shared their screens in order for CLA to observe documents that were stored in the Smartsheet system. CLA observed that the TANF 2021 Subgrantee Monthly Claim Submission Checklists were uploaded to Smartsheet. In some instances, CLA asked the MDHS representatives to open the TANF 2021 Subgrantee Monthly Claim Submission Checklist attachments to determine if they were completed. This was not a complete test of every TANF 2021 Subgrantee Monthly Claim Submission Checklist. CLA observed that one checklist was incomplete. Therefore, the determination that “at least one subgrantee” failed to complete the checklist is applicable to the controls tested.

Moreover, CLA observed during a discussion with MDHS representatives that at least one subgrantee submitted invoices and receipts with their cost claim; however, in other instances, CLA observed subgrantees that did not submit such documentation.²² MDHS should provide guidance for the subgrantees regarding what other supporting documentation should be submitted to satisfy the phrase “you feel is needed” and to ensure that the cost claims are only for legitimate costs, eligible under the governing regulations, and authorized in the subgrant agreement.²³

Lastly, CLA observed that at least one subgrantee named a document using a different format than MDHS stipulates. The TANF 2021 Subgrantee Monthly Claim Submission Checklist states, “Each document should be labeled in the following format: [Subgrantee Name] [Agreement Number] TANF 2021 [Claim Month] [Claim year] [Document Name] – EX: ABC Child Care 6013559 TANF 2021 December 2020 Claim Form.” Subgrantees that use a different naming format complicate the MDHS review process and may cause a reviewer to overlook a required document. See recommendations A-2 and A-3 on page 29.

(4) CompuRecycling Center, Inc. Questioned Costs

CLA tested a reimbursement amount of \$54,737.34 paid to CompuRecycling Center, Inc. for contractual services related to its subgrant agreement number 6018662. The \$54,737.34 was part of a claim submitted on January 21, 2020 that totaled \$67,243.22.²⁴ The cost of \$54,737.34 consisted of the following line items:

- \$2,600.00 for Facility Security Non-Refundable Deposit;
- \$5,200.00 for Rent-Capital Outlay;
- \$39,083.33 for Training Contractors/Vendors, Fees, Supplies Startup;
- \$5,333.33 for Community Developers, Fees, Supplies Startup;

²² During the virtual meeting with MDHS representatives on September 15, 2021, CLA observed the attachments uploaded to Smartsheet. In some instances, CLA asked the MDHS representatives to open the attachments to determine the nature of the content, which, in at least one instance, contained invoices and receipts and in another instance did not. This was not a complete test of every subgrantee’s attached documents. Therefore, the determination that “at least one subgrantee” submitted invoices and receipts and another subgrantee did not is applicable to the controls tested.

²³ MDHS Subgrant/Agreement Manual revised January 1, 2020, section 4 – Cost Allocation/Indirect Costs, page labeled 1030 states, “Careful scrutiny of all vouchers and invoices by subgrantees and/or by MDHS is necessary to verify that they are only for legitimate cost, eligible under the governing regulations, and authorized in the subgrant agreement.” Although the document is only 67 pages long, it is numbered page 1002 to 1067.

²⁴ The remaining part of the claim consisted of \$11,151.38 for Equipment and \$1,354.50 for Commodities. These claim amounts were not tested in detail.

- \$1,000.00 for Advertising/Promoting TANF Workforce Services Advertising;
- \$1,248.00 for Insurance Reimbursement; and
- \$272.68 for Insurance Monthly Worker's Compensation and General Liability Prepaid and Startup.

CLA noted that several of the line items on the reimbursement claim matched or were related to observations noted in the OSA Single Audit Management Report, dated June 11, 2021 ("Single Audit Management Report"). The relevant observations in the Single Audit Management Report include:

- Reimbursement for advertising expenditures in the amount of \$1,000 did not meet the advertisement requirements set forth in MDHS' Subgrant agreement.
- Reimbursements 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. MDHS had conducted monitoring of this subgrantee and in its letter to the subgrantee dated November 17, 2020, it included finding number 3 for agreement #6018662 relating to payments to CompuSystems. The finding listed by MDHS stated that the subgrantee did not provide adequate documentation to verify proof of payment for several non-payroll items. These included payments to CompuSystems. A response was provided to MDHS by the subgrantee that included contracts and other documentation. MDHS issued a response to the subgrantee on December 11, 2020 stating that it had reviewed the response provided and found it to be sufficient to clear all monitoring findings.²⁵
- 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 to a private entity composed of some of the same incorporators and/or

²⁵ MDHS communicated to CLA that the findings reported in the Single Audit report were an extension of the Division of Monitoring's review and findings. MDHS further communicated that the Division of Monitoring referred the case of CompuRecycling to the Office of the Inspector General for further investigation once the monitoring was complete.

directors as Subrecipient; therefore, auditor determined these workforce training programs to not be entered into at arm's-length bargaining.

After detail testing the transactions, CLA made the following determinations:

- CLA confirmed that the \$1,000.00 cost for Advertising/Promoting TANF Workforce Services Advertising was the same \$1,000 noted in the Single Audit Management Report that did not meet the advertisement requirements set forth by MDHS in the RFP. 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 the applicable subgrant, the subgrantee shall acknowledge that said funding for said subgrant and for said advertising was provided by MDHS.
- CLA confirmed that the amounts of \$2,600.00 for Facility Security Non-Refundable Deposit and \$5,200.00 for Rent-Capital Outlay were related to the Single Audit Management Report findings regarding the payments for facility rental fees to a for-profit entity comprised of the same founders and/or directors as the subrecipient. CLA reviewed the Capital Outlay Agreement between CompuRecycling Center, Inc. and CompuSystems, Inc., which listed the business address of the CompuSystems, Inc. Technical Career and Training Center as 1719 George Abraham Blvd, Greenville, MS 38703 and the President/Education Administrator as Eva Finley. A public records search on the Mississippi Secretary of State website revealed this address and president matched the business address and registered agent of CompuRecycling, Inc. In addition, a CompuRecycling, Inc. invoice submitted to MDHS used the same business address. CompuRecycling, Inc. is a registered non-profit corporation whereas CompuSystems, Inc. is a registered corporation, which confirms that the rent payments to CompuSystems, Inc. are facility rental fees to a for-profit entity comprised of the same founders and/or directors as the subrecipient.
- CLA confirmed that the amount of \$39,083.33 for Training Contractors/Vendors, Fees, Supplies Startup was related to the Single Audit Management Report finding regarding missing documentation for startup fees, supplies, and materials paid to a private entity composed of some of the same incorporators and/or directors as the subrecipient. CompuRecycling Center, Inc. did not provide MDHS with an invoice to support the costs. CLA also reviewed the Workforce Training and Education Programs Subcontractor Agreement between CompuRecycling Center, Inc. and CompuSystems, Inc., which stated that CompuSystems, Inc. would provide certified workforce training. Despite the missing invoice, the agreement appeared to substantiate the finding that CompuSystems, Inc. was the vendor that provided the Training Contractors/Vendors, Fees, Supplies Startup cost on the claim reimbursement form. As noted in the previous observation, CompuRecycling Center, Inc. and CompuSystems, Inc. are related entities,

and the agreement to conduct workforce training programs was not entered into at arm's-length bargaining.

In total, CLA noted \$47,883.33 of questioned costs for CompuRecycling Center, Inc. CLA did not have any observations for the remaining balance of the expense reimbursement request. Without stronger controls to properly verify expenditures as allowable and appropriate, it is possible that MDHS could reimburse subgrantees with TANF funds for costs that are unallowable. See recommendation A-4 on page 30.

(5) Late Closeout Packages

Eight of the 16 subgrant agreements selected for testing had been closed at the time of testing.²⁶ Although all eight of the subgrant agreements contained closeout packages, the closeout packages were received by the appropriate MDHS funding division in excess of 45 calendar days from the ending date of the subgrant. This timing is specifically required by the MDHS Subgrant/Agreement Manual, revised January 1, 2020. However, the language in the MDHS SOP for Subgrant Closeout and the language provided to subgrantees in the MDHS TANF 2021 Subgrantee Training Handouts are inconsistent with the language in the MDHS Subgrant/Agreement Manual.

- The MDHS Subgrant/Agreement Manual, revised January 1, 2020, section 8 – Closeout Procedures, page 1060, states, “The closeout proceedings bearing original or electronic signatures is due and shall be received by the appropriate MDHS funding division forty-five (45) calendar days from the ending date of a subgrant, the reported expenditure of all funds allocated for a program year, the end of the time period of availability of funds, or a specific date designated by the funding division, in writing.”
- However, the SOP for Subgrant Closeout, effective July 1, 2020, and the MDHS TANF 2021 Subgrantee Training Handouts contradict the MDHS Subgrant/Agreement Manual timing requirement. The SOP for Subgrant Closeout states, “Documents submitted when all funds have been expended and/or (45) forty-five days after the end of the agreement period with final expenditures.” The MDHS TANF 2021 Subgrantee Training Handouts state, “Closeout Packet (Due once all funds are expended or at least 45 calendar days after the end of the agreement period)– must be in one combined PDF and labeled as specified above.” The phrases “45 days after” and “at least 45 days” indicate that subgrantees should submit documentation no fewer than 45 days after the end of the grant award period.

