



STATE OF NORTH CAROLINA

NORTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

**NORTH CAROLINA DEPARTMENT OF HEALTH
AND HUMAN SERVICES**

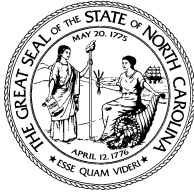
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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue
Members of the North Carolina General Assembly
Lanier Cansler, Secretary
North Carolina Department of Health and Human Services

We have completed certain audit procedures at the North Carolina Department of Health and Human Services related to the State of North Carolina reporting entity as presented in the *Single Audit Report* for the year ended June 30, 2008. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

In the *Single Audit Report*, the State Auditor presents the results of tests of internal control and compliance with laws, regulations, contracts, and grants applicable to the State's major federal programs. Our audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States and the Single Audit Act.

Our audit objective was to render an opinion on the State of North Carolina's administration of major federal programs and not the Department's administration of major federal programs. However, the report included herein is in relation to our audit scope at the Department and not to the State of North Carolina as a whole.

The audit findings referenced in the report are also evaluated to determine their impact on the State's internal control and the State's compliance with rules, regulations, contracts, and grants. If determined necessary in accordance with *Government Auditing Standards* or the Single Audit Act, these findings are reported in the State's *Single Audit 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 cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
Auditor's Report.....	1
Audit Findings and Responses:	
Food Stamp Cluster.....	5
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	9
Child and Adult Care Food Program	14
Rehabilitation Services – Vocational Rehabilitation Grants to States.....	15
Temporary Assistance for Needy Families.....	18
Child Support Enforcement	22
Low-Income Home Energy Assistance	26
Foster Care – Title IV-E	28
Adoption Assistance – Title IV-E.....	32
Social Services Block Grant	35
State Children's Insurance Program	38
Medicaid Cluster.....	40
HIV Care Formula Grants.....	47
Block Grants for Prevention and Treatment of Substance Abuse	51
Ordering Information.....	55



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Lanier Cansler, Secretary, and the Audit Committee
and Management of the North Carolina Department of Health and Human Services

Compliance

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major programs for the year ended June 30, 2008, we have performed audit procedures at the North Carolina Department of Health and Human Services. Our report on the State of North Carolina's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 is included in the State's *Single Audit Report*. Our federal compliance audit scope at the North Carolina Department of Health and Human Services included the following:

State of North Carolina's Administration of Federal Financial Assistance Programs

Food Stamp Cluster:

- CFDA 10.551 - Food Stamps
- CFDA 10.561 - State Administrative Matching Grants for Food Stamp Program

CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

CFDA 10.558 - Child and Adult Care Food Program

CFDA 84.126 - Rehabilitation Services – Vocational Rehabilitation Grants to States

CFDA 93.268 - Immunization Grants

CFDA 93.558 - Temporary Assistance for Needy Families

CFDA 93.563 - Child Support Enforcement

CFDA 93.568 - Low-Income Home Energy Assistance

CFDA 93.658 - Foster Care – Title IV-E

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

CFDA 93.659 - Adoption Assistance (Title IV-E)

CFDA 93.667 - Social Services Block Grant

CFDA 93.767 - State Children's Insurance Program

Medicaid Cluster:

- CFDA 93.775 - State Medicaid Fraud Control Units
- CFDA 93.776 - Hurricane Katrina Relief
- CFDA 93.777 - State Survey and Certification of Health Care Providers and Suppliers
- CFDA 93.778 - Medical Assistance Program (Medicaid; Title XIX)

CFDA 93.917 - HIV Care Formula Grants

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse

Social Security Administration:

- CFDA 96.001 - Social Security - Disability Income (DI)
- CFDA 96.006 - Supplemental Security Income (SSI)

The audit results described below are in relation to our audit scope at the Department and not to the State of North Carolina as a whole.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of compliance with those requirements.

The results of our audit procedures at the North Carolina Department of Health and Human Services disclosed instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and which are described in findings 4-8, 10-14, 17-18, 21, 23-24, 27-29, 32, 34, 36-41, and 44-51 in the Audit Findings and Responses section of this report.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the Audit Findings and Responses section of this report to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the Audit Findings and Responses section of this report, we consider findings 6, 18, 37, 46, and 47 to be material weaknesses.

We noted certain other matters related to compliance with federal requirements or internal control over compliance that we reported to management of the North Carolina Department of Health and Human Services in a separate letter dated February 20, 2009.

Management's responses to the findings identified in our audit are included in the Audit Findings and Responses section of this report. We did not audit the responses, and accordingly, we express no opinion on them.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONCLUDED)**

This report is intended solely for the information and use of management, the Secretary, members of the audit committee, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Beth A. Wood". The signature is written in a cursive, flowing style.

Beth A. Wood, CPA
State Auditor

February 27, 2009

AUDIT FINDINGS AND RESPONSES

The following findings and recommendations were identified during the current audit and discuss conditions that represent deficiencies in internal control and/or noncompliance with laws, regulations, contracts or grants. Similar findings were also reported in the prior audit for numbers 1, 6, 11-16, 18-19, 29, 32, 34, and 36-39.

FOOD – FOOD STAMP CLUSTER

1. INADEQUATE CONTROL OVER USER ACCESS TO THE FOOD STAMPS FINANCIAL AND BENEFITS SYSTEMS

We identified deficiencies in the Department's oversight and management of employee access to the Food Stamp Information System (FSIS) and the Electronic Benefit Transfer Information System (EBTIS). Improper access to computer systems can result in both intentional and unintentional security breaches.

FSIS is used in determining financial eligibility, generating client notices, tracking recipient claims, and producing management reports for the food stamps program. EBTIS transfers data between FSIS and E-funds, the contractor who distributes the electronic benefits to the food stamp clients.

In our sample of 40 users with update capabilities for both systems, documentation of proper user access was unavailable or incomplete for 29 test items. In addition, it was noted that periodic security reviews were not being performed for either system as required by statewide and departmental policy.

Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.

Federal Award Information: This finding affects grants #7NC400407 and #8NC400407.

Recommendation: The Department should enhance its prescribed procedures for documenting security access privileges for the Food Stamp financial and benefit information systems. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Agency Response: The North Carolina Division of Social Services Information Security Manual Version 1.0 was effective June 1, 2007. The manual outlines the responsibilities for the establishment, modification or termination of the authorization access to the automated systems owned by the Department of Health and Human Services. Security

AUDIT FINDINGS AND RESPONSES (CONTINUED)

reviews of State systems users will be performed two times per year. During these reviews, program management staff will review the current listing of authorized users, as provided by the Division of Information Resource Management, to ensure access is restricted to employees whose job duties require such access.

The reports used to validate system access will be modified to also show county users. It will be mandated that the county Security Officer review these reports, available via the NCXPTR system, and take appropriate action. This policy will be added to the Security Manual at the next issuance. The Division is also in the process of implementing appropriate Security Access Privilege Requirements within the County Self Assessment for county staff to document and certify that the required periodic review has been conducted according to policy outlined in the Security Manual. Deficiencies in authorization documentation identified by the auditor will be reviewed and appropriate documentation will be secured.

2. INADEQUATE CONTROL OVER USER ACCESS TO THE ELIGIBILITY COMPUTER SYSTEM

We identified deficiencies in the Department's oversight and management of employee access to the eligibility computer systems, including the Integrity Control System (EPICS). Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.

EPICS provides for the reporting of fraud and/or overpayments for significant programs for investigation at the county level.

Testwork performed for those users with update access levels identified that adequate documentation of the authorization level was not on file for 39 of 40 EPICS users. Documentation errors included incomplete or missing requests, requests that were not properly certified by the user's security officer, or user privileges that were not supported by the requests on file. In addition, it was determined that periodic reviews of user access for these systems have not been performed as required by statewide and departmental policy.

Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.

Federal Award Information: This finding affects grants #7NC400407 and #8NC400407.

Recommendation: The Department should continue to enhance its prescribed procedures for documenting security access privileges for its eligibility computer systems. Periodic security reviews should be conducted to ensure that access is restricted to authorized

AUDIT FINDINGS AND RESPONSES (CONTINUED)

users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Agency Response: The Department of Health and Human Services concurs with the finding. The Divisions of Information Resource Management, Social Services, and Medical Assistance staff are in the process of working with members of county administration offices to ensure individuals with need to access the Eligibility Information System are properly documented according to State and Department standards and policies ensuring that an authorization form is on file, authorization is requested through Customer Service and access is periodically reviewed. The Department will ensure that its staff with access to the Eligibility Information System are properly documented ensuring that an authorization form is on file, authorization is requested through Customer Service and access is periodically reviewed. Deficiencies in authorization documentation identified by the auditor will be reviewed and appropriate documentation will be secured.

3. IMPROPER ACCESS TO THE COUNTY ADMINISTRATION REIMBURSEMENT SYSTEM

We identified deficiencies in the Department's oversight and management of employee access to the County Administration Reimbursement System (CARS). Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.

CARS processes payments for administrative and service costs for various grants, including Food Stamps, as well as tracks county expenditures by program.

Of our sample of 36 identified users, we noted 22 users that did not have authorization documentation on file to support individuals' access to the CARS system and two requests that were not properly certified by the user's security officer. In addition, it was determined that periodic reviews of user access for these systems have not been performed as required by statewide and departmental policy.

Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.

Federal Award Information: This finding affects grants #7NC400407 and #8NC400407.

Recommendation: The Department should continue to enhance its prescribed procedures for documenting security access privileges for its eligibility computer systems. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Agency Response: The North Carolina Division of Social Services Information Security Manual Version 1.0 was effective June 1, 2007. The manual clearly outlines the responsibilities for the establishment, modification or termination of the authorization access to the automated systems owned by the Department of Health and Human Services. Security reviews of State systems users will be performed two times per year. During these reviews, program management staff will review the current listing of authorized users, as provided by the Division of Information Resource Management, to ensure access is restricted to employees whose job duties require such access.

The reports used to validate system access will be modified to also show county users. It will be mandated that the county Security Officer review these reports, available via the NCXPTR system, and take appropriate action. This policy will be added to the Security Manual at the next issuance. The Division is also in the process of implementing appropriate Security Access Privilege Requirements within the County Self Assessment for county staff to document and certify that the required periodic review has been conducted according to policy outlined in the Security Manual. Deficiencies in authorization documentation identified by the auditor will be reviewed and appropriate documentation will be secured.

4. DEFICIENCIES IN CASH MANAGEMENT PROCEDURES

The Department did not have adequate controls in place to ensure that drawdowns for Food Stamps were processed in accordance with state and federal guidelines.

The Treasury-State agreement requires that the State request funds such that they are deposited in a state account not more than three days prior to the actual disbursement of those funds. Our review of deposit and disbursement transactions for significant federal grants within the Division of Social Services identified instances where deposited funds were not disbursed in a timely manner. For Food Stamps, those deposits totaled \$13.4 million.

Federal Award Information: This finding affects grants #7NC400407 and #8NC400407.

Recommendation: The Department should strengthen internal controls to ensure that drawdowns are made in compliance with state policies and the Treasury-State Agreement.

Agency Response: The Department concurs in principle with this finding. Adequate controls are in place to ensure compliance with cash management regulations. Federal funds for a particular month must be drawn by the last business day of that month. Due to various timing issues with month-end processing and the releasing of funds, it is not possible to process disbursements to local county entities within the 3-day window. The Department will continue to be cognizant of the Federal requirements for cash disbursements and work within those timeframes. Also, the Department will be seeking guidance from our cognizant Federal agency on a possible waiver/exception due to the

AUDIT FINDINGS AND RESPONSES (CONTINUED)

conflict between the timing of the drawing of federal funds and the disbursements to local county entities.

CFDA 10.557 - SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)

5. DEFICIENCIES IN CASH MANAGEMENT PROCEDURES

The Department did not have adequate controls in place to monitor cash balances on hand for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and to ensure compliance with the Treasury-State Agreement and Cash Management Improvement Act (CMIA). In addition, the federal deposit and expenditure data submitted to the Office of the State Controller (OSC) on the CMIA report contained numerous errors.

