



STATE OF NORTH CAROLINA

**FISCAL CONTROL AUDIT REPORT ON
DEPARTMENT OF HEALTH AND HUMAN SERVICES
DIVISION OF FACILITY SERVICES
RALEIGH, NORTH CAROLINA
FOR THE PERIOD JULY 1, 2003 THROUGH FEBRUARY 29, 2004**

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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CARMEN HOOKER ODOM

SECRETARY OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES

ROBERT FITZGERALD

DIRECTOR OF THE DIVISION OF FACILITY SERVICES



Ralph Campbell, Jr.
State Auditor

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The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Ms. Carmen Hooker Odom, Secretary,
Department of Health and Human Services
Mr. Robert Fitzgerald, Director,
Division of Facility Services

This report presents the results of our fiscal control audit of the Department of Health and Human Services, Division of Facility Services, for the period July 1, 2003 through February 29, 2004. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The objective of a fiscal control audit is to gather and evaluate evidence about internal control over selected fiscal matters, such as financial accounting and reporting and/or compliance with finance-related laws, regulations, and provisions of contracts or grant agreements.

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance that are considered reportable under *Government Auditing Standards*. These matters are described in the Audit Findings and Recommendations section of this report.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in black ink that reads 'Ralph Campbell, Jr.'.

Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	PAGE
BACKGROUND INFORMATION	1
OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS	3
AUDIT FINDINGS AND RECOMMENDATIONS.....	6
DISTRIBUTION OF AUDIT REPORT	9

BACKGROUND INFORMATION

The Division of Facility Services is a part of the North Carolina Department of Health and Human Services. The Division's responsibility is to provide for the health, safety, and well being of individuals through effective regulation of medical, mental health and group care facilities, emergency medical services, and local jails. The Division ensures that people are secure and that the care provided to the people in facilities is adequate. It is also responsible for improving access to health care delivery systems by ensuring that medical facilities are built only when there is a need for them.

The main office for the Division is in Raleigh, North Carolina. There are additional offices in Asheville, Black Mountain, and Greenville.

The Division has many sections:

- Budget and Planning
- Certificate of Need
- Construction
- Emergency Medical Services
- Adult Care Licensure
- Health Care Personnel Registry
- Jails and Detention
- Licensure and Certification
- Medical Facilities Planning
- Mental Health Licensure and Certification

The Division also provides staff and administrative and program support for the following boards and committees: N.C. Health Coordinating Council, Medical Care Commission, Emergency Medical Services Advisory Council, and the Penalty Review Committee.

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OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

OBJECTIVES

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes* and in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have conducted a fiscal control audit at the Department of Health and Human Services, Division of Facility Services.

The objective of a fiscal control audit is to gather and evaluate evidence about internal control over selected fiscal matters, such as financial accounting and reporting and/or compliance with finance-related laws, regulations, and provisions of contracts or grant agreements. Also, should any information arise during the audit indicating that significant abuse may have occurred, the audit objective may be extended to include internal control designed to prevent abuse and to determine whether the abuse did in fact occur and its impact. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

SCOPE

Our audit scope covered the period of July 1, 2003 through February 29, 2004 and included selected internal controls in the following organizational units:

Certificate of Need Section

This section is responsible for enhancing the physical quality of healthcare facilities and for ensuring the efficient utilization of health care facilities.

Construction Section

This section is responsible for the review of plans and specifications for healthcare facilities, performing on-site inspections, and providing consultations to ensure a safe and proper environment for patients, residents, and inmates.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONTINUED)

Emergency Medical Services Section

This section is responsible for ensuring that citizens have access to quality emergency medical care by providing technical assistance, service, and regulatory oversight to local EMS systems in the area of administration, training, certification, communications, transportation, public education, facilities disaster preparation, and injury prevention.

Adult Care Licensure, Licensure and Certification, and Mental Health Licensure and Certification Sections

These sections are responsible for the licensure, certification, and regulation of their respective types of health care facilities in North Carolina to ensure mandated standards of care are provided to people receiving services.

During our audit, we also considered internal control related to the following accounts and control objectives:

Miscellaneous Contractual Services – These expenditures are made by the various sections within the Division to account for expenditures incurred for contractual services not classified elsewhere. The Division reported miscellaneous contractual services of approximately \$1 million during our audit period. We examined internal controls to ensure that the Division properly accounted for expenditures and that purchases were made in compliance with State purchase and contract regulations and applicable federal grant specifications.

Adult Care Home License Fees, Hospital License Fees, Nursing Home License Fees, Mental Health Facility License Fees, Other Facility License/Certification Fees, and Home Care Agency License Fees – These are the fees charged by the Adult Care Licensure, Licensure and Certification, and Mental Health Licensure and Certification sections for the issuance of licenses or certificates which are required for a health care facility to operate in North Carolina. The Division reported fees collected during our audit period of approximately \$1.6 million. We examined internal controls designed to ensure that the Division properly accounts for and reports these revenues.

Capital Outlay for Equipment-Scientific/Medical and Capital Outlay for Equipment-Voice Communication – The expenditures we tested are made by the Emergency Medical Services Section to acquire scientific/medical and voice communication equipment. The Division reported approximately \$1.5 million of these types of equipment purchases during our audit period. We examined internal controls designed to ensure that the Section properly accounts for these expenditures and that purchases are made in compliance with State purchase and contract regulations and applicable federal grant specifications.