²⁶ MDHS did not provide closeout packages for the remaining eight subgrantees. CLA reviewed the subgrant agreement periods and noted that all eight agreements were still in progress at the time testing was performed. Therefore, it is reasonable that the eight remaining subgrantees did not complete the closeout packages.

Without clarification as to what the timing requirement is, subgrantees may be submitting late closeout packages without realizing their error. See recommendation A-5 on page 30.

d. Recommendations

Based on the results of the internal control testing, CLA proposes the following recommendations:

- A-1. The MDHS Subgrant/Agreement Manual, revised January 1, 2020, section 3 – Regulations outlines the applicable regulations that subgrantees must adhere to, such as 2 CFR § 200 and its subparts; however, 45 CFR § 260.34 (faith-based restriction) is not specifically mentioned in section 3 – Regulations. MDHS Division of Workforce Development Subgrant Agreements and the Standard Assurances and Certifications should include a specific statement of certification regarding the faith-based restriction of conducting inherently religious activities with federal monies that complies with 45 CFR § 260.34. Evidence of the certification should be maintained in the documentation for each subgrant agreement. CLA recommends this be implemented for all subgrantees, even if the subgrantee is not a religious organization, to ensure subgrantees are aware of the restriction of spending on inherently religious activities.

MDHS Response: MDHS communicated to CLA that the Subgrantee Manual was updated effective October 1, 2021 and provided CLA with the updated version which is located on the MDHS website at the following location: <https://www.sos.ms.gov/adminsearch/ACCode/00000325c.pdf>. The updated version does not reflect recommendation A-1; however, MDHS communicated that additional updates are planned to implement recommendations made by CLA in this report.

- A-2. MDHS should reject any incomplete TANF 2021 Subgrantee Monthly Claim Submission Checklists and require the subgrantee to submit a revised checklist that includes a check in each box for items being submitted and is signed by the subgrantee. In addition, MDHS should consider modifying the TANF 2021 Subgrantee Monthly Claim Submission Checklist to include a field to record the subgrantee's name to prevent the checklist from getting separated from the claim.
- A-3. MDHS should provide guidance and clarification to subgrantees regarding the specific types of other supporting documentation that should be submitted with the cost claims. Specifically, MDHS should modify the phrase "any other supporting documentation you feel is needed" because it gives subgrantees too much leeway to decide what is submitted to MDHS. Consider providing guidance for the submission of supporting documentation based on the nature of the expenses and/or the dollar amount. Lastly, MDHS should reject any misnamed documents uploaded to Smartsheet and require the

subgrantee to submit a named document that follows the naming convention in the TANF 2021 Subgrantee Monthly Claim Submission Checklist.

- A-4. MDHS should strengthen its internal control procedures regarding processes for monitoring subgrantees and reviewing documentation supporting expenses reported under MDHS subgrants. MDHS should consider additional training for the MDHS Office of Monitoring to ensure that reviewers can identify unallowable costs and business agreements that are not conducted at arm's-length bargaining. For example, monitoring staff should be trained to conduct research on the parties with which the subgrantee has entered into agreements to verify that no relationships exist that may compromise 2 CFR § 200.318 General Procurement Standards which states, "no employee, officer, or agent may participate in the selection, award, or administration of a contract supported by a federal award if he or she has a real or apparent conflict of interest. Such a conflict of interest would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract." Subgrantees similarly should also receive training as to what types of costs are unallowable and the limitations on contracting with related party entities.

MDHS Response: After MDHS's review of this report in draft form, the MDHS Procurement Division began requiring attestations from subgrantees regarding agreements with related parties. Additionally, MDHS communicated that the Division of Monitoring is currently trained and able to identify unallowable costs regarding related parties.

- A-5. MDHS should review and consider revising both the MDHS Subgrant/Agreement Manual, revised January 1, 2020, and the MDHS TANF 2021 Subgrantee Training Handouts to ensure that the timing requirements for the closeout packages are clear and the policies are identical. The language should be more specific, such as "no later than forty-five (45) calendar days from the end of the subgrant period," to ensure that subgrantees understand the deadline for the closeout package. Be sure to clarify calendar days versus business days and the implications if the 45th calendar day falls on a weekend or holiday.

MDHS Response: MDHS communicated to CLA that it had updated the Subgrant Manual effective October 1, 2021, as well as the related subgrantee training documents to reflect a requirement for subgrantees to submit grant closeout packages no later than 45 calendar days from the grant end. If the 45th days falls on the weekend, the closeout package is due the Friday before. CLA received and confirmed the updated language in the Subgrant manual and related training materials.

2. Services (Contracts)

Services (contracts) disbursements discussed in this section are all payments charged to the contractual services cost category. The expenditures for contractual services include payments on service contracts, memorandums of agreement (MOA), memorandums of understanding (MOU), and other payments for services, rather than goods. CLA conducted interviews with various MDHS staff, which included inquiry regarding the processes surrounding contractual services payments.

During the testing of TANF related contractual disbursements for the forensic audit period, there were numerous transactions that contained incomplete documentation. Specifically, the following procedural and documentation deficiencies were identified by CLA:

- An original purchase order (“PO”) was not available for all contracts. In some instances, MDHS could not locate a PO, or a PO Change form was the only PO documentation that could be located by MDHS. The purchase order is completed before the procurement process begins by the personnel requesting the purchase. The purchase order contains information about the service being purchased and where the expenditure should be charged, including if it should be divided among multiple program codes or departments.
- In some instances, the incorrect procurement method was used (i.e., one quote method was used despite the purchase amount being greater than \$5,000). In other instances, documentation was not always available to support that MDHS undertook a competitive process to award a contract, when required.
- The Administrative Review Memorandum (“ARM”) could not be located for all contracts. In some instances, the ARM that was provided to CLA did not cover the time period for which expenses were incurred. The ARM is used by MDHS management to document their review of the contract. This document is separate from the contract itself and is to be completed for each contract and amendment.
- MDHS was unable to locate a contract and/or invoice for some transactions.
- A description of the TANF purpose of an expenditure was not always kept with the underlying supporting documentation. In some instances, the relevance to TANF was apparent based on the nature of the expense (e.g., database administration services related to databases used for TANF). In other instances, the purchase appeared generic in nature, such as professional services for a speaking engagement. Without documentation of the application to TANF, it was difficult for MDHS staff and CLA to determine the correlation to TANF.
- Not all contracts contained the required suspension and debarment clauses.
- CLA identified instances in which an individual disbursement amount exceeded the invoice amount, the total payments exceeded the approved contract amount, or the vendor invoice covered a period that fell outside of the contracted period of performance. For some of these transactions, MDHS was unable to locate a

corrected invoice, a contract extension or amendment, or provide a reasonable explanation for the variance.

- Payments were recorded to contractual services that should have been recorded to another cost category (e.g., travel for employee reimbursements).
- Some documentation that was expected to be in MAGIC (e.g., POs, ARMs, contracts, MOAs, MOUs, and vendor invoices) could not be located in MAGIC. In some instances, MDHS staff were able to locate the necessary documentation to provide to CLA. However, in several instances, the documentation could not be located, which prevented CLA from being able to fully assess a transaction.

Additionally, deficiencies in internal controls led CLA to identify many instances of expenditures recorded to TANF that were not for an allowable TANF purpose. This was due to the nature of the services not aligning with one of the four allowed purposes for TANF. CLA also noted instances of expenditures being recorded to TANF that were for agency-wide or division-wide services that were fully charged to TANF instead of being allocated across the related grants or charged to a cost pool to then be allocated.

a. Overview of Current Period TANF Services (Contracts)

Table 3 summarizes the contractual services disbursements by fiscal year that were charged or allocated to TANF.

Table 3: Summary of TANF Contractual Services Disbursements

Fiscal Year	Amount
2020 ²⁷	\$2,562,857.00
2021	1,491,920.50
Total	\$4,054,777.50

Sample Selection Process

CLA tested a sample of payments made by MDHS for TANF services (contracts). The purpose of this testing was to verify compliance with MDHS policies and procedures, compliance with state procurement requirements, and assess for weaknesses in internal accounting and operating controls.

From the TANF disbursement ledger, CLA identified all payments related to contractual services by extracting those transaction assigned to the contractual services cost category. There were 632 transactions in the population of contractual services.

CLA performed trend analysis to review transactions by vendors over time for the scope period of January 1, 2020 through June 30, 2021. Based on the results of the

²⁷ Fiscal year 2020 consists of the 6-month period January 1, 2020 to June 30, 2020. The period July 1, 2019 to December 31, 2019 was tested in the forensic audit period and was excluded for the current period testing.

trend analysis, CLA selected transactions from vendors with a high total amount of disbursements that were not tested in the forensic audit period or who had unallowable costs identified in the forensic audit period testing. The resulting sample size was 10 transactions, covering 10 vendors and \$469,043.13, which represents 12% of the total contractual services disbursements in the current period.

b. Implementation of Revised Internal Controls in the Current Audit Period

MDHS communicated to CLA that no additional internal controls were implemented after the forensic audit period related to contractual services. MDHS did communicate that more complete documentation was uploaded to MAGIC related to contractual services in the current period than had been done during the forensic audit period.

c. Results of Testing

Of the 10 transactions selected, five included all the required documentation based on MDHS's current policies and procedures and complied with the required procurement policies and laws. Additionally, all 10 transactions selected followed the correct procurement process for their respective type of transaction. Each transaction also had an invoice that agreed to the disbursement amount. For the transactions with a contract, each contract was signed by the appropriate MDHS individual and had proper POs included in their documentation.²⁸ All ten transactions tested were correctly recorded to the contractual services cost category.

