



# STATE OF NORTH CAROLINA

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

**STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES**

**FOR THE YEAR ENDED JUNE 30, 2010**

**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**

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The Honorable Beverly Eaves Perdue, Governor  
Members of the North Carolina General Assembly  
Lanier M. 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, 2010. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Our audit objective was to render an opinion on the State of North Carolina's, 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 OMB Circular A-133, these findings are reported in the State's *Single Audit Report*.

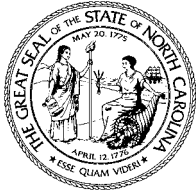
A handwritten signature in black ink that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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Lanier M. 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 could have a direct and material effect on each of its major programs for the year ended June 30, 2010, 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 that could have a direct effect on 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:

SNAP Cluster:

- CFDA 10.551 - Supplemental Nutrition Assistance Program (SNAP)
- CFDA 10.561 - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
- CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
- CFDA 10.558 - Child and Adult Care Food Program

Vocational Rehabilitation Cluster:

- CFDA 84.126 - Rehabilitation Services – Vocational Rehabilitation Grants to States
- CFDA 84.390 - Rehabilitation Services – Vocational Rehabilitation Grants to States, Recovery Act
- CFDA 93.069 – Public Health Emergency Preparedness

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

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Immunization Cluster:

- CFDA 93.268 – Immunization Grants
- CFDA 93.712 – ARRA - Immunization

TANF Cluster:

- CFDA 93.558 - Temporary Assistance for Needy Families
- CFDA 93.714 – ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs
- CFDA 93.716 – ARRA - Temporary Assistance for Needy Families (TANF) Supplemental Grants
- CFDA 93.563 - Child Support Enforcement
- CFDA 93.568 - Low-Income Home Energy Assistance Program

CCDF Cluster:

- CFDA 93.575 - Child Care and Development Block Grant
- CFDA 93.596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund
- CFDA 93.713 – ARRA – Child Care and Development Block Grant
- CFDA 93.658 - Foster Care – Title IV-E
- CFDA 93.659 - Adoption Assistance (Title IV-E)
- CFDA 93.667 - Social Services Block Grant
- CFDA 93.767 - Children’s Health Insurance Program

Medicaid Cluster:

- CFDA 93.776 - Hurricane Katrina Relief
- CFDA 93.778 - Medical Assistance Program (Medicaid)
- CFDA 93.775 - State Medicaid Fraud Control Units
- CFDA 93.777 - State Survey and Certification of Health Care Providers and Suppliers
- CFDA 93.917 - HIV Care Formula Grants

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

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

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 2, 6, 7, 9-12 and 26 in the Audit Findings and Responses section of this report.

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 to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
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over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies, or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we consider the deficiencies described in findings 2, 5-12, 16, 24, 26, and 28 in the Audit Findings and Responses section of this report to be material weaknesses in internal control over compliance, as defined above. Furthermore, we consider the deficiencies described in findings 3, 4, 13-15, 17-23, 25 and 27 in the Audit Findings and Responses section of this report to be significant deficiencies in internal control over compliance, as defined above.

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 25, 2011.

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.

This report is intended solely for the information and use of management, the Secretary, members of the audit committee, others within the entity, the Governor, the General Assembly, 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.



Beth A. Wood, CPA  
State Auditor

March 11, 2011



## AUDIT FINDINGS AND RESPONSES

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### Matters Related to Federal Compliance Objectives

#### SNAP CLUSTER - SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP)

##### 1. IDENTIFIED QUESTIONED COSTS AT THE SUBRECIPIENT LEVEL

Federal monitoring efforts for the Supplemental Nutrition Assistance Program (SNAP) identified expenditures at a subrecipient that were determined to be unallowable costs. As a result, \$11,071 of the total paid to the subrecipient by the Department is considered questioned costs and may require repayment to the federal oversight agency.

The federal USDA Food and Nutrition Services performed a management evaluation review on the State's administration of the Supplemental Nutrition Assistance Program. During the review, it was noted that a subrecipient was reimbursed for activities outside the scope of its approved nutritional education plan. The costs were identified as unallowable costs. The State was to conduct a review by October 1, 2010 of the subrecipient for all 2009 federally reimbursed expenditures to determine a final unallowable amount and make appropriate revisions to its SF-269 financial status report. However, this review had not been performed as of the end of our audit.