Expenditures for Breastfeeding Peer Counseling and Infrastructure were excluded from amounts reported on the CMIA spreadsheet; however, these amounts are subject to the same cash management requirements as other WIC administrative costs. In addition, the Department's federal funds section has not been compiling a CMIA spreadsheet for WIC food expenditures, but rather relies on OSC's cash management calculations. We determined that OSC's process excluded disbursements that should have been considered and included rebate information that should not be part of the cash management calculations.

The correct compilation of the CMIA spreadsheet is necessary to adequately monitor WIC cash balances on hand and to ensure the timely drawdown of federal funds. We identified instances throughout the year where the cash balances for the WIC program either exceeded or fell short of the cash requirements of the program.

Federal Award Information: This finding affects grants #5NC700705, #5NC720705, and #5NC810705.

Recommendation: The Department should strengthen internal controls to ensure that drawdowns are made in compliance with state policies and the Treasury-State Agreement and Cash Management Improvement Act. Controls should be designed and implemented to ensure that CMIA cash management spreadsheets are complete and accurate in accordance with applicable guidelines.

Agency Response: The Department concurs that improvements are needed to adequately monitor WIC cash balances on hand and to ensure timely drawdown of federal funds. Excessive cash balances for Nutritional Services Administration (NSA) identified by the Auditor occurred because federal funds designated for administration were used for food activities. The CMIA worksheets maintained for NSA did not include the food expenditures. As a result, the cash balances for NSA were inflated and did not properly

AUDIT FINDINGS AND RESPONSES (CONTINUED)

reflect that these dollars had been spent for food. Consequently, federal interest was paid unnecessarily.

We also concur that Breastfeeding Peer Counseling and Infrastructure deposit and expenditure activities were excluded on the CMIA worksheet. These grants are categorized under CFDA No. 10.557; however, the grants were treated as “not subject” to the State Treasury Agreement. The Department will take corrective action and include the deposit and expenditure activity for Breastfeeding Peer Counseling and Infrastructure grants on the CMIA worksheets beginning SFY 2009. We believe that the effect on the CMIA daily cash balances for SFY 2008 was minimal since WIC Food and NSA grants represent more than 99% of all deposit/expenditure activity categorized under CFDA No. 10.557. These transactions were included on the CMIA worksheets, and the ending cash balances were subject to federal interest liability.

The Department does not concur that CMIA spreadsheets for WIC Food were not being prepared and sent to the Office of State Controller (OSC). The CMIA worksheets were prepared and submitted each month in a format designed by OSC that included all pertinent information for calculating federal interest liability. The Auditor stated that rebate dollars should not have been included in the federal interest calculation. The Code of Federal Regulations Title 7 CFR 246.15 states that “State agencies will not incur an interest liability to the Federal government on rebate funds for infant formula or other foods, provided that all interest earned on such funds is used for program purposes.” Interest was earned on the rebate dollars, but the Department did not receive any interest from OSC to use for program purposes. Therefore, the conditions stated in CFR 246.15 were not met. We believe that the rebate dollars should have been included on the CMIA worksheets submitted each month since the interest earned on the rebates was not applied to program activities. The Department plans to meet with OSC to clarify and improve procedures so the State can prevent paying federal interest on rebate dollars.

Auditor Comment: The Department’s response indicates that appropriate processes are not in place and improved procedures need to be implemented to address the identified deficiencies.

6. MONITORING OF A SERVICE ORGANIZATION NEEDS IMPROVEMENT

The Department does not have adequate monitoring procedures in place to ensure that a fiscal agent is performing its duties in accordance with the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program guidelines. As a result, there is an increased risk of noncompliance with the federal requirements.

Title 7 CFR section 246.12(k)(1) requires the state agency to design and implement a system to review food instruments submitted by vendors for redemption to ensure compliance with the applicable price limitations and to detect questionable food instruments, suspected vendor overcharges, and other errors. Follow-up action is required within 120 days of detecting any questionable food instruments.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

The current year costs associated with WIC food instruments is \$124.6 million, which represents nearly 74 percent of the State's total WIC costs. The fiscal agent is responsible for processing food instruments for payment as well as reviewing food instruments for errors and questionable items. We identified instances where the fiscal agent was using the wrong pricing data to enforce price limitations. The fiscal agent provides various results and expectations reports to the Division of Public Health that are periodically reviewed; however, there was no documentation to support this review process or that the exceptions were resolved by the fiscal agent within 120 days for the majority of the year under review.

Title 7 CFR section 246.12(g)(4)(i)(D) also requires the state agency to compute the food instrument maximum allowable reimbursement amounts. The Department has allowed the fiscal agent to compute these amounts; however, the Department is not sufficiently monitoring the fiscal agent to ensure its calculations are in compliance with federal regulations or are reasonable.

Federal Award Information: This finding affects grants #5NC700705, #5NC720705, and #5NC810705.

Recommendation: The Department should implement effective procedures for monitoring the fiscal agent responsible for meeting the compliance objectives associated with reviewing food instruments and imposing the reimbursement limitations.

Agency Response: The Department concurs with this finding. Due to a file transmittal problem, vendors were paid using the wrong pricing data for approximately one week. This situation was immediately addressed and a written protocol was put into effect between the Divisions of Public Health and Information Resource Management, and Financial Services Management Corporation (WIC's Fiscal Intermediary). The protocol, which went into effect on July 11, 2008, outlines the business requirements for processing monthly price updates.

In addition, the vendor unit has implemented a procedure for documenting monitoring activity, such as analysis of data from reports available through FSMC.

7. DEFICIENCIES IN FEDERAL FINANCIAL REPORTING

We identified deficiencies in the Department's processes for preparing monthly and final grant financial reports for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). As a result, there is an increased risk of noncompliance with the federal reporting requirements for program expenditures.

The preparation of the WIC Financial Management and Participation Report (FNS-798) requires the accumulation of data from multiple departmental accounting subsystems and fiscal agent reports. We noted errors and inconsistencies in the reconciliation of the reported data and the supporting documentation and accounting records. Variances were

AUDIT FINDINGS AND RESPONSES (CONTINUED)

noted between the reported food expenditures and the food instrument redemptions; reported food expenditures and the accounting records; and reported participation amounts and the supporting documentation.

Title 7 CFR 3016.20 provides the standards for financial management systems including the accurate, current, and complete disclosure of financial results of financially assisted activities.

Federal Award Information: This finding affects grants #5NC700705, #5NC720705, and #5NC810705.

Recommendation: The Department should implement procedures to ensure that fiscal agent reports, subsystems, and accounting records are reconciled on a regular basis to support the preparation of accurate federal financial reports. Appropriate documentation should be maintained to support the components of that process.

Agency Response: The Department concurs with the finding. Discrepancies existed in the Department's reconciliation of the various reports and subsystems. Subsequent to June 2008, the Department retroactively reconciled to October 2007 the subsystem reports, bank statements and the 798 federal reports. Although differences exist in the North Carolina Accounting System (NCAS), the correct expenditures were reported on the 798 federal reports. One barrier existing in the NCAS reconciliation is the reporting of rebates. Federal reporting instructions require the reporting of rebates when billed. The NCAS records rebates upon receipt of the money. The Department has already begun participating in meetings to determine the barriers related to the reconciliation process of the federal report. Additional meetings will be held to evaluate and analyze the differences.

8. DEFICIENCIES IN THE MONITORING PROCEDURES FOR PREDOMINATELY WIC VENDORS

We identified deficiencies in the Department's monitoring procedures for vendors that derive more than 50 percent of their food revenues from food instruments issued under the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). As a result, there is an increased risk of noncompliance with federal guidelines for predominately WIC vendors.

Vendors that derive the majority of food revenues from the redemption of WIC food instruments are subject to additional scrutiny, including the establishment of cost containment procedures, competitive pricing criteria, and maximum allowable reimbursement levels. A WIC vendor database is used to track the predominately WIC vendors; however, we found that the database provides this information only on a current basis. As such, tests and verification of pricing criteria can lead to inaccurate results because the vendor history (prior identification as a predominately WIC vendor) is not maintained.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Also, at least quarterly the State is required to conduct a statewide cost neutrality assessment by calculating and comparing the average redemption amounts for food instruments (by type) redeemed by regular vendors against those of predominately WIC vendors. We noted that this assessment was performed for only one quarter during the state fiscal year.

Federal Award Information: This finding affects grants #5NC700705, #5NC720705, and #5NC810705.

Recommendation: The Department should implement necessary changes to ensure the proper tracking of predominately WIC vendor status changes to ensure test procedures are inclusive of the correct population of vendors. Also, the required cost neutrality assessment should be performed on a quarterly basis.

Agency Response: The Department concurs with this finding. A protocol has been established to ensure cost neutrality of predominantly WIC vendors by the 10th of each month for the prior month. In addition, an update to the access database to allow the history of predominantly WIC vendors' status to be captured has been completed.

9. INADEQUATE CONTROL OVER USER ACCESS TO THE AID TO COUNTY REIMBURSEMENT SYSTEM

We identified deficiencies in the Department's oversight and management of employee access to the Aid to County (ATC) reimbursement system used by the Division of Public Health. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.

ATC is a web-based system for financial authorization, reporting and reimbursement to each local health department for each authorized activity.

Our sample of 40 users included six users that did not have authorization documentation on file to support individuals' access to the ATC system. In addition, we identified three users that had multiple levels of access within the system. Further review of their status indicated that all three should not have had the granted access levels. In addition, documentation was not available to support the most recent periodic reviews of user access performed at the state or local level as required by statewide and departmental policy.

Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as periodic documented reviews of users' rights.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Federal Award Information: This finding affects grants #5NC700705, #5NC720705, and #5NC810705.

Recommendation: The Department should enhance its procedures for documenting security access privileges for its financial reimbursement system. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Agency Response: The Department concurs with this finding. The Division of Public Health will coordinate with the Division of Information Resource Management and work internally to develop a more efficient and secure process regarding the access of the Aid-to-County Reimbursement System. Procedures will be established to assure we have proper internal controls regarding the process to be implemented and are in compliance with ITS guidelines. Deficiencies in authorization documentation identified by the auditor will be reviewed and appropriate documentation will be secured.

CFDA 10.558 - CHILD AND ADULT CARE FOOD PROGRAM

10. CORRECTIVE ACTION PLANS NOT OBTAINED FOR SUBRECIPIENTS

The Department did not obtain corrective action plans from subrecipients for findings that were identified in agreed-upon procedures engagements in the Child and Adult Care Food program. Unless corrective action plans are obtained and reviewed, the Department cannot be sure that the subrecipients fully understand the deficiencies identified or know that measures are being taken to address the deficiencies.

Four of the 40 subrecipient files examined had an agreed-upon procedures engagement with deficiencies identified. None of the four files had a corrective action plan from the subrecipient.

Title 7 CFR section 226.6 requires that the state agency must maintain documentation of supervisory assistance activities, including reviews conducted, corrective actions prescribed, and follow-up efforts.

Federal Award Information: This finding affects federal funding periods October 2005 through September 2008 for grant award 5NC300300.

Recommendation: The Department should require subrecipients to submit corrective action plans for deficiencies identified as a result of agreed-upon procedures engagements or other monitoring efforts.

Agency Response: The Department concurs with the finding. The Child and Adult Care Food program (CACFP) audit staff developed and implemented procedures to obtain corrective action plans for agreed upon procedures audit findings within thirty days after

AUDIT FINDINGS AND RESPONSES (CONTINUED)

the audit report has been issued to the subrecipient. The audit staff conducts follow up reviews to ensure the corrective actions have been implemented by the subrecipient. Once CACFP staff are satisfied that the findings have been corrected, a Close Out Letter for the audit is issued. Forms have been developed to ensure proper documentation is kept for findings identified by the CACFP audit staff.