Based on the testing performed, CLA determined that similar deficiencies in internal controls were present during the current period as were observed during the forensic audit period. The results of CLA's testing of the current internal controls are categorized by observation and are summarized below.

Incomplete Documentation

CLA noted two instances of incomplete documentation related to the sample of ten transactions tested for the current period. Required documentation for these transactions was not located in MAGIC and could not be produced by MDHS during CLA's review. The missing documentation included the Administrative Review Memorandum and the Suspension and Debarment clause within the contract. The transactions tested that were related to these contracts total \$219,842.68.

Over-Allocated to TANF

CLA noted two instances of expenditures being fully charged to TANF; however, the services were for agency-wide purposes. The first instance was related to an agency-wide Employee Assistance Program (\$1,770.00) and the second was related to

²⁸ The types of contractual services disbursements that do not require traditional contracts are Memorandums of Agreement or Understanding (MOA or MOU), Mississippi Department of Information Technology Service (ITS) contracts, and use of a state-wide contract.

contingent information technology staff (\$5,032.00). These transactions should have been recorded to a pool grant and then allocated appropriately to all relevant areas, including TANF. Alternatively, each invoice should have been allocated individually to each grant the expenditure related to using a reasonable allocation method as determined by MDHS.

Where a disbursement is charged is determined when the requisition or purchase order is completed. At that time, the person completing the form identifies where the expenditure will be charged to. In the cases noted above, the individual requesting the payment included the incorrect grant code on the requisition or purchase order, and the error was not caught by the approvers.

Non-TANF Purpose

CLA noted one instance of an expenditure recorded to TANF that was related to another program entirely. The disbursement was for SNAP data match to employment and wage information services in the amount of \$17,118.00. In this instance, no portion of the invoice or contract was related to any of the TANF purposes and was incorrectly charged to TANF.

d. Recommendations

The internal controls as designed appear to be adequate; however, the internal controls seem to not be functioning properly or are not implemented properly by staff. Based on the results of the internal control testing, CLA proposes the following recommendations to improve the operating effectiveness of the internal controls:

- B-1. Implement a process to ensure all supporting documentation relevant to the contract procurement process, contract award, and disbursements are stored in a secure location. Complete documentation should be kept in MAGIC, or in another centralized electronic repository to the extent the documents are too voluminous to be stored in MAGIC, to ensure documentation for each contract and each transaction can be easily located. The documentation should cover the entire procurement process, including but not limited to, the Request for Proposals or Quotes, responses received for such requests, evaluation of responses received, determination of response accepted and contract awarded, Administrative Review Memorandum as required, completed and signed contract and any amendments, and invoices or requests for payment related to said contract. For procurement types other than contracts, such as MOAs, MOUs, or quotes, all relevant documentation should also be maintained by MDHS either in MAGIC or another centralized repository to support the procurement process.

MDHS Response: MDHS communicated to CLA, after review of this report in draft form, that all contract-related documentation is currently being stored in a secure location where only the necessary staff have access, and all procurement documentation is stored in this location. The written Standard

Operating Procedure (“SOP”) documents for contracts and payments were updated effective December 1, 2021 requiring that application staff store documents in the designated secure location. The updated SOP was provided to CLA for review and confirmation of the updates.

- B-2. Contractual services related to more than one grant or program should be properly allocated. This should occur by recording contracts and invoices to a pool grant code, which is then allocated appropriately to all related grants according to a reasonable cost allocation method determined by MDHS, or by proportionately allocating each individual invoice to the grants that the service relates to. Additionally, care should be taken to ensure the correct grant is identified for each contract or invoice. The process exists to allocate costs accordingly; however, MDHS should provide training to all staff, supervisors, managers, and division directors to ensure the personnel completing the requisition or purchase order are sufficiently aware of grant requirements and are coding expenditures to the proper funds. Reviewers should also be sufficiently aware of grant requirements so they can accurately review the grant code during their approval of the requisition or purchase order.

MDHS Response: MDHS communicated to CLA, after review of this report in draft form, that the written SOP for contracts and for payments have been updated to reflect that PCSU staff will note the funding coding details from the original request on the invoices at the time the division approves the invoices. Divisions provide internal training on their allocations of funds and accounts payable staff use the coding communicated by the divisions. CLA was provided the updated written SOP and confirmed this update.

3. Salary Disbursements

As noted during the testing of salaries during the forensic audit period, for the entire sample of employees selected for testing, whose salary was directly charged to TANF at 100%, the corresponding employee files did not indicate whether the employees performed TANF-exclusive tasks. MDHS confirmed to CLA that all of the employees who had been selected for testing for the forensic audit period had not worked exclusively on TANF related tasks or could not confirm if the employee had worked on any TANF related tasks. For the forensic audit period, it was CLA’s conclusion that the salary and fringe benefit costs charged to TANF were allowable, however, an appropriate allocation method was not used. Because CLA was unable to determine that the employees selected for testing for the forensic audit period were fully devoted to TANF-related activities, it was CLA’s conclusion that the full amount of salary cost for the years under the forensic audit period should have had a proper method to allocate expense.

a. Overview of Current Period TANF Salaries

MDHS provided to CLA the TANF payroll details for the current period that included January 1, 2020 through June 30, 2021. The total population of TANF salary disbursements in the current period was 61 employees for a total of \$1,935,508.75.

The TANF payroll detail includes employees whose payroll was charged fully to TANF and partially to TANF. Table 4 summarizes the TANF salary disbursements by year.

Table 4: Summary of TANF Salary Disbursements

Fiscal Year	Amount
2020 ²⁹	\$ 523,901.52
2021	1,411,607.23
Total	\$ 1,935,508.75

Sample Selection Process

CLA received TANF Payroll Detail Transaction reports for each month from January 2020 to June 2021 and summarized the payroll details by employee in order to determine how many pay periods for which the salary costs of each employee had been charged to TANF. Thirteen employees had their full salary and fringe benefit costs (36 pay periods) charged to TANF, while 48 employees had their salary and fringe benefit costs charged fully or partially to TANF between one and 35 pay periods.

Initially, CLA had selected a sample of four pay periods for two employees to test at the detail level. The pay periods selected included pay periods where the employees had none, some, or all of their payroll and fringe benefit costs charged to TANF. CLA used this approach to test how the payroll override approach functioned in practice. Based on the results of testing for these two employees, additional analytical steps were taken and CLA conducted inquiries relating to 14 additional employees; one employee whose salary was mostly charged to TANF (25 pay periods) and 13 employees whose salary was fully charged to TANF (36 pay periods).

b. Implementation of Revised Internal Controls in the Current Audit Period

MDHS communicated to CLA the different ways in which salary and fringe benefit cost may be either allocated or directly charged to a TANF grant.

- For employees who work on many different areas, such as individuals who are part of administration, their salary and fringe benefit costs are charged to a cost pool that is then allocated to different grants, including TANF, based on a cost allocation process. This process was in effect during the forensic audit period as well, and CLA did not have any observations relating to this process
- For employees whose work is related to specific grants, their salary and fringe benefit costs are charged directly to the grant on which they focus 100% of their time. MDHS communicated that this process was also in effect during the forensic audit period.

²⁹ This period included only the last six months of fiscal year 2020 (January 1, 2020 to June 30, 2020) and included a total of 36 separate pay periods.

- For employees whose work may relate to more than one grant, their salary and fringe benefit costs are charged directly to the grant on which they focused their work. MDHS explained that for the Economic Assistance Division and Division of Workforce Development, the employee salary and fringe benefit costs are by default charged at 100% to TANF; however, because these employees may work on other grants as well, the employees are required to perform a daily override on their timesheets to indicate the number of hours they worked on something other than TANF tasks. For example, if an employee of the Division of Workforce Development worked eight hours one day and two of those eight hours were focused on SNAP/E&T tasks, the employee would enter an override of two hours to SNAP/E&T. The employee timesheet is then uploaded to the payroll processing system, SPAHRS, using an automated upload process and the employee salary and fringe benefit cost is directly charged to the applicable grant based on the time entry and any overrides entered by the employee. MDHS representatives communicated that this process may have been in use during the forensic audit period but the current MDHS employees could only speak as to the current period and confirmed that this process was in use during the current period.

c. Results of Testing

During the proposal period it was determined that all salary disbursements charged to TANF would be subject to analytical procedures and a sample of employees would be selected for testing. The purpose of this testing was to determine if:

- i. Payments were made to a legitimate employee
- ii. Payments were made for legitimate hours worked
- iii. Payments were in accordance with the employment contract
- iv. Payments conformed with allowable costs for TANF pursuant to federal requirements

Initial Sample – Two employees

The sample initially selected for the current period included two employees, PW and SC. CLA obtained from MDHS the employee personnel file and time sheets for these employees. CLA reviewed the supporting documentation to determine if the required and relevant documentation was maintained for each transaction. Results of this testing are described in the paragraphs below by employee.