Federal regulations provide that the State is accountable for the contents and implementation of the nutrition education plans, making allowable cost decisions, and monitoring to ensure the appropriate expenditure of funds. In addition, the State is fully liable for the repayment of federal funds that are subsequently determined unallowable.

*Federal Award Information:* This finding affects Supplemental Nutrition Assistance Program grant award #5NC400406 for the federal fiscal year ended September 30, 2009.

*Recommendation:* The Department should conduct the review of the subrecipient expenditures as identified in its corrective action plan and make the appropriate adjustments to its financial reporting to account for any unallowable costs.

*DHHS Response:* The Department agrees in part with the finding and recommendation. The federal review of all 2009 federally reimbursed expenditures was conducted and completed by October 1, 2010.

The Nutrition Education/Outreach Coordinator conducted the audit of all Supplemental Nutrition Assistance Program (SNAP)-Education expenditures for the identified health center and the center is being billed to recoup the unallowable cost. These funds will be returned to the USDA for FY 2009 by June 30, 2011.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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

#### 2. DEFICIENCIES IDENTIFIED IN THE MONITORING OF WIC HIGH-RISK VENDORS

The Department's monitoring plan does not sufficiently address high-risk vendors identified in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). As a result, there is an increased risk that the Department may not perform compliance investigations for those vendors determined to have the greatest potential for program noncompliance or loss of funds.

Federal regulations require the Department to conduct compliance investigations for a minimum of five percent of authorized vendors. Additionally, federal regulations require that if the Department determines that more than five percent of authorized vendors are considered high-risk, the Department must prioritize the vendors in order to determine which ones will be subject to compliance investigations.

The Department determined that more than five percent of its authorized vendors were categorized as high-risk; however, it did not clearly identify how the vendors who were subject to compliance investigations were selected, nor did they have a monitoring plan that addressed the prioritization of high-risk vendors. In addition, the Department only conducted 81% (71 of 88) of the required compliance investigations for high-risk vendors.

A similar finding was written in the prior year.

*Federal Award Information:* This finding affects Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) grant award #5NC700705 for the federal fiscal year ended September 30, 2009.

*Recommendation:* The Department should strengthen controls to ensure that high-risk vendors are prioritized for review based on each entity's potential for program noncompliance or loss of funds. The Department's monitoring plan should be adjusted to ensure compliance investigations are completed for all identified high-risk vendors.

*DHHS Response:* The Department concurs with the finding and recommendation. Effective January 13, 2011, the WIC Vendor Unit uses the coefficient of variation (COV) and Mean Report to identify high-risk vendors. A vendor having a coefficient of variation less than 0.1 and/or a mean at or near the Maximum Allowable Price (MAP) is considered a high-risk vendor. The COV report is used as the primary means to identify high-risk vendors and the Mean report is used as a secondary source.

In accordance with federal regulations, the Department must conduct compliance investigations of a minimum of five percent of the number of vendors authorized by the State agency as of October 1st of each fiscal year. The Department must conduct compliance investigations on all high-risk vendors up to the five percent minimum.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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The minimum number of vendors to be investigated during the fiscal year is determined by calculating five percent of the total authorized vendors as of October 1st from the NC WIC Vendor Tracking database.

If fewer than five percent of the authorized vendors have a coefficient of variation of less than 0.1 on the COV report, additional high-risk vendors (up to a total of 5%) are identified using the Mean report. If fewer than five percent of the total authorized vendors are identified as high-risk using the COV and Mean reports, additional vendors are randomly selected for compliance investigation sufficient to meet the five percent requirement. Geographic proximity to high-risk vendors identified for investigation may be considered when randomly selecting additional vendors for investigation. Consideration may also be given to vendors that have not been identified as high-risk on either report, but complaints have been received from the general public, local agencies and/or other vendors. A complete list of all vendors selected is generated, with the reason for selection noted. A monitoring plan that prioritizes high-risk vendors is also maintained. Staff is provided with a schedule, which is based on the high-risk report and monitoring plan. The schedule is re-baselined throughout the year to ensure appropriate follow-up visits are performed in order to establish patterns of violations and close cases.