Construction Project Revenue Fees – These are the fees charged by the Construction Section for the review of health care facility construction projects to ensure that project plans and construction comply with State law. The Division reported construction project revenue fees of approximately \$84,000 during our audit period. We examined internal controls designed to ensure that the Division properly accounts for and reports these revenues.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

Certificate of Need Fees – These are the fees charged by the Certificate of Needs Section for the submission and review of a certificate of need application. A Certificate of Need must be obtained prior to the development of any new institutional health service. The Division reported certificate of need fees collected during our audit period of approximately \$984,000. We examined internal controls designed to ensure that the Section properly accounts for and reports these revenues.

METHODOLOGY

To accomplish our audit objectives, we gained an understanding of internal control, performed tests of control effectiveness, and performed corroborating direct tests of the accounting records, reports, and/or compliance as we considered necessary in the circumstances. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Our procedures were more limited than would be necessary to give an opinion on internal control, and accordingly, we do not express such an opinion.

RESULTS

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance that are considered reportable under *Government Auditing Standards*. These matters are described in the Audit Findings and Recommendations section of this report.

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Accounting, Reporting, or Compliance

The following findings and recommendations were identified during the current audit and discuss conditions that represent significant deficiencies in internal control or noncompliance with finance-related laws, regulations, or contract provisions.

1. INADEQUATE CONTROLS OVER THE COLLECTION AND PROCESSING OF CASH RECEIPTS

The Division of Facility Services does not have sufficient procedures in place regarding collection of cash, thereby increasing the risk of misappropriation of funds. We noted the following significant internal control weaknesses in the Division's various receipting processes:

- No standard cash collection operating procedures are in place to capture and document funds received by the Division. Each section/branch has separate and different procedures for collecting, processing, and closing out receipts.
- Eighty-one of the 116 cash receipts tested were not deposited within a day of receipt as required by the Daily Deposit Act.
- Records of the amounts received by the Division were not compared to records of deposits made.
- Licenses issued were not reconciled with the payments received.
- With the exception of one section, the Division's sections did not restrictively endorse checks at the point of entry.

Recommendation: The Division should strengthen internal control and ensure that all sections follow uniformly its written policies and procedures. Cash receipts should be deposited daily in accordance with the requirements of the Daily Deposit Act and amounts received should be compared to amounts deposited. Licenses issued should be reconciled with license payments received. Checks should be restrictively endorsed upon receipt.

Response: We concur with your recommendation. The Division has a uniform policy for deposit of receipts that will be followed by all sections to ensure that the requirements of the Daily Deposit Act are being met. All checks will be endorsed immediately upon receipt. All licenses issued will be reconciled with license payments received.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

2. INADEQUATE SEGREGATION OF DUTIES IN THE CASH COLLECTION PROCESS

We noted inadequate segregation of duties in the cash collection process in several of the Division's sections. Inadequate segregation of duties increases the risk that errors and irregularities may occur and not be detected.

- Although others were involved in the process, there was one employee in the Adult Care Licensure Section who was responsible for updating the billing file, receiving cash, preparing cash receipt logs, keeping undelivered cash, and issuing licenses.
- Although others were involved in the process, one employee in the Construction Section and an employee in the Certificate of Need Section were responsible for updating the billing files, receiving cash, writing receipts, preparing cash receipt logs, verifying cash receipt logs, and keeping undelivered cash/checks in their respective sections.
- The Mental Health Licensure and Certification Section and the Nursing Home Branch each utilized one employee, with help from others for several of the functions, to receive cash, prepare cash receipt logs, keep undelivered cash, and issue licenses.

The Office of the State Controller requires all State agencies to design and implement internal control procedures that provide adequate segregation of duties. Adequate segregation of duties ensures that no one individual can authorize and record transactions, issue and receive assets, and reconcile assets to accounting records.

Recommendation: The Division should strengthen and implement measures to ensure proper segregation of duties within its sections. Section personnel involved in the collection of cash should not be assigned the responsibility of issuing licenses. The billing process should also be separated from the collection process.

Response: We concur with your recommendation. The Division has begun implementation of the above recommendation and the proper segregation of duties will be in place in all sections by July 1.

3. PAYMENT FOR EQUIPMENT AUTHORIZED WITHOUT ADEQUATE DOCUMENTATION

The Division authorized payment for two State Medical Assistance Team trailers for \$278,300 without having an inspection record or a signed receiving report. Paying invoices without adequate receipt and inspection documentation may lead to payments for goods that were never received or, as in this case, for goods that did not meet the highly technical nature of the required equipment.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Recommendation: The Division should ensure that controls over cash disbursements are in place and operating effectively. Management should ensure that receipt, inspection, and acceptance of goods are properly documented prior to approval and payment of invoices.

Response: We concur with the recommendation. The recommendation is related to an isolated instance in which two payments for State Medical Assistance Team trailers were made without itemized packing slips being included with the invoice. However, prior to payment of the invoice, a staff member from The Office of Emergency Medical Services verified that all of the equipment was contained on the trailers. The process has been modified and staff from the Office of Emergency Medical Services is inventorying all equipment prior to delivery and an itemized invoice will be provided for each trailer.

DISTRIBUTION OF AUDIT REPORT

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	North Carolina Department of Health and Human Services

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July 7, 2004

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