PW

According to the TANF payroll details, PW had her full gross pay of \$1,552.58 charged to TANF in each of the two pay periods for June 2020 as well as the first pay period for October 2020. Starting with the second pay period of October 2020, her payroll and fringe benefit costs were not charged to TANF. The timesheet for PW did not reflect any type of override for any of the pay periods tested; therefore, CLA did not expect to see a change to her salary allocation for the second pay period of October 2020. CLA analyzed the TANF payroll costs for PW for the full current period (January 2020 through June 2021). Her full salary and fringe benefit costs were charged to

TANF from January 2020 through September 2020, and there were no further charges to TANF for her salary and fringe benefit costs after this period.³⁰

CLA inquired with MDHS regarding what work PW performed and was informed that she was a trainer in 2020 and was promoted to Training Director effective October 1, 2020. MDHS confirmed with PW and her immediate manager that during the period of January 2020 through September 2020, when her salary and fringe benefit costs were fully charged to TANF, she had in fact not been fully dedicated to TANF tasks. They explained that a trainer typically will not spend more than half of their time covering TANF related items, and the fact that her salary and fringe benefit costs were fully charged to TANF from January 2020 through September 2020 must have been an error. Table 5 summarizes PW's payroll tested in the current period.

Table 5: Summary of PW Payroll Testing

Pay Date	Hours on Timesheet Coded to Default TANF	Hours on Timesheet with Override to Other Grant	Total Hours	Regular Gross Pay	Amount Charged to TANF
6/15/2020	80.25	0	80.25	\$ 1,552.58	\$ 1,552.58
6/30/2020	89.00	0	89.00	1,552.58	1,552.58
10/15/2020	98.00	0	98.00	1,552.58	1,552.58
10/31/2020	80.00	0	80.00	2,101.31	0.00
Total	347.25	0	347.25	\$ 6,759.05	\$ 4,657.74

Conclusion – PW

Based on the processes described to CLA, PW should have entered an override on her timesheet to reflect the time she spent on non-TANF activities or her supervisor should have coded her timesheet accordingly. The salary and fringe benefit costs for PW from January 2020 through September 2020 should have been charged to TANF using an allocation method that reflected the TANF-related work the employee performed.

SC

According to the TANF payroll details for the current period for SC, none of her salary and fringe benefit costs were charged to TANF prior to the pay period paid on pay date April 30, 2021. Beginning with pay date April 30, 2021, her payroll was partially charged to TANF. SC's timesheets for the four pay periods selected reflected an override, nonetheless, only the last pay period reflected a partial charge to TANF. Table 6 summarizes SC's payroll and timesheet details and includes the override entries for the two months selected for testing. According to discussions with MDHS, SC was under the impression that her payroll default was TANF, so she would override part of her time to SNAP/E&T. However, her default was actually SNAP/E&T, so she

³⁰ The October 15, 2020 pay date relates to work performed during the second half of September 2020, as MDHS pays its employees in arrears.

was both defaulting and overriding her time to SNAP/E&T. The error was corrected when MDHS changed her default to TANF starting the last pay period of April 2021.

Table 6: Summary of SC Payroll Testing

Pay Date	Hours on Timesheet Coded to a Default Grant	Hours on Timesheet with Override to Other Grant	Total Hours	Gross Pay	Amount Charged to TANF
3/15/2021	37.00	52.00	89.00	\$ 1,840.75	\$ 0.00
3/31/2021	30.25	67.75	98.00	1,840.74	0.00
4/15/2021	30.00	59.00	89.00	1,840.75	0.00
4/30/2021	46.00	34.00	80.00	1,840.74	592.31
Total	143.25	212.75	356.00	\$ 7,362.98	\$ 592.31

Conclusion – SC

The salary and fringe benefit costs for SC should have been partially charged to TANF for pay periods prior to pay date April 30, 2021. This appears to have been an error either based on a misunderstanding by the employee or in establishing the grant default for this employee in SPAHRS. This error was corrected beginning with pay period April 30, 2021, which was accurately allocated.

Additional Inquiries and Analysis – 14 Employees

For the fourteen employees selected for additional inquiry and analysis, CLA compared the TANF payroll reports to the full MDHS payroll reports to determine whether their full salary costs or only a portion of their salary costs were charged to TANF. For one employee, KS, her full salary was charged to TANF for the period from June 2020 to June 2021. For the other thirteen employees, their full salaries were charged to TANF for the period from January 2020 to June 2021 (the entire period analyzed). The following are the results of inquiries:

- KS communicated to CLA that she became aware during CLA’s inquiry that her salary is not currently split between SNAP/E&T and TANF as she had thought. She believes that this was an error and communicated to CLA that the error will be addressed beginning with October 1, 2020, as fiscal year 2020 closed for SNAP/E&T as of September 30, 2020. KS communicated that most directors are charged to a pool and then allocated. For KS, because her division only focuses on SNAP/E&T and TANF, she was supposed to be set up in SPHARS so that a portion of her salary was charged to each SNAP/E&T and TANF. As KS confirmed, all of her salary was charged to TANF beginning with pay date June 30, 2020 when it should have been allocated between SNAP/E&T and TANF.
- For the other 13 employees whose salary and fringe benefit costs were fully charged to TANF for the entire current period, which included 36 pay periods (January 2020 through June 2021), CLA compared their names to an employee listing that the Economic Assistance Division had provided to CLA. In this report, the Economic Assistance Division communicated to CLA that the employees

listed worked on TANF and SNAP related tasks, and none of them worked exclusively on TANF related tasks. For the employees not listed in the employee listing provided by the Economic Assistance Division, CLA made further inquiries. Based on this additional review and inquiry, CLA determined the following for these 13 employees:

- Two of the thirteen employees worked exclusively on TANF and it was appropriate for the salary to be fully charged to TANF.
- Ten of the thirteen employees were confirmed to have worked on TANF for only a portion of their time even though 100% of their salary and fringe benefit costs were charged to TANF.

Table 7: Employees Whose Payroll was Fully Charged to TANF, but Did Not Work Exclusively on TANF

No.	Employee Name (First and Last Name Initials)	Number of Pay Periods for which Their Salary was Fully Charged to TANF
1	MG	36
2	MC	36
3	AF	36
4	MM	36
5	GS	36
6	BS	36
7	JS	36
8	KT	36
9	MT	36
10	EW	36

- One employee was confirmed by MDHS to not have worked at all on TANF-related tasks, and her salary had likely been charged to TANF in error. This employee was MR, and her salary costs were charged fully to TANF for all 36 pay periods reviewed.

Conclusion for Additional Inquiries and Analysis

The payroll and fringe benefit costs for KS should not have been fully charged to TANF. Similarly, the payroll and fringe benefit costs of ten additional employees (listed in Table 7) should not have been fully charged to TANF. The payroll and fringe benefit costs of one employee, Mable Rich, should not have been charged to TANF.

Overall conclusion

Based on the results of the internal control testing, out of the 16 employees tested and/or analyzed, only two employees had their payroll and benefits costs appropriately charged to TANF. Thirteen employees had their full payroll costs charged to TANF when only a portion should have been charged or allocated. One employee whose full payroll and benefit costs were charged to TANF, did not perform

any TANF functions. The incorrect charges to TANF appear to have been caused by errors or mistakes in the process and possibly some miscommunication to employees.

d. Recommendations

CLA proposes the following recommendations to ensure that moving forward MDHS uses a reasonable method to charge payroll and benefits costs to TANF in accordance with 2 CFR § 200.405(a), which 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 the federal award or cost objective in accordance with relative benefits received. The standard is met if the cost: (1) is incurred specifically for the federal award.”

- C-1. Perform a full assessment of the 61 employees whose salary is directly charged to TANF to determine the actual work activities of the employees and identify the programs/grants to which their payroll costs should be charged or allocated. Verify that any required settings in SPAHRS have been entered correctly to enable proper allocation.

MDHS Response: MDHS communicated to CLA, after review of this report in draft form, that it has implemented a new process effective December 1, 2021 whereby on a monthly basis, the Budget and Accounting division will provide a report to each division to review and identify any potential errors in salary allocations. For any errors identified, the divisions will complete a change form identifying the error and providing a correction. The Budgets and Accounting division will use the change forms received to process the correction. Once the corrections have been made, both the relevant division and the Budgets and Accounting division will affirm the change with a signature. Additionally, a semi-annual document will be provided to all of the divisions to verify all changes are correct and to confirm with a signature. CLA did not review the newly established process.

- C-2. Provide training and other necessary information/tools to Division Directors and supervisors so that they are fully knowledgeable of the process used to charge or allocate salary costs to different grants, including TANF. The training should address the Division Directors’ responsibility for evaluating the proportion of salary costs charged to each grant for their employees’ work, which should be reflective of the benefit to that grant. Require supervisors and Division Directors review employee timesheets to ensure appropriate grant defaults and overrides are used.

MDHS Response: MDHS communicated to CLA, after review of this report in draft form, that beginning in December 2021, training will be provided to each division by the division of Budgets and Accounting Time Clock Administrator on the cost override process. CLA did not verify that this training has been provided.