The Vendor Manager will review reports to ensure compliance with the regulations. These reviews will be documented, signed and recorded.

### 3. WEAKNESSES IN THE MONITORING OF THE CALCULATION OF THE WIC MAXIMUM ALLOWABLE REIMBURSEMENT RATES

The Department is not adequately monitoring the calculation of the maximum allowable reimbursement rates applicable to redeemed food instruments in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program. As a result, there is an increased risk that predominately-WIC vendors (those with more than 50% of annual food sales attributed to WIC transactions) could be receiving a higher reimbursement rate than is allowed by the governing regulations.

The Department must establish competitive price criteria and allowable reimbursement levels for its vendor food instrument redemption system. That process includes establishing the maximum allowable reimbursement rate by food instrument package types. The Department's fiscal agent calculates these rates on a monthly basis; however, the Department did not begin its monitoring procedures of the fiscal agent's calculations until after our audit period. In addition, we noted that those procedures should be enhanced to ensure that the calculation process excludes certain vendors as required by federal regulations. Nonetheless, our tests of a sample of maximum allowable reimbursement rate calculations did not identify any errors despite the lack of adequate monitoring procedures.

A similar finding has been reported for three years.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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*Federal Award Information:* This finding affects Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) federal grant award #5NC700705 for the federal fiscal years ending September 30, 2009 and 2010.

*Recommendation:* The Department should establish monitoring procedures to ensure that sufficient data is obtained from its fiscal agent to verify the correct calculation of the maximum allowable reimbursement rate for redeemed food instruments.

*DHHS Response:* The Department concurs with the finding and recommendation. Effective January 13, 2011, the Division established a procedure to ensure Maximum Allowable Reimbursement (MAR) rates are calculated properly by our banking contractor. Quarterly, one month of data is tested by randomly selecting 5 food instrument (FI) types and having the Division of Information Resource Management (DIRM) generate a report that includes the total count and value of all FIs redeemed, the total count and value of all FIs redeemed by PWVs, and the total count and value of all FIs redeemed by regular vendors. Using the DIRM report, Vendor Unit staff manually calculate the MAR and compare them to the MAR calculations provided by the banking contractor. The Vendor Unit Manager will verify MAR calculations using this procedure and document the review a minimum of one time per quarter.

### VOCATIONAL REHABILITATION CLUSTER

#### 4. CLAIM PAYMENT ERRORS FOR THE REHABILITATION SERVICES - VOCATIONAL REHABILITATION GRANTS TO STATES PROGRAM

The Department made payments on behalf of Rehabilitation Services - Vocational Rehabilitation Grants to States program participants that did not comply with the activities allowed and allowable cost requirements for the program. The Department erroneously made net overpayments totaling \$5,186 resulting in questioned costs of \$4,081, which represents the federal share of the overpayments. We believe that it is likely that questioned costs exceed \$10,000 in the population.

The Department administers the Rehabilitation Services - Vocational Rehabilitation Grants to States program through two divisions - the Division of Vocational Rehabilitation and the Division of Services for the Blind. We examined a sample of 100 client claims across both divisions and identified 14 claims that were paid in error or not sufficiently documented. Examples of the deficiencies noted included payments using the incorrect methodology for payment or pricing, payments that were not net of the client's responsible payments and/or comparable benefits, insufficient or missing documentation in support of the services rendered, and improper payment due to a keying error.

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.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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*Federal Award Information:* The review for the Rehabilitation Services - Vocational Rehabilitation Grants to States program claims included federal grant awards #H126A100049, #H126A100050, #H126A090049, and #H126A090050 for the federal fiscal years ending September 30, 2009 and 2010.

*Recommendation:* The Department should continue to enhance its control procedures to improve the accuracy of the claims payment process. All necessary cost service documentation should be completed, retained in client files, and transferred to applicable payment documents prior to submission for payment processing. Payment methodologies should be updated to be consistent with Medicaid or other departmental pricing policies. Identified over or underpaid claims should be followed up for timely and appropriate collection or payment.