CFDA 84.126 – REHABILITATION SERVICES – VOCATIONAL REHABILITATION GRANTS TO STATES

11. REHABILITATION SERVICES – VOCATIONAL REHABILITATION GRANTS TO STATES PROGRAM CLAIMS WERE NOT PROPERLY PAID

The Department erroneously paid claims in the Rehabilitation Services – Vocational Rehabilitation Grants to States program, resulting in a total net overpayment of \$22,501. Consequently, we are questioning costs for the federal share of the costs in the amount of \$17,706.

Both the Division of Vocational Rehabilitation (DVR) and the Division of Services for the Blind (DSB) administer the Rehabilitation Services – Vocational Rehabilitation Grants to States program. An examination of 240 client files identified errors for 33 claims. Examples of the error types noted included using the incorrect methodology or pricing for the claim, keying errors by department personnel, using the incorrect Diagnosis Related Grouping (DRG) or hospital rates for pricing the claim, or claims paid without proper documentation.

In addition, we noted weaknesses in the Department's controls over the development of the Individualized Plan for Employment (IPE). One client's IPE did not include the services that were provided to the client and another client's IPE was not signed.

Department policies require the adherence to Medicaid policies and various medical manuals for the payment of claims. Section 5-3-3 of the DVR internal policies manual requires that services to be provided to reach an employment outcome must be reported on an IPE in the client's case file.

Federal Award Information: This finding affects grants #H126A070049 and #H126A080049 at the Division of Vocational Rehabilitation and grants #H126A070050 and #H126A080050 at the Division of Services for the Blind.

Recommendation: The Department should strengthen internal controls to ensure that all claims are properly documented, processed, and paid. Rate changes should be obtained in a timely manner and properly incorporated into the Divisions' payment procedures. Payment calculations should be updated regularly in accordance with Medicaid payment methodology. The Divisions should perform an analysis to determine the total impact of the errors and require reimbursement from providers for overpayments.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Agency Response: The Department concurs with the finding. An analysis of the errors has been performed to determine the impact to the Department and adjustments have been initiated for all of the items noted by the auditors. In all of the cases where an overpayment occurred, the payee has been contacted and a refund has been requested. In addition, all adjustment payments to providers have been made. The deficiencies noted by the auditors are due in part to human error. Continual training, monitoring, and evaluation of staff performance will continue. The Department will continue to strengthen internal controls to ensure that all claims are properly documented, processed, and paid.

The Department acknowledges human error in not getting the IPE for the client of the Division of Services for the Blind signed by the consumer. The client will be contacted in order to secure the signature on the plan. This is viewed as an isolated occurrence as the agency's regular Quality Assurance activities have not noted this as an area of deficiency. For one Division of Vocational Rehabilitation client the IPE did not include the services that were provided to the client. The amount paid for services for this client totaled \$450. The federal share of \$354 will be reclassified to State only funds and the services will be added to the IPE.

The Division of Vocational Rehabilitation Services will continue to work and foster communication with the Division of Medical Assistance to ensure that all reimbursement rates are received and implemented in a timely manner. The Division is currently investigating an opportunity that would allow it to enter into a contract with First Data Bank. First Data Bank, the vendor that contracts with EDS (Medicaid's fiscal intermediary), supplies the pharmaceutical rate file from which Medicaid claims are priced and paid. The Division will enlist the Division of Information Resources Management to assist in the evaluation of system requirements to allow rates to be uploaded into the existing computer system.

12. DEFICIENCIES IN THE DOCUMENTATION OF CLIENT ELIGIBILITY

There were deficiencies related to the documentation of client eligibility in the Rehabilitation Services – Vocational Rehabilitation Grants to States program. As a result, there is an increased risk of noncompliance related to client eligibility for this federal program.

Our examination of 240 client files identified documentation deficiencies in seven case files. Required forms for extending client eligibility were not obtained in a timely manner for five clients. Documentation supporting an individual's financial status was missing for two client files. All identified deficiencies occurred at the Division of Vocational Rehabilitation.

Title 34 CFR section 361.41 and division policies require that the eligibility extension forms be filed if eligibility cannot be determined within 60 days and that proper documentation be maintained to support the clients' financial status.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Federal Award Information: This finding affects grants #H126A070049 and #H126A080049 at the Division of Vocational Rehabilitation.

Recommendation: The Department should strengthen internal controls to ensure that all applicable eligibility forms are obtained when required and that financial needs forms are completed and documented before cost services are provided in accordance with the requirements specified in federal regulations.

Agency Response: The Department agrees with the findings regarding eligibility documentation, financial needs testing, lack of adequate documentation, and timeliness of the eligibility determination. The Department is enhancing its monitoring for eligibility determination, providing training on the uses of the error reports that enable managers to monitor cases approaching the 60 day limit and the financial needs test and adding an automated edit and/or reminder in the case management system to ensure accurate completion of the financial needs test form prior to expenditure of funds.

13. CONTROL WEAKNESSES OVER FIXED ASSET INVENTORY

Deficiencies were noted in the Department's control procedures over fixed assets resulting in an increased risk that assets will not be properly maintained or safeguarded.

The year-end fixed assets inventory for the Division of Services for the Blind warehouse identified 67 missing assets. Follow-up procedures identified that the warehouse personnel were not completing appropriate documentation to support the missing items or to properly account for those items on the departmental fixed asset listing as maintained by the Department Controller's office.

Federal guidelines provide that the Department properly account for, safeguard, and maintain fixed asset items acquired with federal funds.

Federal Award Information: This finding affects grants #H126A070050 and #H126A080050 at the Division of Services for the Blind.

Recommendation: The Department should enhance its procedures related to the accounting for fixed asset inventory items to ensure that assets are safeguarded and proper documentation should be maintained to support changes to the fixed asset master listing.

Agency Response: The Department acknowledges weaknesses in control over fixed assets inventory that began with the absence of the staff primarily responsible for this task. Over the past several months, the Department has made a concerted effort to locate and document items on the list of 67 cited by the auditor. As of February 20, 2009, all items except for two have been accounted for and efforts will continue to determine the disposition of those two. The Department recognized the need for and developed a back-up system that can be easily used by others in the absence of the one primarily

AUDIT FINDINGS AND RESPONSES (CONTINUED)

responsible for this function. In addition, we are enlisting the help of our field staff in keeping track of fixed assets and making them aware of the consequences of not properly documenting equipment moves.

93.558 – TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

14. DEFICIENCIES IN COUNTY ELIGIBILITY DETERMINATION PROCESS - TEMPORARY ASSISTANCE FOR NEEDY FAMILIES PROGRAM

We identified a number of deficiencies in the county eligibility determination process for participants in the Temporary Assistance for Needy Families (TANF) program. We believe that total questioned costs in the population are likely to exceed \$10,000.

North Carolina grants TANF funds to the counties as part of the Work First County Block Grant. Each county is responsible for ensuring that only eligible families are approved for Work First.

We examined a sample of 125 case files selected from five counties and found eligibility determination deficiencies in 20 cases. Examples of the deficiencies noted included insufficient documentation to support the completion of the online verification process, incorrect budget calculation for the benefit determination, and inadequate documentation to support such items as proof of household composition, kinship verification, or additional income sources.

Oftentimes, caseworkers are involved in completing all aspects of the eligibility determination process without oversight or independent checks of their work. On the other hand, some counties have a quality control function that includes checking case files on a sample basis. This type of independent verification procedure reduces the risk of error in the eligibility determinations.

Federal Award Information: This finding affects grants #G0702NCTANF and #G0802NCTANF.

Recommendation: The Department should enhance its monitoring and training activities for county intake personnel to ensure internal control is in place to ensure proper eligibility determinations for the TANF program. Follow-up procedures should be performed to verify corrective action takes place for the identified cases.

Agency Response: The 20 cases found with deficiencies are currently being reviewed by the Work First Representative (WFR) for the respective counties involved to ensure that corrective action has taken place. WFRs will monitor each internal control for the identified counties to ensure that a process is in place to perform second-party reviews and conduct any identified policy training to prevent future errors. WFRs will test a random sample of case records for all county agencies at each on-site consultation. This

AUDIT FINDINGS AND RESPONSES (CONTINUED)

will ensure that case records contain verifications needed to determine eligibility and that each case record meets all Work First policy requirements.

15. INADEQUATE CONTROL OVER USER ACCESS TO ELIGIBILITY COMPUTER SYSTEMS

We identified deficiencies in the Department's oversight and management of employee access to certain eligibility computer systems. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.

We found access control deficiencies for the Eligibility Information System (EIS), Enterprise Program Integrity Control System (EPICS), and the Employment Program Information System (EPIS). EIS collects and maintains eligibility information on multiple programs and assists counties with case management. EPICS provides for the reporting of fraud and/or overpayments for significant programs for investigation at the county level. EPIS collects and maintains employment information on Work First recipients used by the counties for case management and by the State for the evaluation and reporting of federally required work participation data.

Separate tests were performed for each system for those users with update access levels. Adequate documentation of the authorization level was not on file for 40 of 40 EIS users, 39 of 40 EPICS users, and 38 of 40 EPIS users. Documentation errors included incomplete or missing requests, requests that were not properly certified by the user's security officer, or user privileges that were not supported by the requests on file. In addition, we determined that periodic reviews of user access for these systems have not been performed as required by statewide and departmental policy.

Maintaining proper access controls over computer systems helps protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.

Federal Award Information: This finding affects grants #G0702NCTANF and #G0802NCTANF.

Recommendation: The Department should continue to enhance its prescribed procedures for documenting security access privileges for its eligibility computer systems. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Agency Response: The Department of Health and Human Services concurs with the finding. The Divisions of Information Resource Management, Social Services, and Medical Assistance staff are in the process of working with members of county administration offices to ensure individuals with need to access the Eligibility

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Information System are properly documented according to State and Department standards and policies ensuring that an authorization form is on file, authorization is requested through Customer Service and access is periodically reviewed. The Department will ensure that its staff with access to the Eligibility Information System are properly documented ensuring that an authorization form is on file, authorization is requested through Customer Service and access is periodically reviewed. Deficiencies in authorization documentation identified by the auditor will be reviewed and appropriate documentation will be secured.

16. INADEQUATE CONTROL OVER USER ACCESS TO THE COUNTY ADMINISTRATION REIMBURSEMENT SYSTEM

We identified deficiencies in the Department's oversight and management of employee access to the County Administration Reimbursement System (CARS). Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.

CARS processes payments for administrative and service costs for various grants, including TANF, as well as tracks county expenditures by program.

Of our sample of 36 identified users, we noted 22 users that did not have authorization documentation on file to support individuals' access to the CARS system and two requests that were not properly certified by the user's security officer. In addition, we determined that periodic reviews of user access for these systems have not been performed as required by statewide and departmental policy.

Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.

Federal Award Information: This finding affects grants #G0702NCTANF and #G0802NCTANF.

Recommendation: The Department should continue to enhance its prescribed procedures for documenting security access privileges for its financial computer systems. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Agency Response: The North Carolina Division of Social Services Information Security Manual Version 1.0 was effective June 1, 2007. The manual clearly outlines the responsibilities for the establishment, modification or termination of the authorization access to the automated systems owned by the Department of Health and Human Services. Security reviews of State systems users will be performed two times per year.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

During these reviews, program management staff will review the current listing of authorized users, as provided by the Division of Information Resource Management, to ensure access is restricted to employees whose job duties require such access.

The reports used to validate system access will be modified to also show county users. It will be mandated that the county Security Officer review these reports, available via the NCXPTR system, and take appropriate action. This policy will be added to the Security Manual at the next issuance. The Division is also in the process of implementing appropriate Security Access Privilege Requirements within the County Self Assessment for county staff to document and certify that the required periodic review has been conducted according to policy outlined in the Security Manual. Deficiencies in authorization documentation identified by the auditor will be reviewed and appropriate documentation will be secured.

17. DEFICIENCIES IN CASH MANAGEMENT PROCEDURES

The Department did not have adequate controls in place to ensure that drawdowns for TANF were processed in accordance with state and federal guidelines.

The Treasury-State agreement requires that the State request funds such that they are deposited in a state account not more than three days prior to the actual disbursement of those funds. Our review of deposit and disbursement transactions for significant federal grants within the Division of Social Services identified instances where deposited funds were not disbursed in a timely manner. For TANF, those deposits totaled \$29.6 million.