- C-3. Provide sufficient education and/or training to employees whose time is by default charged to a grant to ensure they are accurately informed of the

default settings for their salary and benefit costs and the circumstances under which they should enter overrides to other grants. This would help prevent or reduce errors in how the employees are entering overrides when working on a grant to which their salary costs are not charged by default. A mechanism should be implemented to ensure the settings in SPAHRS are reviewed when employees change positions or divisions, and they are notified of any required changes in their time entry procedures. Division Directors with employees whose costs are directly charged to a grant should review their employee listing and allocation setting at a set minimum interval, such as monthly, to ensure any changes are addressed in a timely manner. Consider exploring the option to add a feature in the time entry application that shows the employee's default allocation as an easy reminder when entering time.

MDHS Response: MDHS communicated to CLA, after review of this report in draft form, that beginning in December 2021, training will be provided to each division by the division of Budgets and Accounting Time Clock Administrator on the cost override process. CLA did not verify that this training has been provided.

4. Travel

Throughout the testing of travel costs during the forensic audit period, CLA identified deficiencies related to the sufficiency of supporting documentation, the allocation methods used to charge travel costs to TANF, and general procedural deficiencies. The observations are summarized below in the following subsections: Sufficient Documentation, Allowability and Allocation Methods, and Procedural Deficiencies.

Sufficient Documentation

The following observations relate to the sufficiency of the supporting documentation related to travel disbursements charged to TANF during the forensic audit period.

- Supporting documentation for travel disbursements was retained in multiple departments instead of being retained with the evidence of payment. Documentation for travel costs was obtained through the MAGIC system, requested from the travel unit, and provided by the Economic Assistance division after a separate request.
- Supporting documentation was not available (e.g., receipts and invoices related to credit card statements, travel vouchers, travel authorization forms) or was insufficient for many transactions.
- Receipts or invoices were not always saved with the credit card statement in MAGIC. Travel vouchers were not always available for direct bill payments. Per discussion with MDHS, if the employee was not claiming additional reimbursement expenses travel vouchers were not required. However, the travel voucher was often the only document that included the purpose of travel.

- Travel authorization forms documenting advance approval were not available for most direct bill transactions.
- Detailed travel purposes were not documented in the underlying support. When a travel voucher was available, it often provided only generic explanations for the purpose of travel, which made it difficult for CLA to assess the applicability to TANF. Conference and training agendas were not kept with invoices or receipts, which, if available, would have helped assess the purpose of travel.
- Written and verbal responses from employees and supervisors were sometimes provided in the place of documented travel purpose; however, additional information regarding the travel purpose was often not available for travel expenses incurred by employees who were no longer with the agency.

Allowability and Allocation Methods

The following observations relate to whether travel disbursements should have been charged to TANF during the forensic audit period based on the nature and purpose of the travel cost.

- MDHS did not have a documented allocation process to ensure that travel costs which benefited multiple programs were applied to the appropriate funding source. As a result, excess travel costs were charged to TANF.
- Most of the transactions tested during the forensic audit period should have been allocated to multiple divisions or funding sources because the travel purpose did not appear to be TANF-related and/or the employee was not assigned to a division that performed activities exclusively related to TANF. Several travel disbursements were determined unallowable because the information was not sufficient to determine if the purpose of travel directly related to TANF activities and the employee did not work in a division that normally performs TANF related activities.
- Some transactions were determined unallowable because the purpose of the travel did not support the TANF program, nor did the employee work in a division that normally performs TANF related activities. A smaller group of disbursements were considered unallowable because the travel costs were incurred by individuals not identified as employees of MDHS and there was no evidence of how the travel had a TANF purpose.

Procedural Deficiencies

The following observations relate to other procedural deficiencies identified for travel related disbursements charged to TANF during the forensic audit period.

- Some travel vouchers were approved and verified by the same person.
- Some travel vouchers were digitally signed, but not dated.

- Direct bill payments were sometimes paid months after the travel dates.
- Travel vouchers were sometimes submitted for reimbursement months after travel occurred.
- Many direct bill transactions were recorded in MAGIC using the incorrect employee ID or incorrect amount.
- Many transportation transactions (direct bill) could not be evaluated for the least expensive and most practical route used due to missing supporting documentation.

a. Overview of Current Period Travel Disbursements

Table 8 included below summarizes the total travel costs charged to TANF during the current period.

Table 8: TANF Travel Disbursements

Fiscal Year	TANF Direct Bill Travel Disbursements	TANF Travel Reimbursements	Total TANF Travel Disbursements
2020	\$42,618.06	\$27,107.31	\$9,725.37
2021	4,270.21	2,777.59	7,047.80
Total	\$46,888.27	\$29,884.90	\$76,773.17

Sample Selection Process

CLA performed detail testing on a sample of payments made by MDHS for travel costs funded by TANF for the period of July 1, 2020 through June 30, 2021.³¹ The purpose of this testing was to determine allowability pursuant to federal requirements, state law, and MDHS policies and procedures, as well as the existence of appropriate supporting documentation.

Disbursements for travel costs are made by one of two methods, direct bill payment and employee reimbursements. The population for each disbursement method was analyzed separately. The sample of eight disbursements selected for testing, five direct bill and three reimbursements, is focused on transactions occurring after the MDHS travel policy update on July 1, 2020.

b. Implementation of Revised Internal Controls in the Current Audit Period

MDHS provided an updated travel policy, effective July 1, 2020, with the intent to supplement the Mississippi Department of Finance and Administration (DFA) Travel

³¹ The reason for the travel testing sample to be selected from July 1, 2020 to June 30, 2021 was because the MDHS travel policy was updated effective July 1, 2021.

Policy Rules and Regulations (Revised December 2019). This policy supersedes the travel policy effective March 10, 2017. The following changes to the policy were tested in the current period to determine whether the implementation of these procedures addressed the observations made during the forensic audit period testing:

- Travel vouchers for expense reimbursements are to be submitted no later than 30 days after travel.
- Required travel voucher attachments include original receipts, Trip Optimizer, Travel Authorization, Car Rental Agreement, Conference Agenda.
- Travel authorization forms are required for all out-of-state travel and for in-state travel when the traveler is attending a conference or seminar.³²
- A hotel request form is required for all travel. Hotel request forms serve as advanced approval for travel costs and assist the travel unit in making the appropriate lodging reservations. The employee completes the hotel request form with their name, division, purpose for travel, and specific hotel information. After the form has been approved by the employee's supervisor, the travel unit books the accommodations.
- All lodging reservations must be made through a travel coordinator within the MDHS travel unit.
- All flight arrangements must be made by one of the travel coordinators through a state contract travel agent.³³
- MDHS is conducting a pilot program of a new e-voucher process that allows for travel vouchers and other documents to move through DocuSign, an electronic signature process, as the travel voucher is submitted, reviewed, and approved.

Meals must be within the DFA's maximum daily meal reimbursement rate. Per Diem will be paid based on actual expenses not to exceed the rate of 75% for the first and last day (Travel days) and actual expenses not to exceed full per diem for interior days.

c. Results of Testing

Based on the testing conducted for the current period, CLA noted improvement in several areas which are listed below.

³² During the forensic audit period, MDHS did not require travel authorization forms for attending an MDHS hosted conference or seminar. Documentation related to conferences for travel costs was limited for these transactions. Due to the limited sample and lack of in-person events during the current period, CLA was unable to test document retention for conferences.

³³ MDHS provided a flight request form, however, it was not addressed in the travel policy.

- Sufficient information and documentation were provided for all samples, which enabled CLA to determine the purpose of travel and the allowability as the travel costs relate to TANF.³⁴
- Travel vouchers were provided for all applicable samples.³⁵
- The travel authorization form was included for applicable disbursements.
- All direct bill payments included hotel request forms, where applicable, which confirmed that the hotel reservations were made by travel coordinators, as per MDHS travel policy. The hotel request form does not have a signature line on the face of the form for the travel coordinator to sign indicating that they booked the travel.³⁶ User access controls prevent users outside the travel unit from completing this portion. Additionally, the hotel request form is processed through DocuSign which creates an event log with a timestamp from the travel unit.

CLA noted continued observations related to document retention, the allocation of travel costs to TANF, and general procedural deficiencies. The following subsections communicate the observations made by CLA for the current period travel testing.

Sufficient Documentation

- Supporting documentation for travel disbursements continues to be retained in multiple departments instead of being retained with the evidence of payment. Documentation for travel costs was obtained through the MAGIC system, requested from the travel unit, and provided by the Economic Assistance division after a separate request.³⁷ This observation was also made during the testing of the forensic audit period. See recommendation D-3 on page 50.
- One direct bill payment did not include a travel voucher because the flight was canceled.³⁸ CLA was able to view the refund of travel costs in the credit card statement detail and identified the credit in the disbursement ledger. However,

³⁴ The availability of documentation related to the selected sample potentially improved due to the significantly smaller, more manageable size and more recent time period of the sample selected.

³⁵ MDHS communicated that travel vouchers are not required for direct bill transactions if the employee is not requesting reimbursement for additional travel expenses related to the same travel. Refer to recommendation D-1 on page 49.

³⁶ See recommendation D-2 on page 50.

³⁷ Documentation saved in MAGIC is a copy of the invoice and related personnel ID. When the direct bill related to a payment on the MDHS credit card, the supporting invoice uploaded was the credit card statement.