*DHHS Response:* The Department concurs with the finding and recommendation. The Department will continue to strengthen internal controls to ensure all claims are properly documented, processed, and paid. The Department will develop and implement statewide training to address the noted deficiencies in determination of financial needs and application of client resources and comparable benefits. The divisions will work with the Division of Medical Assistance to ensure reimbursement rates and methodologies are updated in a timely manner. Additionally, the divisions will follow up on the 14 claims identified by the State Auditors that were incorrectly paid and implement the necessary corrective actions to resolve the errors. The anticipated date of completion for corrective action is October 31, 2011.

### 5. DEFICIENCIES IN 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.

The Department administers the Rehabilitation Services - Vocational Rehabilitation Grants to States program through two divisions - the Division of Vocational Rehabilitation and the Division of Services for the Blind. We examined a sample of 100 client files across both divisions and identified documentation deficiencies in 34 client files. Documentation could not be located in the client files to support:

- The timeliness of eligibility determinations and/or the agreed upon extension of time for making those determinations.
- The actual determination of the client's eligibility.
- The client's financial need assessment.

Federal regulations and division policies require that documentation be maintained to support a client's eligibility determination and also establish timeframes in which the process should be completed.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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*Federal Award Information:* The review for the Rehabilitation Services - Vocational Rehabilitation Grants to States program claims included federal grant awards #H126A100049, #H126A100050, #H126A090049, and #H126A090050 for the federal fiscal years ending September 30, 2009 and 2010.

*Recommendation:* The Department should strengthen internal controls to ensure that all applicable eligibility forms are obtained when required, that financial needs forms are completed and documented before cost services are provided, and that the eligibility determination process occurs within required timeframes.

*DHHS Response:* The Department concurs with the finding and recommendation. The Division of Vocational Rehabilitation (DVR) will revise its applicant eligibility policies to strengthen controls and procedures for managing applicant files to ensure eligibility determination and documentation occurs within required timeframes. The anticipated date by which DVR's corrective action will be completed is October 31, 2011.

The Division of Services for the Blind (DSB) is in the beginning stages of making a rule and policy change for verifying economic needs for vocational rehabilitation cases. This rule change will take several months to implement. The temporary rule change should be completed by July 1, 2011. The anticipated completion date for the full rule change is December 2011.

### CFDA 93.069 – PUBLIC HEALTH EMERGENCY PREPAREDNESS

#### 6. DEFICIENCIES IN SUBRECIPIENT MONITORING PROCEDURES

We identified deficiencies in the Department's monitoring procedures for the Public Health Emergency Preparedness grant. As a result, there is an increased risk that noncompliance at the subrecipient level could occur and not be detected in a timely manner.

The North Carolina Office of Public Health Preparedness and Response is responsible for monitoring subrecipients in the Public Health Emergency Preparedness grant. Our review of monitoring procedures for the program identified the following deficiencies:

- The State compliance supplement has not been updated to reflect changes made in the Public Health Emergency Preparedness governing laws. This omission could result in the Department's failure to identify and review all appropriate compliance requirements during monitoring visits.
- The Department was not following its monitoring plan that required all local health departments to be monitored at least once every three years. Documentation was not available to support that any of our four sample items had been monitored within the three-year timeline.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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- The Department did not have effective procedures in place to ensure subrecipient monitoring occurred in accordance with federal regulations. Tools were not in place to track that monitoring visits took place as planned, ensure that documentation was maintained to support the monitoring processes, and to ensure that corrective action plans were developed and implemented as required.

The Department is responsible for monitoring the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

*Federal Award Information:* This finding affects Public Health Emergency Preparedness grant awards #5U90TP416979-09, #5U90TP416979-10, and #1H75TP000357-01 for the federal fiscal years ending June 30, 2009 and 2010.

*Recommendation:* The Department should strengthen internal control over its subrecipient monitoring for the Public Health Emergency Preparedness grant. Guidelines should be updated to include all current compliance requirements, procedures should be implemented to ensure that subrecipients are monitored in accordance with the established plan and federal regulations, documentation of the monitoring results should be maintained, and corrective action plans for deficiencies found should be obtained.