Federal Award Information: This finding affects grants #G0702NCTANF and #G0802NCTANF.

Recommendation: The Department should strengthen internal controls to ensure that drawdowns are made in compliance with state policies and the Treasury-State Agreement.

Agency Response: The Department concurs in principle with this finding. Adequate controls are in place to ensure compliance with cash management regulations. Federal funds for a particular month must be drawn by the last business day of that month and, due to various timing issues with month-end processing and the releasing of funds, it is not possible to process disbursements to local county entities within the 3-day window. The Department will continue to be cognizant of the Federal requirements for cash disbursements and work within those timeframes. Also, the Department will be seeking guidance from our cognizant Federal agency on a possible waiver/exception due to the conflict between the timing of the drawing of federal funds and the disbursements to local county entities.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

93.563 – CHILD SUPPORT ENFORCEMENT

18. APPROPRIATE ACTION NOT TAKEN IN CHILD SUPPORT CASES

The Department did not take appropriate action in the established time periods for its child support cases. These failures exceeded the 25% error rate used by the federal government to determine substantial compliance with child support requirements.

Weaknesses identified in the Department's system of managing and bringing enforcement actions included (our testwork was performed for all open cases in the data warehouse):

- Federal regulations require the Department to establish paternity and support obligations for all IV-D cases that require this type of action. We found that 41% of open cases were not in compliance with this requirement.
- Federal regulations require the Department to provide the appropriate child support services needed for interstate cases (cases in which the child and custodial parent live in one state and the responsible relative lives in another state). We found that 28% of open cases were not in compliance with this requirement.

Federal regulations require child support agencies to maintain an effective system of monitoring compliance with support obligations. Regulations require that within 90 days of locating an absent parent, the Department must establish an order for support, establish paternity, or document unsuccessful attempts to achieve the same. Federal regulations also require actions to be taken on interstate cases in specified timeframes, including referring cases to other states within 20 calendar days of locating an absent parent in the other states and providing services necessary as a responding state.

Federal Award Information: This finding affects grants #G0704-NC4004 and G0804-NC4004.

Recommendation: The Department performs self-assessments to review its compliance with applicable federal guidelines. Management should continue to evaluate and enhance its internal control procedures to ensure compliance with federal child support processing requirements.

Agency Response: The Department will continue to perform self-assessments monthly to review each local office's compliance with federal guidelines and to identify cases that need specific action. Field staff will continue to review monthly self-assessment reports with local office supervisors and request that appropriate casework be completed. Additionally, field staff will continue to work with each local office to develop annual Corrective Action Plans (CAP) for incentive categories and self-assessment categories in which federal standards were not met. They will monitor the local office CAPs closely and submit quarterly monitoring reports to the Child Support Program Assistant Chief for Local Operations. The Division is in the process of implementing appropriate

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Security Access Privilege Requirements within the County Self Assessment for county staff.

19. INADEQUATE CONTROL OVER USER ACCESS TO THE AUTOMATED COLLECTION TRACKING SYSTEM (ACTS)

We identified deficiencies in the Department's oversight and management of employee access to the Automated Collection Tracking System (ACTS). Improper access to computer systems can result in both intentional and unintentional security breaches.

ACTS provides for child support case initiation, case management, distribution of child support payments, collection of overpayments, and case tracking and enforcement actions.

Documentation to support user authorization levels was not available for three of the 40 tested system users. Established procedures for granting access for all users were not being consistently followed and periodic reviews were not being performed to verify proper user authorizations as required by statewide and departmental policy.

Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.

Federal Award Information: This finding affects grants #G0704-NC4004 and G0804-NC4004.

Recommendation: The Department should enhance its prescribed procedures for documenting security access privileges for ACTS. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Agency Response: The Department agrees with the finding. The IRAAF form was submitted June 5, 2008, to the DIRM Help Desk to revoke the RACF ID for the DIRM on-call ID worker. The ID was also deleted from the ACTS worker profile table. Appropriate documentation was secured for the Enforcement Agent on June 5, 2008, and for the Child Support Agent II on June 16, 2008.

Child Support Enforcement is following Departmental security policies. A change in the oversight and management of employee access to ACTS was implemented in April 2008. Beginning with the April-June 2008 quarter, a review and certification of ACTS users is required of all ACTS supervisors. The review and certification process is monitored by the Central Office Security Officer. A query report in the Client Services Data Warehouse is used for this purpose. The Security Officer sends an email to the

AUDIT FINDINGS AND RESPONSES (CONTINUED)

supervisors of all ACTS users approximately two (2) weeks prior to the due date of each quarterly certification. Receipt of the report certifying users is tracked using an Excel spreadsheet. The Security Officer sends a reminder email message to supervisors who do not submit the report within 30 days of the due date. If the report is more than 30 days late, all users reporting to that supervisor are subject to immediate revocation.

A new worker profile form is required of all users annually. New forms were secured for all ACTS users in July 2008. The Central Office Security Officer sends an email message to ACTS supervisors approximately two (2) weeks prior to the due date. Receipt of the new forms is tracked using an Excel spreadsheet. The Security Officer sends a reminder email message to supervisors who do not submit the new forms within 30 days of the due date. If new forms are not received within 30 days of the due date, the users are subject to immediate revocation.

The Division is in process of implementing appropriate Security Access Privilege Requirements within the County Self Assessment for county staff.

20. INADEQUATE CONTROL OVER USER ACCESS TO THE COUNTY ADMINISTRATION REIMBURSEMENT SYSTEM

We identified deficiencies in the Department's oversight and management of employee access to the County Administration Reimbursement System (CARS). Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.

CARS processes payments for administrative and service costs for various grants including Child Support Enforcement as well as tracks county expenditures by program.

Of our sample of 36 identified users, we noted 22 users that did not have authorization documentation on file to support individuals' access to the CARS system and two requests that were not properly certified by the user's security officer. In addition, it was determined that periodic reviews of user access for these systems have not been performed as required by statewide and departmental policy.

Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.

Federal Award Information: This finding affects grants #G0704-NC4004 and G0804-NC4004.

Recommendation: The Department should continue to enhance its prescribed procedures for documenting security access privileges for its eligibility computer systems. Periodic

AUDIT FINDINGS AND RESPONSES (CONTINUED)

security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Agency Response: The North Carolina Division of Social Services Information Security Manual Version 1.0 was effective June 1, 2007. The manual outlines the responsibilities for the establishment, modification or termination of the authorization access to the automated systems owned by the Department of Health and Human Services. Security reviews of State systems users will be performed two times per year. During these reviews, program management staff will review the current listing of authorized users, as provided by the Division of Information Resource Management, to ensure access is restricted to employees whose job duties require such access.

The reports used to validate system access will be modified to also show county users. It will be mandated that the county Security Officers review these reports, available via the NCXPTR system, and take appropriate action. This policy will be added to the Security Manual at the next issuance. The Division is also in the process of implementing appropriate Security Access Privilege Requirements within the County Self Assessment for county staff to document and certify that the required periodic review has been conducted according to policy outlined in the Security Manual. Deficiencies in authorization documentation identified by the auditor will be reviewed and appropriate documentation will be secured.

21. DEFICIENCIES IN CASH MANAGEMENT PROCEDURES

The Department did not have adequate controls in place to ensure that drawdowns for Child Support Enforcement were processed in accordance with state and federal guidelines.

The Treasury-State agreement requires that the State request funds such that they are deposited in a state account not more than three days prior to the actual disbursement of those funds. Our review of deposit and disbursement transactions for significant federal grants within the Division of Social Services identified instances where deposited funds were not disbursed in a timely manner. For Child Support Enforcement, those deposits totaled \$12.4 million.

Federal Award Information: This finding affects grants #G0704-NC4004 and G0804-NC4004.

Recommendation: The Department should strengthen internal controls to ensure that drawdowns are made in compliance with state policies and the Treasury-State Agreement.

Agency Response: The Department concurs in principle with this finding. Adequate controls are in place to ensure compliance with cash management regulations. Federal

AUDIT FINDINGS AND RESPONSES (CONTINUED)

funds for a particular month must be drawn by the last business day of that month and, due to various timing issues with month-end processing and the releasing of funds, it is not possible to process disbursements to local county entities within the 3-day window. The Department will continue to be cognizant of the Federal requirements for cash disbursements and work within those timeframes. Also, the Department will be seeking guidance from our cognizant Federal agency on a possible waiver/exception due to the conflict between the timing of the drawing of federal funds and the disbursements to local county entities.

93.568 – LOW-INCOME HOME ENERGY ASSISTANCE

22. INADEQUATE CONTROL OVER USER ACCESS TO THE COUNTY ADMINISTRATION REIMBURSEMENT SYSTEM

We identified deficiencies in the Department's oversight and management of employee access to the County Administration Reimbursement System (CARS). Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.

CARS processes payments for administrative and service costs for various grants, including Low-Income Home Energy Assistance, as well as tracks county expenditures by program.

Of our sample of 36 identified users, we noted 22 users that did not have authorization documentation on file to support individuals' access to the CARS system and two requests that were not properly certified by the user's security officer. In addition, it was determined that periodic reviews of user access for these systems have not been performed as required by statewide and departmental policy.

Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.

Federal Award Information: This finding affects grants #G07B1NCLIEA and #G08B1NCLIEA.

Recommendation: The Department should continue to enhance its prescribed procedures for documenting security access privileges for its financial computer systems. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Agency Response: The North Carolina Division of Social Services Information Security Manual Version 1.0 was effective June 1, 2007. The manual clearly outlines the

AUDIT FINDINGS AND RESPONSES (CONTINUED)

responsibilities for the establishment, modification or termination of the authorization access to the automated systems owned by the Department of Health and Human Services. Security reviews of State systems users will be performed two times per year. During these reviews, program management staff will review the current listing of authorized users, as provided by the Division of Information Resource Management, to ensure access is restricted to employees whose job duties require such access.

The reports used to validate system access will be modified to also show county users. It will be mandated that the county Security Officer review these reports, available via the NCXPTR system, and take appropriate action. This policy will be added to the Security Manual at the next issuance. The Division is also in the process of implementing appropriate Security Access Privilege Requirements within the County Self Assessment for county staff to document and certify that the required periodic review has been conducted according to policy outlined in the Security Manual. Deficiencies in authorization documentation identified by the auditor will be reviewed and appropriate documentation will be secured.

23. DEFICIENCIES IN CASH MANAGEMENT PROCEDURES

The Department did not have adequate controls in place to ensure that drawdowns for Low-Income Home Energy Assistance were processed in accordance with state and federal guidelines.

Regulation 31 CFR part 205.33 (Subpart B) requires that the State must minimize the time between the drawdown of federal funds and the actual disbursement of those funds for federal purposes. Our review of deposit and disbursement transactions for significant federal grants within the Division of Social Services identified instances where deposited funds were not disbursed in a timely manner. For Low-Income Home Energy Assistance, those deposits totaled \$2.3 million.

Federal Award Information: This finding affects grants #G07B1NCLIEA and #G08B1NCLIEA.

Recommendation: The Department should strengthen internal controls to ensure that drawdowns are made in compliance with state policies and federal regulations.

Agency Response: The Department concurs in principle with this finding. Adequate controls are in place to ensure compliance with cash management regulations. Federal funds for a particular month must be drawn by the last business day of that month and, due to various timing issues with month-end processing and the releasing of funds, it is not possible to process disbursements to local county entities within the 3-day window. The Department will continue to be cognizant of the Federal requirements for cash disbursements and work within those timeframes. Also, the Department will be seeking guidance from our cognizant Federal agency on a possible waiver/exception due to the

AUDIT FINDINGS AND RESPONSES (CONTINUED)

conflict between the timing of the drawing of federal funds and the disbursements to local county entities.

CFDA 93.658 – FOSTER CARE – TITLE IV-E

24. INSUFFICIENT MONITORING EFFORTS FOR THE FOSTER CARE PROGRAM

The Department's monitoring procedures for the Foster Care - Title IV-E program were insufficient to ensure that county staff properly performed eligibility determinations or re-determinations. This increases the risk that Title IV-E reimbursements could be made on behalf of ineligible participants.