³⁸ Documentation provided by the travel unit for this cost included the travel authorization form, flight request form, hotel request documents, and required receipts. An additional email was provided where the employee formally canceled all out of state travel, which affected the sample selected.

documentation related to the cancelation, specific to the sample selected, was not provided. See recommendation D-3 on page 50.

- The hotel request form that is used by MDHS does not have a title on the form. This could create confusion if an individual is not familiar with the form or could more easily lead to the form being misplaced. Refer to recommendation D-2 on page 50.
- The DocuSign event log is not always attached to the travel vouchers or hotel request forms. The travel unit was unable to locate the DocuSign event log for a travel voucher that was voided during the DocuSign process (see the first observation in the “Procedural Deficiencies” subsection). Refer to recommendation D-2 on page 50.
- A hotel request form for one travel reimbursement was not completed. Instead, an email was provided from the Economic Assistance training unit to the travel coordinator requesting rooms for specific employees for the period of March 1st - 6th. The name of the training was not documented in the email. The travel policy indicates that hotel request forms are always required but does not address the process for lodging requested for multiple employees by the training division. Refer to recommendation D-4 on page 50.
- One direct bill disbursement for a car rental did not attach the appropriate supporting documentation to the travel voucher as outlined in the travel policy. The rental car confirmation was attached to the travel voucher instead of the car rental agreement. MDHS communicated that Hertz was a new vendor, and the staff was unfamiliar with the documentation. They mistook the rental car confirmation for the car rental agreement. Refer to recommendation D-5 on page 51.
- Two “FI doc” numbers associated with credit card vendors did not have the detailed receipts saved in MAGIC.³⁹ MDHS communicated that detailed receipts are required to be saved with the credit card detail in the MAGIC system. However, the receipt was attached to the travel voucher, which was provided by the travel unit, for two of the charges selected for detailed testing. Refer to recommendation D-3 on page 50.

Documented TANF Purposes

- Travel vouchers often contain generic explanations for the purpose of travel and are insufficient to determine the travel was for a TANF purpose. Furthermore, additional detail related to the travel purpose was not documented in the underlying supporting documentation attached to the travel vouchers. Travel vouchers require the traveler to record the purpose for travel in the designated

³⁹ The “FI doc” number is a 10-digit unique identifying number for a transaction in the MDHS disbursement ledger. FI doc numbers typically relate to one invoice or statement with many separate charges.

field before submitting it to the division for verification. The field provided on the travel voucher to record the travel purpose lacks adequate space which discourages detailed explanations. Refer to recommendation D-6 on page 51.

- Only one travel voucher's travel purpose was sufficiently detailed to enable CLA to determine the travel was for a TANF purpose. For the remaining transactions, although sufficient documentation was not retained, CLA was able to determine allowability through written and verbal responses from employees and supervisors for all applicable disbursements tested. The figure below is an example of a travel voucher with a sufficiently detailed travel purpose and a generic travel purpose. Refer to recommendation D-6 on page 51.

Figure 1: TANF Purpose Example

Date	Purpose
	Non-Taxable M
5/4/2021	Generic Pike & Copiah County Office Visit
5/12/2021	Detailed TANF Subgrantee Technical Assistance Visit - Southwest MS CC

Allowability and Allocation

Supporting documentation and written responses for all travel disbursements was sufficient for CLA to assess the allowability of travel costs based on the purpose of travel for all eight samples selected for detailed testing. Three transactions were determined to be related to TANF, three transactions should have been allocated to TANF and other funding sources as the travel costs did not solely benefit TANF, and one transaction should not have been charged to TANF.⁴⁰

- Three direct bill disbursements, for a total amount of \$815.26, were determined to be directly related to technical TANF training or could reasonably be calculated to further a purpose of TANF. Therefore, the costs were appropriately charged to TANF.
- All three of the expense reimbursements, for a total amount of \$925.89, were related to TANF and one or more other MDHS program (e.g., SNAP). MDHS should have performed a cost allocation calculation to allocate these costs to TANF and other appropriate programs. The purpose of travel for each reimbursement was "EW Training." Agendas related to the EW training include instruction items

⁴⁰ Travel for one sample selected for testing was canceled and not applied to TANF funding. Therefore, allowability was not assessed for one travel cost.

related to the SNAP program as well as the TANF program. Refer to recommendation D-7 on page 51.

- The travel cost included in one direct bill disbursement, for a total amount of \$35.50, was recorded to TANF in error. The division was able to provide additional explanation that the travel purpose was for a meeting with an E&T partner and the employee used the appropriate internal order code, related to SNAP, on the travel voucher. The travel voucher with the appropriate code was approved and verified on June 23, 2020. However, email correspondence provided shows that the travel unit requested the internal order number for this transaction from the division on July 1, 2020. The division responded on July 9, 2020 with an incorrect internal order number which resulted in travel costs being applied in error to TANF funds. Refer to recommendation D-8 on page 51.

Procedural Deficiencies

- The travel voucher provided for one direct bill disbursement was complete and paid; however, the travel voucher indicates it is "VOID." MDHS communicated to CLA that it is working on a new e-voucher program. This voucher was approved and verified by the appropriate parties; however, the electronic process was interrupted due to the responsible accounts payable employee separating from MDHS when the process was not yet complete for this disbursement. This caused the e-voucher document to stay in the email account of the separating employee causing the voucher to void. The electronic system will automatically void the travel voucher if it is not moved through the system within a specific amount of time, about 60 to 90 days. Refer to recommendation D-9 on page 51.
- One travel voucher, for reimbursement, was submitted more than 30 days after travel. The travel dates occurred from March 1 through March 6, 2020 and was not submitted until July 24, 2020. Refer to recommendation D-10 on page 51 .
- One travel voucher claimed reimbursement for meals. Total meals for the first day of travel totaled \$44.00, which exceeded 75% of the \$46.00 maximum daily rate, \$34.50. Refer to recommendation D-10 on page 51.
- One direct bill transaction was recorded in MAGIC using the incorrect personnel ID. Refer to recommendation D-8 on page 51.

d. Recommendations

- D-1. Travel vouchers should be completed for all travel, including direct bill transactions where additional reimbursements are not claimed. If travel vouchers documenting the travel purpose are not completed for direct bill payments, the purpose of travel may not be clearly documented. Alternatively, other travel forms used to book travel (travel authorization form, hotel request form, and flight request form) could be updated to include a location to document the purpose of travel. These forms should be

retained with the travel related disbursements to ensure sufficient documentation of travel purpose is retained.

MDHS Response: MDHS provided CLA with the updated travel forms that listed a location to document the purpose of travel. MDHS communicated that it will be using the updated forms immediately.

- D-2. As a best practice, the hotel request form should be formatted with a descriptive title to prevent errors or misplacement of the completed form. Descriptive titles allow for the user to easily identify the purpose of the form and assists with efficient record keeping. Consider formatting the hotel request form with a signature line for the travel coordinator to easily indicate the lodging reservation was made by the travel unit. Implementing this recommendation will enable a reviewer to verify that a travel coordinator made the reservation should the DocuSign log become separated from the hotel request form.

MDHS Response: MDHS provided CLA with the updated *Hotel Request* form listing the signature line for the travel coordinator. MDHS communicated that it will be using the updated forms immediately.

- D-3. Complete supporting documentation for every travel-related disbursement should be saved together to the extent that it is possible. Detailed receipts for direct bill disbursements should be saved in the MAGIC system along with the corresponding credit card or vendor statement. For documentation such as the travel vouchers that may not be saved in MAGIC, all relevant information should be attached. These types of supporting documentation may include, but not be limited to, booking confirmations, cancellation confirmations, DocuSign event logs, the purpose of travel, and/or communications relating to the purpose of travel. The passage of time and the turnover in employees makes it difficult or impossible to piece back together complete documentation for a travel-related transaction if not kept together and retained in the travel unit.

MDHS Response: MDHS communicated that it is currently making the recommended updates to the travel policy.

- D-4. The travel policy indicates that Travel Authorization forms are required for “in-state travel when the traveler is attending a conference or seminar” and does not address documentation requirements for MDHS hosted conferences, seminars, or trainings. MDHS communicated that it does not require travel authorization forms from employees attending an MDHS hosted conference or seminar. The travel policy should address required documentation for MDHS hosted conferences, seminars, and trainings. Additionally, consider updating the MDHS travel policy to address the documentation required from training units when requesting lodging for multiple employees. Updated travel policies will clarify procedures and required documentation for MDHS hosted events.

MDHS Response: MDHS communicated that it is currently making the recommended updates to the travel policy.

- D-5. Explanations should be documented for instances where supporting documentation deviates from the established policy. This will create a more efficient review process and improve confidence in the legitimacy of the travel cost.

MDHS Response: MDHS communicated that it is currently making the recommended updates to the travel policy.