*DHHS Response:* The Department concurs with the finding and recommendation. The Department will update the Public Health Emergency Preparedness (PHEP)/ Public Health Emergency Response (PHER) grant supplement to reflect the correct coding and all governing laws and regulations and program requirements. The Department will establish a complete three-year monitoring schedule, based on the state fiscal year, for monitoring all local health departments for the SFY 2012, SFY 2013, and SFY 2014. The Department will incorporate all DHHS-Division of Public Health (DPH) subrecipient monitoring tools into the PHEP subrecipient monitoring manual to ensure monitoring visits are planned, documented, and corrective action implemented as required. The anticipated completion date for corrective action is June 30, 2011.

### 7. DEFICIENCIES IN FEDERAL REPORTING PROCEDURES

The Department's controls over federal reporting have not operated effectively to ensure the accuracy of the Public Health Emergency Preparedness grant financial status reports required by federal regulations. As a result, erroneous information has been reported to the federal oversight agency.

The Department submitted an interim financial status report for the H1N1 Phase III funds that overstated the unliquidated obligations amount by \$2.7 million. The independent review of the financial report was not being performed sufficiently to identify and correct the error before the report's final submission.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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*Federal Award Information:* This finding affects Public Health Emergency Preparedness grant award #1H75TP000357-01 for the federal fiscal year ending June 30, 2009.

*Recommendation:* The Department should strengthen internal control to ensure adequate review and verification of the amounts reported on the financial reports for the Public Health Emergency Preparedness grant. Reported information should be agreed to supporting documentation and the overall report reviewed for reasonableness prior to submission to the federal oversight agency.

*DHHS Response:* The Department concurs with the finding and recommendation. Although an error was identified by auditors, the error occurred on an interim report submitted in April 2010 which was not one of the reports required by CDC. The report required by CDC, completed 90 days after the budget period ended, was submitted in October 2010 and reflected the correct amount of obligations. The federal report must reflect the accurate amount of unliquidated obligations at the end of the grant period to liquidate during the 90 day liquidation period. A crosswalk of RCCs denoting each federal fiscal year will become part of the working papers for each submission of the 269 for review purposes. The anticipated date for corrective action to be completed is October 31, 2011.

### IMMUNIZATION GRANTS CLUSTER

#### 8. INADEQUATE CONTROL OVER ACCESS TO COMPUTER SYSTEMS FOR THE IMMUNIZATION CLUSTER

We identified deficiencies in the Department's oversight and management of access to the Vaccine Management System (VACMAN) and the North Carolina Immunization Registry (NCIR). 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 Vaccine Management System (VACMAN) is a Centers for Disease Control and Prevention system that is used by the State to order, and optionally to track and record information related to, publicly funded vaccines.

The North Carolina Immunization Registry (NCIR) is a web-based clinical tool that will become the official source for North Carolina immunization information. The NCIR is to take the place of handwritten charting of immunizations administered in the State, whereby immunization providers may access all recorded childhood immunizations administered in North Carolina.

There was no review of user access performed at the state level during our audit period for either system. Statewide information technology standards require a documented review of users' rights semi-annually.



## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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For the NCIR system, the State requires providers to sign a contract that obligates them to review user access. However, we requested copies of the contracts for 35 providers, and the Department did not have copies on file for 13 of the selected providers. In addition, the provider review of system access is not currently verified as part of the Department's subrecipient monitoring process.

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.

*Federal Award Information:* This finding affects Immunization Grant award #3H23IP422554-07 and #3H23IP422554-07S1 (ARRA).

*Recommendation:* The Department should improve internal control over granting and managing access to the Immunization systems. Specifically, the Department should perform and document periodic reviews of system access at the state level in accordance with state policy. Further, the Department should ensure that it retains copies of contracts to document the agreement made with providers and monitor to ensure that all key provisions of the contract are adhered to by the providers, including reviewing for appropriate system access.