Deficiencies in the documentation of monitoring activities were noted with eight of our 20 sample counties reviewed. Examples of the deficiencies noted included instances where the monitoring tool was incomplete, the accuracy of the tool was questionable based on additional known information, the licensing information for the facility or institution was inaccurate, or the review period was not in accordance with the monitoring plan requirements. The program compliance monitor failed to accurately complete the monitoring tool in compliance with the Department established monitoring plan.

The Department's monitoring plan states that the program compliance monitors are responsible for monitoring Title IV-E eligibility determination and maintenance payment re-determination processes. The plan also defines the monitoring period subject to review.

Federal Award Information: This finding affects grants #0701NC1401 and #0101NC1401.

Recommendation: The Department should enhance its monitoring efforts for the Title IV-E eligibility determination and re-determination procedures performed at the local county level. Monitoring tools should be complete and accurate to support the Department's efforts.

Agency Response: The Department concurs with the finding. The Department has provided the monitors with more staff training and access to The Child Placement and Payment Systems, and the Foster Care Facility Licensing Systems to ensure adequate eligibility determination verification. The Children Program Representatives (CPR's) have implemented a procedure by which each child entering foster care is screened for IV-E eligibility, which should assist in improving eligibility determination for the local counties.

Regarding the recommendation that the monitoring tool should be complete and accurate to support monitoring efforts, internal procedures have been revised to require periodic review of the monitoring work papers by the Monitoring Supervisor. In addition to the

AUDIT FINDINGS AND RESPONSES (CONTINUED)

revised internal procedures, the importance of following established procedures and completing the monitoring tools entirely and accurately was conveyed to staff responsible for the deficiencies in a memorandum dated February 11, 2009.

25. INADEQUATE CONTROL OVER USER ACCESS TO THE FOSTER CARE FINANCIAL SYSTEMS

We identified deficiencies in the Department's oversight and management of employee access to the Child Placement and Payment System (CPPS) and the Foster Care Facility Licensing System (FCFLS). Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.

The CPPS is used to track children and make payments for services provided by vendors and local county departments of social services. The FCFLS is used to collect information related to the licensing of foster homes, issuance of licenses, and maintaining home/facility information used in the child placement payment process.

One employee was identified as having unnecessary access to change data within the two financial systems without procedures in place to provide review and monitoring of those potential changes.

Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.

Federal Award Information: This finding affects grants #0701NC1401 and #0101NC1401.

Recommendation: The Department should review its policies and procedures for program changes made to the application software for the foster care financial systems. The CPPS and FCFLS applications should be maintained whereby it is possible to track and monitor changes to the applications software.

Agency Response: The North Carolina Division of Social Services Information Security Manual Version 1.0 was effective June 1, 2007. The manual clearly outlines the responsibilities for the establishment, modification or termination of the authorization access to the automated systems owned by the Department of Health and Human Services. Security reviews of State systems users will be performed two times per year. During these reviews, program management staff will review the current listing of authorized users, as provided by the Division of Information Resource Management, to ensure access is restricted to employees whose job duties require such access.

The reports used to validate system access will be modified to also show county users. It will be mandated that the county Security Officer review these reports, available via the NCXPTR system, and take appropriate action. This policy will be added to the Security

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Manual at the next issuance. The Division is also in the process of implementing appropriate Security Access Privilege Requirements within the County Self Assessment for county staff to document and certify that the required periodic review has been conducted according to policy outlined in the Security Manual. Deficiencies in authorization documentation identified by the auditor will be reviewed and appropriate documentation will be secured.

26. INADEQUATE CONTROL OVER USER ACCESS TO THE COUNTY ADMINISTRATION REIMBURSEMENT SYSTEM

We identified deficiencies in the Department's oversight and management of employee access to the County Administration Reimbursement System (CARS). Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.

CARS processes payments for administrative and service costs for various grants, including Foster Care – Title IV-E, as well as tracks county expenditures by program.

Of our sample of 36 identified users, we noted 22 users that did not have authorization documentation on file to support individuals' access to the CARS system and two requests that were not properly certified by the user's security officer. In addition, it was determined that periodic reviews of user access for these systems have not been performed as required by statewide and departmental policy.

Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.

Federal Award Information: This finding affects grants #0701NC1401 and #0101NC1401.

Recommendation: The Department should continue to enhance its prescribed procedures for documenting security access privileges for its eligibility computer systems. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Agency Response: The North Carolina Division of Social Services Information Security Manual Version 1.0 was effective June 1, 2007. The manual clearly outlines the responsibilities for the establishment, modification or termination of the authorization access to the automated systems owned by the Department of Health and Human Services. Security reviews of State systems users will be performed two times per year. During these reviews, program management staff will review the current listing of

AUDIT FINDINGS AND RESPONSES (CONTINUED)

authorized users, as provided by the Division of Information Resource Management, to ensure access is restricted to employees whose job duties require such access.

The reports used to validate system access will be modified to also show county users. It will be mandated that the county Security Officer review these reports, available via the NCXPTR system, and take appropriate action. This policy will be added to the Security Manual at the next issuance. The Division is also in the process of implementing appropriate Security Access Privilege Requirements within the County Self Assessment for county staff to document and certify that the required periodic review has been conducted according to policy outlined in the Security Manual. Deficiencies in authorization documentation identified by the auditor will be reviewed and appropriate documentation will be secured.

27. DEFICIENCIES IN CASH MANAGEMENT PROCEDURES

The Department did not have adequate controls in place to ensure that drawdowns for Foster Care – Title IV-E were processed in accordance with state and federal guidelines.

The Treasury-State agreement requires that the State request funds such that they are deposited in a state account not more than three days prior to the actual disbursement of those funds. Our review of deposit and disbursement transactions for significant federal grants within the Division of Social Services identified instances where deposited funds were not disbursed in a timely manner. For Foster Care – Title IV-E, those deposits totaled \$14.3 million.

Federal Award Information: This finding affects grants #0701NC1401 and #0101NC1401.

Recommendation: The Department should strengthen internal controls to ensure that drawdowns are made in compliance with state policies and the Treasury-State Agreement.

Agency Response: The Department concurs in principle with this finding. Adequate controls are in place to ensure compliance with cash management regulations. Federal funds for a particular month must be drawn by the last business day of that month and, due to various timing issues with month-end processing and the releasing of funds, it is not possible to process disbursements to local county entities within the 3-day window. The Department will continue to be cognizant of the Federal requirements for cash disbursements and work within those timeframes. Also, the Department will be seeking guidance from our cognizant Federal agency on a possible waiver/exception due to the conflict between the timing of the drawing of federal funds and the disbursements to local county entities.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

CFDA 93.659 – ADOPTION ASSISTANCE – TITLE IV-E

28. IMPROVEMENTS NEEDED WITH ADOPTION ASSISTANCE - TITLE IV-E MONITORING EFFORTS

The Department's monitoring procedures for the Adoption Assistance - Title IV-E program need improvement to provide assurances that benefit payments are not made on behalf of ineligible participants.

We identified deficiencies in the documentation of monitoring efforts. For two of our sample eight counties, we noted where planned test cases were replaced without an explanation for the changes. Variances existed between the actual case files documented as tested and those reported in the final monitoring reports. In addition, the Department was not sufficiently tracking its monitoring results to ensure that appropriate corrective action was taking place for identified errors.

Monitoring activities provide the Department with reasonable assurance that federal compliance requirements are identified and adhered to by subrecipients and appropriate corrective actions occur.

Federal Award Information: This finding affects grants #0701NC1407 and #0801NC1407.

Recommendation: The Department should enhance its monitoring efforts to ensure adjustments to the planned monitoring activities and follow-up on corrective actions are properly documented.

Agency Response: The Division has revised its monitoring plan to include a corrective action plan, a payment adjustment referral form, and more guidance on the selection of oversample cases. The monitors will forward monitoring findings to the Local Business Liaisons for the recoupment and the Children Program Representatives for the development of the corrective action plans.

29. DEFICIENCIES IN COUNTY ELIGIBILITY DETERMINATION PROCESS - ADOPTION ASSISTANCE PROGRAM

Title IV-E Adoption Assistance payments were made to 16 ineligible children resulting in questioned costs of \$54,411 for the fiscal year ended June 30, 2008. In addition, we noted three cases where documentation was incomplete increasing the risk that noncompliance could occur.

In North Carolina, each county is responsible for ensuring that only eligible participants are approved for the Adoption Assistance program.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

We examined a sample of 125 case files selected from five counties and found eligibility determination deficiencies in 19 cases. Examples of the deficiencies noted included the adoption assistance agreement dated after the formal adoption decree, child was actually Title IV-B eligible versus Title IV-E eligible, or the child met only the eligibility requirements for state adoption assistance payments.

Federal regulations specify the eligibility requirements related to the timing of the adoption decree and the use of Title IV-E funding.

Federal Award Information: This finding affects grants #0701NC1407 and #0801NC1407.

Recommendation: The Department should enhance its monitoring and training activities for county intake personnel to ensure proper eligibility determination for Title IV-E funding. Follow-up procedures should be performed to verify corrective action takes place for the identified cases.

Agency Response: The Division has provided IV-E training to Division staff and will provide similar training to the county agencies. Training will include clarification of policy, revised forms, and a model court report. The Division expects training to be an ongoing improvement process. The deficiencies will be forwarded to the Local Business Liaisons for any recoupment and to the Children Program Representatives for the development of the corrective action plans.

30. INADEQUATE CONTROL OVER USER ACCESS TO THE ADOPTION ASSISTANCE FINANCIAL SYSTEM

We identified deficiencies in the Department's oversight and management of employee access to the Child Placement and Payment System (CPPS). Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.

The CPPS is used to track children and make payments for services provided by vendors and local county departments of social services.

One employee was identified as having unnecessary access to change data within the CPPS financial system without procedures in place to provide review and monitoring of those potential changes.

Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.

Federal Award Information: This finding affects grants #0701NC1407 and #0801NC1407.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Recommendation: The Department should review its policies and procedures for program changes made to the application software for the adoption assistance financial system. The CPPS application should be maintained whereby it is possible to track and monitor changes to the application software.

Agency Response: The North Carolina Division of Social Services Information Security Manual Version 1.0 was effective June 1, 2007. The manual outlines the responsibilities for the establishment, modification or termination of the authorization access to the automated systems owned by the Department of Health and Human Services. Security reviews of State systems users will be performed two times per year. During these reviews, program management staff will review the current listing of authorized users, as provided by the Division of Information Resource Management, to ensure access is restricted to employees whose job duties require such access.

The reports used to validate system access will be modified to also show county users. It will be mandated that the county Security Officer review these reports, available via the NCXPTR system, and take appropriate action. This policy will be added to the Security Manual at the next issuance. The Division is also in the process of implementing appropriate Security Access Privilege Requirements within the County Self Assessment for county staff to document and certify that the required periodic review has been conducted according to policy outlined in the Security Manual. Deficiencies in authorization documentation identified by the auditor will be reviewed and appropriate documentation will be secured.

31. INADEQUATE CONTROL OVER USER ACCESS TO THE COUNTY ADMINISTRATION REIMBURSEMENT SYSTEM

We identified deficiencies in the Department's oversight and management of employee access to the County Administration Reimbursement System (CARS). Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.

The CARS processes payments for administrative and service costs for various grants, including Adoption Assistance - Title IV-E, as well as tracks county expenditures by program.

Of our sample of 36 identified users, we noted 22 users that did not have authorization documentation on file to support individuals' access to the CARS system and two requests that were not properly certified by the user's security officer. In addition, it was determined that periodic reviews of user access for these systems have not been performed as required by statewide and departmental policy.

Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or

AUDIT FINDINGS AND RESPONSES (CONTINUED)

loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.

Federal Award Information: This finding affects grants #0701NC1407 and #0801NC1407.