- D-6. Documentation submitted to the travel unit should clearly list the travel purpose and how it relates to the grant to which it was charged (TANF program). Detailed information provides an additional method of verification for reviewers and approvers. The travel unit should be able to identify if the travel cost incurred appears reasonable for the funding source before it is recorded.
- D-7. An allocation method should be documented and performed for travel costs that are incurred for the benefit of more than one program. Implementing this requirement will decrease the risk of costs being applied to an incorrect funding source.
- D-8. The travel unit should refer to the travel voucher to identify the internal order number and personnel ID when recording disbursements to prevent applying travel costs to an incorrect funding source.
- D-9. The e-voucher process should be monitored on a regular basis to prevent legitimate transactions from timing out resulting in a voided e-voucher.
- D-10. Travel voucher verifiers should use a checklist to ensure the travel voucher is completed accurately and all necessary supporting documentation is attached. The volume and variability of travel costs increases risk of errors. A checklist aids in preventing errors and ensures the travel documentation is complete and submitted timely. Employees should receive training regarding the correct process for completing travel vouchers and the timing within which to submit travel vouchers. Timely submission of travel vouchers allows for better recollection of travel details when being reviewed and approved, which is important for ensuring the appropriateness of a travel expense.

5. Equipment and Commodities

As noted during the testing of equipment and commodities during the forensic audit period, CLA determined that two of the 47 transactions tested were an allowable use of TANF funds. The other 45 transactions did not have a proper allocation method applied, and the costs were directly charged to TANF even though the TANF program was not the only program benefiting from the purchases.

Because only two of the 47 expenditures tested were exclusively related to TANF, it is CLA's determination that, for the forensic audit period, MDHS did not have an appropriate method to allocate costs to the TANF federal grant in accordance with the relative benefits received by the program, and MDHS did not distribute the cost proportionally using a reasonable cost allocation method in accordance with 2 CFR § 200.405(a).

Additionally, through the forensic period testing, CLA identified deficiencies in federal requirements and MDHS policies and procedures that included missing purchase requisitions, missing purchase orders, and missing documentation of receipt of goods after the purchase.

a. Overview of Current Period Equipment and Commodities

MDHS provided to CLA the TANF disbursement ledger for the current period. CLA sorted the ledger for all transactions with either Equipment or Commodities in the Cost Category. The total population of Equipment and Commodities purchases for January 1, 2020 to January 31, 2021 included 11 entries totaling \$5,188.90.⁴¹ Expenditures recorded to Equipment and Commodities include items such as furniture and equipment; office supplies; janitorial and cleaning supplies; and office, IT, and other equipment. The total disbursements charged to TANF for Equipment and Commodities is shown by fiscal year in Table 9 included below.

Table 9: Summary of TANF Equipment and Commodities Disbursements

Fiscal Year	Amount
2020	\$ 4,665.79
2021	523.11
Total	<u>\$ 5,188.90</u>

Sample Selection Process

CLA performed analysis on the population and selected four transactions totaling \$3,135.08 for testing. The sample covers 60% of the total population of equipment and commodities disbursements in the current period.

b. Implementation of Revised Internal Controls in the Current Audit Period

MDHS did not communicate any difference in the internal controls over purchases of Commodities and Equipment for the current period. The internal controls to allocate costs commensurate to the benefit to the TANF program were adequate during the forensic audit period. The internal controls that required purchase requisitions, purchase orders, and documentation of receipts of goods was in effect during the forensic audit period. However, in practice, the internal controls were not functioning as designed or were not followed, which was evident through the results of the

⁴¹ A total of eight journal entries were also included in the Equipment and Commodities cost categories; however, the net effect of these eight journal entries was \$0 and are therefore not included in the count for the total population.

forensic audit period testing. Because the internal controls were not functioning as designed to ensure that costs were charged to TANF appropriately and that sufficient documentation was completed and retained, CLA deemed necessary to test, on a sample basis, the transactions for the current period.

c. Results of Testing

CLA tested a sample of payments made by MDHS for the purchase of TANF equipment and commodities in the current period. The purpose of this testing was to determine if the cost was for a legitimate purpose, was allowable, had advance approval, had sufficient supporting documentation, and had evidence of receipt of goods.

For the four transactions totaling \$3,135.08 selected for testing, CLA determined all four had complete documentation and were an allowable use of TANF funds. The underlying support for these transactions adequately provided evidence that the items were used for TANF related purposes.

- For two of the transactions tested, the support included the allocation method used to charge the disbursement partially to TANF. These purchases are therefore appropriately allocated to TANF.
- The other two transactions tested were commodities purchased for use by TANF employees. CLA confirmed these employees' salaries were charged to TANF in the months the commodities were purchased. Since the employees were confirmed by CLA to have been performing TANF related activities, the commodities used by these employees would be an appropriate use of TANF funds.

d. Recommendations

The internal controls over purchases of Commodities and Equipment for the current period appear to be designed appropriately and functioning as designed. It appears that, during the current period, MDHS has taken steps to ensure compliance with its internal controls as it relates to purchases of commodities and equipment. During the current period, MDHS employees utilized an appropriate method of cost allocation for the purchase of commodities and equipment and followed the necessary policies and procedures as it relates to documentation required for these purchases. No recommendations are included for this area.

VIII. Recommendations

For ease of reference, this section includes all recommendations made in the relevant subsections of *VII. Assessment of MDHS Internal Controls*. This section also lists responses provided by MDHS for certain recommendations after its review of this report in draft form.

A. Subsidies, Loans, and Grants

- A-1. The MDHS Subgrant/Agreement Manual, revised January 1, 2020, section 3 – Regulations outlines the applicable regulations that subgrantees must adhere to, such as 2 CFR § 200 and its subparts; however, 45 CFR § 260.34 (faith-based restriction) is not specifically mentioned in section 3 – Regulations. MDHS Division of Workforce Development Subgrant Agreements and the Standard Assurances and Certifications should include a specific statement of certification regarding the faith-based restriction of conducting inherently religious activities with federal monies that complies with 45 CFR § 260.34. Evidence of the certification should be maintained in the documentation for each subgrant agreement. CLA recommends this be implemented for all subgrantees, even if the subgrantee is not a religious organization, to ensure subgrantees are aware of the restriction of spending on inherently religious activities.

MDHS Response: MDHS communicated to CLA that the Subgrantee Manual was updated effective October 1, 2021 and provided CLA with the updated version which is located on the MDHS website at the following location: <https://www.sos.ms.gov/adminsearch/ACCode/00000325c.pdf>. The updated version does not reflect recommendation A-1; however, MDHS communicated that additional updates are planned to implement recommendations made by CLA in this report.

- A-2. MDHS should reject any incomplete TANF 2021 Subgrantee Monthly Claim Submission Checklists and require the subgrantee to submit a revised checklist that includes a check in each box for items being submitted and is signed by the subgrantee. In addition, MDHS should consider modifying the TANF 2021 Subgrantee Monthly Claim Submission Checklist to include a field to record the subgrantee's name to prevent the checklist from getting separated from the claim.
- A-3. MDHS should provide guidance and clarification to subgrantees regarding the specific types of other supporting documentation that should be submitted with the cost claims. Specifically, MDHS should modify the phrase "any other supporting documentation you feel is needed" because it gives subgrantees too much leeway to decide what is submitted to MDHS. Consider providing guidance for the submission of supporting documentation based on the nature of the expenses and/or the dollar amount. Lastly, MDHS should reject any misnamed documents uploaded to Smartsheet and require the subgrantee to submit a named document that follows the naming convention in the TANF 2021 Subgrantee Monthly Claim Submission Checklist.

- A-4. MDHS should strengthen its internal control procedures regarding processes for monitoring subgrantees and reviewing documentation supporting expenses reported under MDHS subgrants. MDHS should consider additional training for the MDHS Office of Monitoring to ensure that reviewers can identify unallowable costs and business agreements that are not conducted at arm's-length bargaining. For example, monitoring staff should be trained to conduct research on the parties with which the subgrantee has entered into agreements to verify that no relationships exist that may compromise 2 CFR § 200.318 General Procurement Standards which states, "no employee, officer, or agent may participate in the selection, award, or administration of a contract supported by a federal award if he or she has a real or apparent conflict of interest. Such a conflict of interest would arise when the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract." Subgrantees similarly should also receive training as to what types of costs are unallowable and the limitations on contracting with related party entities.

MDHS Response: After MDHS's review of this report in draft form, the MDHS Procurement Division began requiring attestations from subgrantees regarding agreements with related parties. Additionally, MDHS communicated that the Division of Monitoring is currently trained and able to identify unallowable costs regarding related parties.

- A-5. MDHS should review and consider revising both the MDHS Subgrant/Agreement Manual, revised January 1, 2020, and the MDHS TANF 2021 Subgrantee Training Handouts to ensure that the timing requirements for the closeout packages are clear and the policies are identical. The language should be more specific, such as "no later than forty-five (45) calendar days from the end of the subgrant period," to ensure that subgrantees understand the deadline for the closeout package. Be sure to clarify calendar days versus business days and the implications if the 45th calendar day falls on a weekend or holiday.

MDHS Response: MDHS communicated to CLA that it had updated the Subgrant Manual effective October 1, 2021, as well as the related subgrantee training documents to reflect a requirement for subgrantees to submit grant closeout packages no later than 45 calendar days from the grant end. If the 45th days falls on the weekend, the closeout package is due the Friday before. CLA received and confirmed the updated language in the Subgrant manual and related training materials.