Recommendation: The Department should continue to enhance its prescribed procedures for documenting security access privileges for its eligibility computer systems. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Agency Response: The North Carolina Division of Social Services Information Security Manual Version 1.0 was effective June 1, 2007. The manual outlines the responsibilities for the establishment, modification or termination of the authorization access to the automated systems owned by the Department of Health and Human Services. Security reviews of State systems users will be performed two times per year. During these reviews, program management staff will review the current listing of authorized users, as provided by the Division of Information Resource Management, to ensure access is restricted to employees whose job duties require such access.

The reports used to validate system access will be modified to also show county users. It will be mandated that the county Security Officer review these reports, available via the NCXPTR system, and take appropriate action. This policy will be added to the Security Manual at the next issuance. The Division is also in the process of implementing appropriate Security Access Privilege Requirements within the County Self Assessment for county staff to document and certify that the required periodic review has been conducted according to policy outlined in the Security Manual. Deficiencies in authorization documentation identified by the auditor will be reviewed and appropriate documentation will be secured.

CFDA 93.667 – SOCIAL SERVICES BLOCK GRANT

32. DEFICIENCIES IN THE SOCIAL SERVICES BLOCK GRANT MONITORING PROCEDURES

We identified deficiencies in the Department's monitoring procedures for the Social Services Block Grant (SSBG) program. As a result, there was an increased risk of noncompliance with federal requirements as payments could be made to ineligible participants.

The Division's monitoring activities were not conducted consistently in accordance with the established monitoring plan. We noted instances where the monitoring tool was not completed sufficiently to support compliance with the eligibility requirements for reimbursement from SSBG funds. Errors noted with the monitoring tool included:

AUDIT FINDINGS AND RESPONSES (CONTINUED)

- Insufficient evidence to support the determination that either the parent or child was eligible for Temporary Assistance for Needy Families (TANF) funding, which is a requirement for SSBG funding.
- Children incorrectly identified as being placed in a non-licensed foster care facility when documentation indicated that placement was in a licensed facility. A child in a non-licensed facility is not eligible for the TANF transfer to SSBG funds.
- Children incorrectly listed as not being Title IV-E eligible when payment information identifying the child as Title IV-E eligible. Children eligible for Title IV-E reimbursement are not eligible for TANF transfer to SSBG funds.
- Children were noted as being ineligible during a portion of the review period; however, no error was documented on the final report.

We also noted that appropriate follow-up procedures were not being performed to ensure that appropriate adjustments were being made to the financial records for identified errors.

The guidelines for monitoring activities are established in SSBG regulations as well as the Department's monitoring plan. The plan identifies those monitoring activities to be performed and the necessary documentation standards for adherence to that plan. Monitoring activities include reviewing the eligibility determination process including the child and family income requirements applicable to TANF recipients that are reimbursed from SSBG fund transfers.

Federal Award Information: This finding affects grants #G0701NCSOSR and #G0801NCSOSR.

Recommendation: The Department should enhance its monitoring procedures to ensure the appropriate use of SSBG funds, particularly related to transfers of funds from the TANF grant. Additional training would provide guidance to monitors for completion of the monitoring tool to document the procedures performed.

Agency Response: To enhance the SSBG monitoring procedures, the Division has provided the Child Welfare monitors inquiry access to the State licensing system (FCFLS), the payment system (CPPS), and services information system (SIS). The inquiry access to the systems will allow monitors to verify the source of payment and verify the licensure status to determine eligibility. The SSBG tool is under review for revisions and training is scheduled for March 2009. Follow up procedures now include a payment adjustment referral form and corrective action plan form that have been added to the plan for the Local Business Liaisons and the Children Program Representatives to complete with the county according to the monitoring plan.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

33. INADEQUATE CONTROL OVER USER ACCESS TO THE COUNTY ADMINISTRATION REIMBURSEMENT SYSTEM

We identified deficiencies in the Department's oversight and management of employee access to the County Administration Reimbursement System (CARS). Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.

CARS processes payments for administrative and service costs for various grants including Social Services Block Grant as well as tracks county expenditures by program.

Of our sample of 36 identified users, we noted 22 users that did not have authorization documentation on file to support individuals' access to the CARS system and two requests that were not properly certified by the user's security officer. In addition, it was determined that periodic reviews of user access for these systems have not been performed as required by statewide and departmental policy.

Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.

Federal Award Information: This finding affects grants #G0701NCSOSR and #G0801NCSOSR.

Recommendation: The Department should continue to enhance its prescribed procedures for documenting security access privileges for its eligibility computer systems. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Agency Response: The North Carolina Division of Social Services Information Security Manual Version 1.0 was effective June 1, 2007. The manual clearly outlines the responsibilities for the establishment, modification or termination of the authorization access to the automated systems owned by the Department of Health and Human Services. Security reviews of State systems users will be performed two times per year. During these reviews, program management staff will review the current listing of authorized users, as provided by the Division of Information Resource Management, to ensure access is restricted to employees whose job duties require such access.

The reports used to validate system access will be modified to also show county users. It will be mandated that the county Security Officer review these reports, available via the NCXPTR system, and take appropriate action. This policy will be added to the Security Manual at the next issuance. The Division is also in the process of implementing appropriate Security Access Privilege Requirements within the County Self Assessment for county staff to document and certify that the required periodic review has been

AUDIT FINDINGS AND RESPONSES (CONTINUED)

conducted according to policy outlined in the Security Manual. Deficiencies in authorization documentation identified by the auditor will be reviewed and appropriate documentation will be secured.

CFDA# 93.767 – STATE CHILDREN’S INSURANCE PROGRAM

34. DEFICIENCIES IN COUNTY ELIGIBILITY DETERMINATION PROCESS - STATE CHILDREN’S INSURANCE PROGRAM

We identified a number of deficiencies in the county eligibility determination process for participants of the State Children’s Insurance Program (NC Health Choice). We believe that total questioned costs in the population are likely to exceed \$10,000.

In North Carolina, each county is responsible for ensuring that only eligible participants are approved for NC Health Choice.

We examined a sample of 125 case files selected from five local counties and found eligibility determination deficiencies in 12 cases. Examples of the deficiencies noted included insufficient documentation of the individual’s financial status, evidence of the completion of the online verification process was missing or not available, and the failure to document the applicant’s state residency requirement. We determined that one participant was ineligible for NC Health Choice and should have been determined to be Medicaid eligible.

Federal regulations for the State Children’s Insurance Program establish income requirements that should be considered when determining eligibility. Other key criteria that are required to be verified in determining NC Health Choice eligibility include North Carolina residency and completion of the on-line verification.

Federal Award Information: This finding affects grants #05-0705NC5021 and #05-0805NC5021.

Recommendation: The Department should enhance its monitoring and training activities for county intake personnel to ensure internal control is in place to ensure proper eligibility determinations for NC Health Choice. Follow-up procedures should be performed to verify corrective action takes place for the identified cases.

Agency Response: The Department concurs with the Finding. Corrective Action will continue to ensure that county intake personnel are adequately trained to prevent ineligible participation in the NC Health Choice program. The documentation will be referred to the Medicaid Program Representatives for the five counties in question to verify corrective action is taken on the questioned cases.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

35. INADEQUATE CONTROL OVER USER ACCESS TO THE ELIGIBILITY COMPUTER SYSTEM

We identified deficiencies in the Department's oversight and management of employee access to the eligibility computer system. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.

We found access control deficiencies for the Eligibility Information System (EIS). EIS collects and maintains eligibility information on various programs, including the State Children's Insurance Program, and assists counties with case management.

In our test of those users with update access levels, we identified that adequate documentation of the authorization level was not on file for 40 of 40 EIS users. Documentation errors included incomplete or missing requests, requests that were not properly certified by the user's security officer, or user privileges that were not supported by the requests on file. In addition, it was determined that periodic reviews of user access for these systems have not been performed as required by statewide and departmental policy.

Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.

Federal Award Information: This finding affects grants #05-0705NC5021 and #05-0805NC5021.

Recommendation: The Department should continue to enhance its prescribed procedures for documenting security access privileges for its eligibility computer systems. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Agency Response: The Department of Health and Human Services concurs with the finding. The Divisions of Information Resource Management, Social Services, and Medical Assistance staff are in the process of working with members of county administration offices to ensure individuals with need to access the Eligibility Information System are properly documented according to State and Department standards and policies, i.e., an authorization form is on file, authorization is requested through Customer Service and access is periodically reviewed. The Department will ensure that its staff with access to the Eligibility Information System are properly documented, i.e., an authorization form is on file, authorization is requested through Customer Service and access is periodically reviewed. Deficiencies in authorization documentation identified by the auditor will be reviewed and appropriate action documentation will be secured.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

MED – MEDICAID CLUSTER

36. DEFICIENCIES IN MEDICAID PROVIDER BILLING AND PAYMENT SYSTEM

We examined a sample of 270 Medicaid claims and found 38 erroneous or insufficiently documented payments, resulting in a net overpayment of \$59,294. Consequently, we are questioning \$38,047, which represents the federal share of the overpayments.

Examples of the deficiencies noted included insufficient or missing documentation in support of the services rendered, improper coding based on the medical records, services not found to be medically necessary, or the failure to timely recoup charges subject to retroactive rate adjustments. The majority of the errors related to the medical record documentation to support services provided and the charges incurred.

OMB Circular A-87 requires allowable costs to be adequately documented and program costs to be necessary and reasonable for proper and efficient administration of the grant program. Title 42 CFR section 431.107 and State Regulation 10 NCAC 26G.0107 require that medical records disclose the extent of services provided to Medicaid recipients.

Federal Award Information: This finding affects multiple open grants.

Recommendation: The Department should continue to enhance its control procedures to ensure the accuracy of the claims payment process. Management should ensure that payment edits and/or audits are working appropriately; that system changes are properly implemented; that providers are educated on the proper coding and documentation for medical services being provided; and that over or underpaid claims are identified and appropriate collection or payment procedures are performed.

Agency Response: The Department concurs with the finding that 38 of 270 claims contained erroneous or insufficiently documented payments. The Division of Medical Assistance's Program Integrity staff continues to conduct reviews, investigations, and recoups as part of the Division's overall compliance efforts. Corrective action will be taken to address the 38 erroneous or insufficiently documented payments.

37. DEFICIENCIES IN CONTROLS OVER THE PROVIDER ELIGIBILITY ENROLLMENT PROCESS

The Department failed to acquire and maintain all required information necessary to document the eligibility determination of provider-applicants. This increases the risk that ineligible providers may have been enrolled and participating in the Medicaid program.

Our sample of 40 in-state providers identified six providers' files that were missing required documentation or evidence of supervisory approval. Existing providers were not required to periodically re-enroll, thereby providing an opportunity to detect changes

AUDIT FINDINGS AND RESPONSES (CONTINUED)

in eligibility status. In addition, other than for physicians and practitioners, criminal background checks were not conducted for providers prior to enrollment. The lack of adequate internal control policies and procedures increases the risk that improper payments will be made to ineligible providers or that appropriate action may not be taken by the Division of Medical Assistance to recoup payments made in error.

Similar deficiencies have been reported in prior year audits, and the Division of Medical Assistance's Provider Services section has been working to implement changes to bring the system into compliance with the applicable criteria. Provider Services updated several of its enrollment packages to include new enrollment applications that address the disclosure requirements. As part of the development of the new Medicaid Management Information System, providers will be re-enrolled and periodic re-enrollment or re-verification of credentials will be established to detect changes in eligibility status.

Federal Award Information: This finding affects multiple open grants.

Recommendation: The Department should continue with its efforts to improve and implement adequate internal controls over the provider enrollment process to ensure that only eligible medical providers are allowed participation in the Medicaid program.

Agency Response: DHHS awarded a contract to Computer Sciences Corporation (CSC) to develop and implement a replacement Medicaid Management Information System (MMIS) in support of healthcare administration for multiple DHHS agencies. Early implementation of provider Enrollment, Verification and Credentialing (EVC) and related activities will be assumed by CSC in late April 2009. The EVC process requires that the fiscal agent perform imaging of all provider documents, contracts, agreements and attachments which are retrievable by State and fiscal agent staff. The fiscal agent will verify and credential all existing providers within the first year and thereafter complete re-credentialing procedures every three (3) years on all providers whose data indicates expiration of any license, accreditation, certification, or other authorizing agencies. At the direction of the State, the fiscal agent will implement suspension or termination action for providers whose licenses have been revoked or suspended by State licensing or accrediting bodies.

38. DEFICIENCIES IN COUNTY ELIGIBILITY DETERMINATION PROCESS - MEDICAID PROGRAM

We identified deficiencies in the county eligibility determination process for participants of the Medicaid program. We believe that total questioned costs in the population are likely to exceed \$10,000.

In North Carolina, each county is responsible for ensuring that only eligible participants are approved for the Medicaid program. We examined a sample of 125 case files selected from five counties and found eligibility determination deficiencies in 16 cases. Examples of the types of errors noted included insufficient documentation of the

AUDIT FINDINGS AND RESPONSES (CONTINUED)

applicant's financial status, documentation not available to support the completion of the online verification process, missing applicant transportation forms, or missing documentation to support the applicant's citizenship.

Federal regulations for the Medicaid program specify three types of resources that should be considered when determining eligibility – real property, personal property, and liquid assets – that must be verified during the intake process and compared to established criteria. In addition, several other key criteria such as North Carolina residency and U.S. citizenship also are required to be verified in determining Medicaid eligibility.

Federal Award Information: This finding affects multiple open grants.

Recommendation: The Department should enhance its monitoring and training activities for county intake personnel to ensure proper determination for the Medicaid program. Follow-up procedures should be performed to verify corrective action takes place for the identified cases.

Agency Response: The Department concurs with the finding. Corrective action is being implemented to ensure that county intake personnel are sufficiently trained in order to prevent ineligible provider participation in the Medicaid Program. The documentation for the findings will be referred to the Medicaid Program Representatives for the five counties in question to verify corrective action is taken on the questioned cases.

39. DEFICIENCIES IN THE MEDICAID PROGRAM PROCUREMENT PROCESSES

We identified deficiencies in the Department's procurement processes for contracted services within the Medicaid program. As a result, there is an increased risk of noncompliance that could result in the disallowance of costs and the payback of federal funds.

The Division of Medical Assistance (DMA) procured personal and/or consulting services totaling \$3 million from four temporary employment service agencies without entering into formal contractual agreements. Division officials believe that contractual agreements were not required because the services being provided were considered to be personal services, which met one of the exemptions provided for in the Department of Administration Purchase and Contract guidelines. However, the exemption may not apply when using an employment service rather than hiring an individual directly. Furthermore, entering into a formal contract ensures that there is no misunderstanding about the terms of the agreement.

In addition, we reviewed a sample of five current year contractual agreements. A control procedure exists to identify the availability of funds for contractual services; however, contract documentation for four of our five sample items indicated that funds were not available and yet the contracts were processed. These same four contracts were missing documentation that evidences the establishment of the contractor in the accounting

AUDIT FINDINGS AND RESPONSES (CONTINUED)

system for the receipt of payments. Subsequently, budget revisions were prepared to fund the \$268,000 contracted amounts.

Per federal guidelines, DMA's procurement of services using federal funds should follow state policies and procedures for procurement with non-federal funds. Departmental policy provides that funds be available to meet contractual obligations.

Federal Award Information: This finding affects multiple open grants.

Recommendation: The Department should improve its control procedures for the procurement of contractual services to ensure compliance with applicable state and federal purchasing and contracting requirements. Contracting staff should adhere to controls for determining the availability of funds.

Agency Response: The Department agrees that it should improve its control procedures for the procurement of contractual services.

The Department employs a substantial number of temporary employees. Through the various legislative sessions, the Department has sought permanent employee positions but sufficient positions have not been provided; thus the need for temporary employees. As indicated in the Performance Audit completed by the Office of the State Auditor that was published in January 2009, the Department seeks guidance and would be willing to participate in a work group with the Department of Administration in formulating a standard request for proposal that will become the basis for statewide temporary staffing contracts. It would be difficult for this task to be accomplished at the Department level and would not ensure the entire State was operating under the same parameters. We agree change is needed in this process and will eagerly implement the process based on statewide guidance being provided.

The Division of Medical Assistance will be implementing new procedures to ensure the appropriate funding is in place and to ensure documents are in the contract files. The Division has been working with the Department and the Office of State Budget and Management on the issues of funding contracts within the legislative latitude of using all the funding within the Division's budget available to sufficiently fund needed contracts. Also, we will change the process by which the contracts are entered into NCAS so that the Division has this as a part of its process and can ensure the documentation is appropriately in the files.

40. LONG-TERM CARE FACILITY AUDITS NOT COMPLETED TIMELY

Long-term care facility audits were not completed in the timeframes prescribed by the Medicaid program state plan. As a result, the Department is not in compliance with the state plan and could experience delays in the recoupment of federal funds.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Our tests identified that 39 of 486 long-term care facility audits were not completed within the timeframes established by the state plan. The most significant errors were noted with the Intermediate Care Facilities for the Mentally Retarded where 37 of a total of 52 facility audits were deficient. The audit had not been performed timely for 25 facilities, and the Notice of Program Reimbursement (NPR) had not been completed timely for all 37 of those facilities.

Per state plan 4.19-D guidelines, cost reports are to be desk audited and NPRs issued in accordance to specifications of the plan. Settlements of those cost reports are also to be completed within established timeframes.

Federal Award Information: This finding affects multiple open grants.

Recommendation: The Department should improve its control procedures to ensure all long-term care facilities are audited in compliance with the state plan.

Agency Response: Of 434 nursing facility audits, only two were not completed on time. The Department does not dispute this finding. The delay on ICF-MR audits was a known decision by DMA Management, specifically to preclude double payment or overpayment of the providers. The NC General Assembly authorized an inflationary increase effective 1/1/2007. This increase was divided among multiple provider groups, of which ICF-MRs were one. The decision for which providers received how much of the \$12 million had a retroactive effect, such that claims already paid for dates of service January 1, 2007 through June, 30, 2007 needed to be recouped and repaid. Since ICF-MRs are cost settled, DMA Audit had to wait until this recoup/repay was complete; failing to wait until this recoup repay was complete would result in paying the inflationary increase to ICF-MRs twice - once through the recoup/repay and a second time through cost settlement. Therefore, the delay in audits actually prevented an overpayment to providers.

41. DEFICIENCIES IN CASH MANAGEMENT PROCEDURES FOR THE MEDICAID PROGRAM

The Department did not draw down Medicaid funds in accordance with state and federal requirements. The Treasury-State agreement requires that the State request funds such that they are deposited in a state account not more than three days prior to the actual disbursement of those funds.

Our review of deposit and disbursement transactions for the Medicaid program within the Division of Medical Assistance identified instances where deposited funds were not disbursed in a timely manner, resulting in excessive cash balances. Instances were identified throughout the year with the most significant being \$135 million. Excessive balances may result in an interest liability due to the federal government.

Federal Award Information: This finding affects multiple open grants.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Recommendation: The Department should strengthen internal controls to ensure that drawdowns are made in compliance with state policies and the Treasury-State Agreement.

Agency Response: The Department concurs that at points in time during a month that the federal cash balances would appear to be over-drawn or under-drawn based on the methodology of using estimates for the draws and the timing of running cost allocation to determine the federal share of expenditures. The drawdown methodology of using estimates and the process for determining the estimates are explained in our agency procedure #GA008 and are also included in the Treasury State Agreement (TSA). We are continuing to monitor federal cash balances as closely as we can. We are also considering approaching EDS, the Medicaid fiscal intermediary, to ask them to change their check write dates next year in order to be able to draw funds based on actual expenditures rather than estimates.

42. FAILURE TO TERMINATE USER ACCESS FOR THE MEDICAID MANAGEMENT INFORMATION SYSTEM AND DEPARTMENT NETWORK

We identified deficiencies in the Department's oversight and management of employee access to the Medicaid Management Information System (MMIS). Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.

MMIS is the claims processing system for the Medicaid program, which also supports coordination of benefits, surveillance and utilization review, federal and management reporting, and case management.

We identified one employee as having access to MMIS despite separation from the Department. In addition, eight separated employees' network user accounts within the Division of Medical Assistance had not been disabled. In addition, periodic reviews of MMIS user access have not been performed. Current policy is that upon employee separation, the employee's supervisor is to notify the security administrator and access is to be terminated.

Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights and immediate termination of user access upon leaving employment.

Federal Award Information: This finding affects multiple grants.

Recommendation: The Department should enhance its procedures for documenting security access privileges for MMIS and the Division of Medical Assistance network. Terminated employees' access rights should be immediately revoked to prevent

AUDIT FINDINGS AND RESPONSES (CONTINUED)

improper access to Medicaid program data systems and periodic reviews should be performed as to user access.

Agency Response: The Department agrees that it should enhance its procedures for terminating user access rights when there are changes in employment status. The Department will review its current procedures to validate user access for MMIS and the Division of Medical Assistance network.

43. INADEQUATE CONTROL OVER USER ACCESS TO THE ELIGIBILITY COMPUTER SYSTEM

We identified deficiencies in the Department's oversight and management of employee access to the eligibility computer system. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.

We found access control deficiencies for the Eligibility Information System (EIS). EIS collects and maintains eligibility information on various programs, including the Medicaid program, and assists counties with case management.

In our test of those users with update access levels, we identified that adequate documentation of the authorization level was not on file for 40 of 40 EIS users. Documentation errors included incomplete or missing requests, requests that were not properly certified by the user's security officer, or user privileges that were not supported by the requests on file. In addition, it was determined that periodic reviews of user access for these systems have not been performed as required by statewide and departmental policy.

Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.

Federal Award Information: This finding affects multiple grants.

Recommendation: The Department should continue to enhance its prescribed procedures for documenting security access privileges for its eligibility computer systems. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Agency Response: The Department of Health and Human Services concurs with the finding. The Divisions of Information Resource Management, Social Services, and Medical Assistance staff are in the process of working with members of county administration offices to ensure individuals with need to access the Eligibility Information System are properly documented according to State and Department

AUDIT FINDINGS AND RESPONSES (CONTINUED)

standards and policies, i.e., an authorization form is on file, authorization is requested through Customer Service and access is periodically reviewed. The Department will ensure that its staff with access to the Eligibility Information System are properly documented, i.e., an authorization form is on file, authorization is requested through Customer Service and access is periodically reviewed. Deficiencies in authorization documentation identified by the auditor will be reviewed and appropriate action documentation will be secured.

CFDA 93.917 – HIV CARE FORMULA GRANTS

44. DEFICIENCIES IN THE HIV CARE FORMULA GRANTS PROGRAM PROCUREMENT PROCESSES

We identified deficiencies in the Department's procurement processes for contracted services within the HIV Care Formula Grants program. As a result, there is an increased risk of noncompliance that could result in the disallowance of costs and the payback of federal funds.

The Division of Public Health (DPH) procured personal services totaling \$56,000 from two temporary employment service agencies without entering into formal contractual agreements. Contractual agreements did not exist as the services being provided were considered to be personal services, which met one of the exemptions provided for in the Department of Administration Purchase and Contract guidelines. However, the exemption may not apply when using an employment service rather than hiring an individual directly. Furthermore, entering into a formal contract ensures that there is no misunderstanding about the terms of the agreement. In addition, the payments were for two temporary employees whose contracted employment exceeded a period longer than one year.

Per federal guidelines, DPH's procurement of services using federal funds should follow the same state policies and procedures for procurement with non-federal funds. The state personnel manual provides that temporary employment be considered a limited term, but in no case shall the temporary employment period exceed twelve consecutive months.

Federal Award Information: This finding affects grants #2X07HA00051-17 and #2X08HA00051-18.

Recommendation: The Department should improve its control procedures for the procurement of contractual services to ensure compliance with applicable state and federal purchasing and contracting requirements.