B. Services (Contracts)

- B-1. Implement a process to ensure all supporting documentation relevant to the contract procurement process, contract award, and disbursements are stored in a secure location. Complete documentation should be kept in MAGIC, or in another centralized electronic repository to the extent the documents are too

voluminous to be stored in MAGIC, to ensure documentation for each contract and each transaction can be easily located. The documentation should cover the entire procurement process, including but not limited to, the Request for Proposals or Quotes, responses received for such requests, evaluation of responses received, determination of response accepted and contract awarded, Administrative Review Memorandum as required, completed and signed contract and any amendments, and invoices or requests for payment related to said contract. For procurement types other than contracts, such as MOAs, MOUs, or quotes, all relevant documentation should also be maintained by MDHS either in MAGIC or another centralized repository to support the procurement process.

MDHS Response: MDHS communicated to CLA, after review of this report in draft form, that all contract-related documentation is currently being stored in a secure location where only the necessary staff have access and all procurement documentation is stored in this location. The written Standard Operating Procedure (“SOP”) documents for contracts and payments were updated effective December 1, 2021 requiring that application staff store documents in the designated secure location. The updated SOP was provided to CLA for review and confirmation of the updates.

- B-2. Contractual services related to more than one grant or program should be properly allocated. This should occur by recording contracts and invoices to a pool grant code, which is then allocated appropriately to all related grants according to a reasonable cost allocation method determined by MDHS, or by proportionately allocating each individual invoice to the grants that the service relates to. Additionally, care should be taken to ensure the correct grant is identified for each contract or invoice. The process exists to allocate costs accordingly; however, MDHS should provide training to all staff, supervisors, managers, and division directors to ensure the personnel completing the requisition or purchase order are sufficiently aware of grant requirements and are coding expenditures to the proper funds. Reviewers should also be sufficiently aware of grant requirements so they can accurately review the grant code during their approval of the requisition or purchase order.

MDHS Response: MDHS communicated to CLA, after review of this report in draft form, that the written SOP for contracts and for payments have been updated to reflect that PSCU staff will note the funding coding details from the original request on the invoices at the time the division approves the invoices. Divisions provide internal training on their allocations of funds and accounts payable staff use the coding communicated by the divisions. CLA was provided the updated written SOP and confirmed this update.

C. Salary Disbursements

- C-1. Perform a full assessment of the 61 employees whose salary is directly charged to TANF to determine the actual work activities of the employees and identify the programs/grants to which their payroll costs should be charged or allocated.

Verify that any required settings in SPAHRS have been entered correctly to enable proper allocation.

MDHS Response: MDHS communicated to CLA, after review of this report in draft form, that it has implemented a new process effective December 1, 2021 whereby on a monthly basis, the Budget and Accounting division will provide a report to each division to review and identify any potential errors in salary allocations. For any errors identified, the divisions will complete a change form identifying the error and providing a correction. The Budgets and Accounting division will use the change forms received to process the correction. Once the corrections have been made, both the relevant division and the Budgets and Accounting division will affirm the change with a signature. Additionally, a semi-annual document will be provided to all of the divisions to verify all changes are correct and to confirm with a signature. CLA did not review the newly established process.

- C-2. Provide training and other necessary information/tools to Division Directors and supervisors so that they are fully knowledgeable of the process used to charge or allocate salary costs to different grants, including TANF. The training should address the Division Directors' responsibility for evaluating the proportion of salary costs charged to each grant for their employees' work, which should be reflective of the benefit to that grant. Require supervisors and Division Directors review employee timesheets to ensure appropriate grant defaults and overrides are used.

MDHS Response: MDHS communicated to CLA, after review of this report in draft form, that beginning in December 2021, training will be provided to each division by the division of Budgets and Accounting Time Clock Administrator on the cost override process. CLA did not verify that this training has been provided.

- C-3. Provide sufficient education and/or training to employees whose time is by default charged to a grant to ensure they are accurately informed of the default settings for their salary and benefit costs and the circumstances under which they should enter overrides to other grants. This would help prevent or reduce errors in how the employees are entering overrides when working on a grant to which their salary costs are not charged by default. A mechanism should be implemented to ensure the settings in SPAHRS are reviewed when employees change positions or divisions, and they are notified of any required changes in their time entry procedures. Division Directors with employees whose costs are directly charged to a grant should review their employee listing and allocation setting at a set minimum interval, such as monthly, to ensure any changes are addressed in a timely manner. Consider exploring the option to add a feature in the time entry application that shows the employee's default allocation as an easy reminder when entering time.

MDHS Response: MDHS communicated to CLA, after review of this report in draft form, that beginning in December 2021, training will be provided to each division

by the division of Budgets and Accounting Time Clock Administrator on the cost override process. CLA did not verify that this training has been provided.

D. Travel

- D-1. Travel vouchers should be completed for all travel, including direct bill transactions where additional reimbursements are not claimed. If travel vouchers documenting the travel purpose are not completed for direct bill payments, the purpose of travel may not be clearly documented. Alternatively, other travel forms used to book travel (travel authorization form, hotel request form, and flight request form) could be updated to include a location to document the purpose of travel. These forms should be retained with the travel related disbursements to ensure sufficient documentation of travel purpose is retained.

MDHS Response: MDHS provided CLA with the updated travel forms that listed a location to document the purpose of travel. MDHS communicated that it will be using the updated forms immediately.

- D-2. As a best practice, the hotel request form should be formatted with a descriptive title to prevent errors or misplacement of the completed form. Descriptive titles allow for the user to easily identify the purpose of the form and assists with efficient record keeping. Consider formatting the hotel request form with a signature line for the travel coordinator to easily indicate the lodging reservation was made by the travel unit. Implementing this recommendation will enable a reviewer to verify that a travel coordinator made the reservation should the DocuSign log become separated from the hotel request form.

MDHS Response: MDHS provided CLA with the updated *Hotel Request* form listing the signature line for the travel coordinator. MDHS communicated that it will be using the updated forms immediately.

- D-3. Complete supporting documentation for every travel-related disbursement should be saved together to the extent that it is possible. Detailed receipts for direct bill disbursements should be saved in the MAGIC system along with the corresponding credit card or vendor statement. For documentation such as the travel vouchers that may not be saved in MAGIC, all relevant information should be attached. These types of supporting documentation may include, but not be limited to, booking confirmations, cancellation confirmations, DocuSign event logs, the purpose of travel, and/or communications relating to the purpose of travel. The passage of time and the turnover in employees makes it difficult or impossible to piece back together complete documentation for a travel-related transaction if not kept together and retained in the travel unit.

MDHS Response: MDHS communicated that it is currently making the recommended updates to the travel policy.

- D-4. The travel policy indicates that Travel Authorization forms are required for “in-state travel when the traveler is attending a conference or seminar” and does not

address documentation requirements for MDHS hosted conferences, seminars, or trainings. MDHS communicated that it does not require travel authorization forms from employees attending an MDHS hosted conference or seminar. The travel policy should address required documentation for MDHS hosted conferences, seminars, and trainings. Additionally, consider updating the MDHS travel policy to address the documentation required from training units when requesting lodging for multiple employees. Updated travel policies will clarify procedures and required documentation for MDHS hosted events.

MDHS Response: MDHS communicated that it is currently making the recommended updates to the travel policy.

- D-5. Explanations should be documented for instances where supporting documentation deviates from the established policy. This will create a more efficient review process and improve confidence in the legitimacy of the travel cost.

MDHS Response: MDHS communicated that it is currently making the recommended updates to the travel policy.

- D-6. Documentation submitted to the travel unit should clearly list the travel purpose and how it relates to the grant to which it was charged (TANF program). Detailed information provides an additional method of verification for reviewers and approvers. The travel unit should be able to identify if the travel cost incurred appears reasonable for the funding source before it is recorded.

MDHS Response: MDHS communicated that it is currently making the recommended updates to the travel policy.

- D-7. An allocation method should be documented and performed for travel costs that are incurred for the benefit of more than one program. Implementing this requirement will decrease the risk of costs being applied to an incorrect funding source.

- D-8. The travel unit should refer to the travel voucher to identify the internal order number and personnel ID when recording disbursements to prevent applying travel costs to an incorrect funding source.

- D-9. The e-voucher process should be monitored on a regular basis to prevent legitimate transactions from timing out resulting in a voided e-voucher.

- D-10. Travel voucher verifiers should use a checklist to ensure the travel voucher is completed accurately and all necessary supporting documentation is attached. The volume and variability of travel costs increases risk of errors. A checklist aids in preventing errors and ensures the travel documentation is complete and submitted timely. Employees should receive training regarding the correct process for completing travel vouchers and the timing within which to submit travel vouchers. Timely submission of travel vouchers allows for better

recollection of travel details when being reviewed and approved, which is important for ensuring the appropriateness of a travel expense.

E. Equipment and Commodities

The internal controls over purchases of Commodities and Equipment for the current period appear to be designed appropriately and functioning as designed; therefore, CLA does not have any recommendations for this area.

IX. Closing Paragraph

The body of this reports details the procedures performed, the results of our work, and recommendations to improve MDHS internal controls related to TANF disbursements. For certain recommendations provided by CLA, MDHS provided a response. If a response was received from MDHS for a recommendation, that response is included immediately following the recommendation. Additionally, MDHS communicated to CLA that the current Senior Leadership team at MDHS does not include any deputies who previously served under John Davis. None of the members of the current Senior Leadership team were employed with the agency at the time of John Davis' tenure.