Agency Response: The Department acknowledges that the employment of the temporary employees in question had exceeded the twelve consecutive month limit and will take action to rectify the situation and prevent recurrence.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

45. DEFICIENCIES IN THE ELIGIBILITY DETERMINATION PROCESS – HIV CARE FORMULA GRANTS

We identified deficiencies in the eligibility determination process for participants of the HIV Care Formula Grants program. As a result, there is an increased risk of noncompliance with federal regulations that could result in allowing ineligible applicants to receive benefits. We believe that total questioned costs in the population are likely to exceed \$10,000.

While performing data analysis and testing of case files, we identified deficiencies in the eligibility determination process including:

- a. The Department was able to provide a participation eligibility data file only as of the real-time date, not for the period under review. Errors were noted in correlating the provided data file and the actual data in the online eligibility system.
- b. The eligibility determination system does not deny an applicant if the diagnosis is incorrect or the applicant does not meet the state residency requirement, both key parameters for applicant eligibility.
- c. A quality control system does not exist to prevent data entry errors. We identified instances where information was either not properly entered into the system or was incorrectly entered into the system.
- d. The program manual does not sufficiently address all relevant eligibility determination procedures and requirements.
- e. Documentation is not maintained to support financial eligibility. Reliance is placed on interviewers/physicians in the field for ensuring the accuracy of application financial information. The Department verifies Medicaid eligibility for an applicant; however, a review of eligibility for other assistance programs is not performed.
- f. Our sample of 40 case files identified deficiencies including: one case file could not be located, one participant's state residency was not verified, seven cases had miskeyed data into the eligibility system, and one participant failed to reapply for the program before the established deadline. It appears that in the latter case, the required reapplication deadline was not enforced for several other participants as well.

Federal and state regulations for the HIV program specify eligibility requirements including key criteria such as North Carolina residency and income documentation.

Federal Award Information: This finding affects grants #2X07HA00051-17 and #2X08HA00051-18.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Recommendation: The Department should enhance its eligibility determination processes to ensure proper documentation and verification of critical requirements of the HIV program.

Agency Response: The administrative rules of Chapter 45, Subchapter 45A, do not dictate that eligibility personnel verify and/or obtain documentation of income and/or residency from applicants to the AIDS Drug Assistance Program. However, management meetings within the Department are warranted to determine if federal and/or state regulations serve as controlling law and should supersede administrative rules and/or if any other actions, including revision of administrative rules, may be necessary regarding the reviewer's findings and recommendations. Furthermore, management meetings will be conducted to determine whether there is a need to develop more effective and appropriate administrative procedures and internal controls for all Purchase of Medical Care Services programs, including AIDS Drug Assistance.

46. NONCOMPLIANCE WITH PERIOD OF AVAILABILITY REQUIREMENTS FOR THE HIV CARE FORMULA GRANTS PROGRAM

The Department failed to comply with the period of availability requirements related to the HIV Care Formula Grants program. Title 42 CFR 92.23(b) requires the liquidation of obligations incurred under an award not later than 90 days after the end of the funding period.

The 2006 federal fiscal year (FFY) HIV grant should have been closed as of June 30, 2007. We noted that the Department expended \$1.5 million beyond the 90-day liquidation period for the grant. It appears that the Department was operating under a presumptive 15-month liquidation period due to regulations allowing for the adjustment of the grant final reporting within that same timeframe.

Federal Award Information: This finding affects grants #2X07HA00051-17 and #2X08HA00051-18.

Recommendation: The Department should make appropriate adjustments to its accounting records to ensure expenditures are accounted for in the proper period. Federal reporting to the oversight agency should reflect those adjustments.

Agency Response: The Auditor is correct in the assumption that the Department was operating under a presumptive 15-month liquidation period due to regulations allowing for the adjustment of the grant final reporting within that same timeframe for the FFY 2006 grant mentioned above. The Financial Status Report for FFY 2006 was submitted as "not final" and accepted by the federal agency. The Department no longer operates under that presumption, but has modified its reporting procedures to comply with CFR 92.23 for grants after FFY 2006. This regulation indicates that the Department should request that the deadline for the Financial Status Report be extended.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

47. NONCOMPLIANCE WITH MAINTENANCE OF EFFORT REQUIREMENT FOR THE HIV CARE FORMULA GRANTS PROGRAM

The Department failed to comply with the maintenance of effort requirement related to the HIV Care Formula Grants program. Federal requirements provide that the State will maintain HIV-related activities at a level that is not less than the level of expenditures for the proceeding one-year period.

The Department's calculation of the maintenance of effort requirement is incorrect, as it was based on the state fiscal year instead of the federal fiscal year expended amounts. As such, our recalculations identified a failure to meet the requirement by \$3.6 million.

Federal Award Information: This finding affects grants #2X07HA00051-17 and #2X08HA00051-18.

Recommendation: The Department should implement procedures to ensure compliance with the HIV Care Formula Grants program maintenance of effort requirements, including the filing of amended federal reports as necessary.

Agency Response: The Department has compensating controls in place to track maintenance of effort by both state and federal fiscal years to identify possible shortfalls. We believe these controls are operating effectively to prevent shortfalls.

Our accounting records indicate that \$3.6 million less was spent during FFY 2007 than was spent during FFY 2006. However, the Department requested and was given written authorization from HRSA allowing the Department to use liquidations of FFY 2007 obligations paid during the first quarter of FFY 2008 to cover the shortfall. The Department can provide the written authorization and the accounting records to the federal agency, upon request, to support our assertion that the maintenance of effort requirement was met. In addition, the Department spends State funds for HIV-related activities that can be captured in the calculation of maintenance of effort that was not reviewed by the Auditor.

Auditor Comment: The Department concurs that the accounting records indicate a shortfall of \$3.6 million, which is the basis of the finding. As indicated in the finding below, the Department's methodology for tracking state expenditures needs improvement to ensure compliance with both maintenance of effort and matching requirements.

48. DEFICIENCIES IN THE CALCULATION OF THE MATCH REQUIREMENT FOR THE HIV CARE FORMULA GRANTS PROGRAM

We identified deficiencies in the methodology used by the Department in the calculation of the match requirement related to the HIV Care Formula Grants program. As a result,

AUDIT FINDINGS AND RESPONSES (CONTINUED)

there is an increased risk of noncompliance that could result in the disallowance of costs and the payback of federal funds.

The Department identifies its matching state expenditures using one reporting code; however, there are multiple open HIV grants at any one time. State expenditures are grouped and not identified as matching expenditures for any one particular federal fiscal year. Therefore, it is difficult to determine if specific state expenditures have previously been reported as match for other open federal grants. This error directly affects the Department's reporting on the Financial Status Reports (SF-269). We were unable to agree the state match amount reported on the SF-269 to the supporting accounting records. The state match amount reported on the SF-269 is a calculated amount based on the Department's current methodology.

Federal guidelines establish both the state matching requirement and the financial administrative requirements necessary for verifying those reported amounts.

Federal Award Information: This finding affects grants #2X07HA00051-17 and #2X08HA00051-18.

Recommendation: The Department should implement procedures to ensure compliance with the HIV Care Formula Grants matching requirements. Amounts reported should be supporting by the accounting records.

Agency Response: The Department concurs with the finding. Although eligible matching expenditures were incurred during the grant periods open for each federal year, it was not clearly identifiable by budget period in the North Carolina Accounting System (NCAS). The Department will meet to determine the most efficient method for reporting match.

CFDA 93.959 – BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE

49. MONITORING PROCEDURES NEED TO BE IMPROVED FOR THE BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE PROGRAM

We identified deficiencies in the monitoring procedures for the Block Grants for Prevention and Treatment of Substance Abuse program. As a result, there was an increased risk of noncompliance with federal requirements by subrecipients.

The Department is responsible for monitoring the Local Management Entities (LMEs) and non-governmental units providing the program services. Our review of monitoring procedures identified the following deficiencies:

- Monitoring activities had a historical perspective, focused primarily on prior year versus current year grant activities.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

- Monitoring tools used in the annual system review process did not address all critical compliance requirements as identified in the state compliance supplement.
- Documentation of monitoring activities for submitted financial status reports was not available. Reliance is placed on subrecipients' certification as to the allowability of activities performed and costs incurred for program activities.

Federal and state guidelines require the monitoring of current year subrecipient activities to provide reasonable assurance that subrecipients comply with applicable laws and regulations.

Federal Award Information: This finding affects grant numbers #06B1NCSAPT-1 and #07B1NCSAPT-07.

Recommendation: The Department should enhance its procedures to ensure that sufficient documentation is maintained to support its monitoring efforts. Consideration should be given to the development of comprehensive policies that address all aspects of the monitoring efforts, from the initial plan, the expected outcomes, and the directives to be provided through the state compliance supplement.

Agency Response: The Department understands and supports the important role that monitoring has in program management. The Department has initiated corrective measures to review, monitor and record activities that will assure proper programmatic and fiscal monitoring of compliance requirements for Substance Abuse Prevention and Treatment Block Grant funds.

50. MONITORING PROCEDURES FAILED TO DOCUMENT COMPLIANCE WITH INDEPENDENT PEER REVIEW REQUIREMENT

The Department has not sufficiently documented its compliance with the independent peer review requirement for the Block Grants for Prevention and Treatment of Substance Abuse program. As a result, there was an increased risk of noncompliance with federal requirements by the Department and its subrecipients.

Federal guidelines state that independent peer reviews of service providers must be performed to assess the quality, appropriateness, and efficacy of treatment services provided to individuals. At least five percent of the entities providing services in the State shall be reviewed annually and the entities being reviewed must be representative of the entities providing the services.

The Department was unable to provide a complete population of entities providing treatment services or a comprehensive listing of treatment services provided under the grant such that we could determine if the independent peer requirement had been met. The Department's current policy is to select one type of treatment program and perform peer reviews of at least five percent of that particular service. There is no summary

AUDIT FINDINGS AND RESPONSES (CONTINUED)

information, such as an independent peer review plan, that identifies the population of providers to be reviewed, the methodology for their selection, or total providers monitored to meet the percentage requirement.

Federal Award Information: This finding affects grant numbers #06B1NCSAPT-1 and #07B1NCSAPT-07.

Recommendation: The Department should take appropriate action to ensure that an overall provider monitoring plan is developed to ensure compliance with the independent peer review requirement.

Agency Response: The Department implemented corrective measures to develop an enhanced Independent Peer Review Plan. The plan involves developing a process to determine the number and types of representative substance abuse treatment entities to be selected for review. The selection process will incorporate a report developed through the Integrated Payment and Reporting System to obtain a 5% representative sample of service providers of treatment programs. The Department will use this information as a part of the monitoring activities that will assure proper programmatic and fiscal monitoring of compliance requirements for the Substance Abuse Prevention and Treatment Block Grant funds.

51. NONCOMPLIANCE WITH EARMARKING REQUIREMENTS FOR THE BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE PROGRAM

The Department did not comply with the primary prevention earmarking requirements related to the Block Grants for Prevention and Treatment of Substance Abuse program. CFR 45 Section 96.124(b)(1) requires the expenditure of not less than 20% of program funds for individuals who do not require treatment from substance abuse.

The Department originally reported this noncompliance to its funding agency in June 2008; however, a revised reporting in September 2008 indicated that the earmarking requirement had been met. The revised report included estimated expenditures, particularly personnel costs, that were not supported by sufficient documentation. We were unable to substantiate that the earmarking requirement was met, as actual costs were not determined.

Federal Award Information: This finding affects grant numbers #06B1NCSAPT-1 and #07B1NCSAPT-07.

Recommendation: The Department should establish and implement procedures to ensure compliance with the Block Grants for Prevention and Treatment of Substance Abuse program earmarking requirements.

Agency Response: The Department has initiated corrective measures to monitor service provided activities that will assure proper programmatic and fiscal monitoring of

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

compliance requirements for Substance Abuse Prevention and Treatment Block Grant (SAPTBG) funds. The Department procedures for the earmarking of not less than 20% of the statewide SAPTBG funds will be modified to clearly distinguish activities and/or expenditures provided for prevention and substance abuse services. The contracts for each provider of service will reflect the type of services to be delivered within the State fiscal year.

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