*DHHS Response:* The Department concurs with the finding and recommendation. The Vaccine Management System (VACMAN) is a Centers for Disease Control and Prevention system. The Immunization Branch maintains a list of employees with access to VACMAN which also includes the employee's level of access. Currently, this list is updated as needed by the OEU unit supervisor. However, based on the audit recommendations, these periodic reviews of VACMAN system access are now conducted in accordance with state policy.

For the North Carolina Immunization Registry (NCIR) system, the State requires providers sign a contract that obligates them to review user access. The Immunization Branch now maintains on file copies of the contracts for all providers. In addition, the provider review of NCIR system access paperwork is verified as part of the Department's sub-recipient monitoring process in accordance with State and Department policy. Corrective action was implemented as of February 28, 2011.

### 9. DEFICIENCIES IN SUBRECIPIENT MONITORING PROCEDURES FOR THE IMMUNIZATION CLUSTER

We identified deficiencies in the Department's monitoring procedures for the Immunization cluster. As a result, there is an increased risk that noncompliance at the subrecipient level could occur and not be detected in a timely manner.

The monitoring goal established by the Centers for Disease Control (CDC) is for states to perform Vaccines for Children (VFC) visits on 25 percent of the immunization providers. Grantees are to provide oversight of vaccinating providers to ensure proper control and

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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accountability is maintained for vaccine; vaccine is properly safeguarded; and VFC-eligibility screening is conducted. In addition, grantees should ensure that a record of vaccine administered was made in each person's permanent medical record or in a permanent office log or file.

We noted that the Department monitored 21 percent of the immunization providers, which is somewhat below the goal of 25 percent. According to Department officials, resources were shifted in response to the H1N1 pandemic and unavailable to perform the monitoring functions.

Our review of the monitoring procedures performed during the year for the Immunization cluster identified the following deficiencies from our tests of a sample of 40 providers:

- One provider was erroneously reported as having been monitored when no visit was actually performed.
- Eight providers were not given improvement plans based on deficiencies noted during VFC visits. Of those eight, three had deficiencies in immunization records and five had deficiencies in other areas of compliance.
- Corrective action plans for two providers failed to address noted deficiencies in their immunization records.

In addition, the State monitors immunization records through both computerized (North Carolina Immunization Registry) and manual (Vaccine Administration Log) processes as providers are transitioned to the computerized registry. We noted that the Department was not maintaining the Vaccine Administration Logs in accordance with either federal or departmental record retention policies. Federal regulations state that financial records, supporting documents, statistical records, and all other records pertinent to the grant program shall be retained for a minimum of three years or until completion and resolution of any audit. The Department's records retention policy reinforces the minimum three-year retention for federal grants and, by memorandum dated October 1, 2009, further restricts immunization programs by stating "Do Not Purge - Retain Files" for periods from 2003 forward.

*Federal Award Information:* This finding affects Immunization Grant award #3H23IP422554-07 and #3H23IP422554-07S1 (ARRA).

*Recommendation:* The Department should strengthen internal controls and monitoring procedures to ensure that monitoring goals are met, providers are complying with accountability and safeguarding standards, and patient immunization records are properly maintained. In addition, the Department should ensure that immunization records are complete and appropriately retained as it transitions from manual to computerized record keeping.

*DHHS Response:* The Department concurs with the finding and recommendation. The Immunization Branch monitored 21 percent of North Carolina's immunization providers

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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during the audit period. The original goal for the Vaccines for Children (VFC) visits was 25 percent of the immunization providers. Contributing factors such as the emergence and virulent spread of the 2009 H1N1 influenza virus resulted in numerous monitoring visit appointment cancelations for staff, and the inability to schedule new appointments with providers due to two factors: 1) Immunization Branch resources shifted to assist in the control of transmission of H1N1 by assuring vaccine distribution to providers statewide; 2) Many practices unable to keep scheduled site visit appointments due to high volume of ill patients.

The Branch will also ensure that corrective action plans are developed to address any deficiencies noted during the monitoring visits for all providers. The Branch unintentionally maintained Vaccine Administration Logs in accordance with an outdated Records Retention Schedule, dated January 24, 2000. The current Records Retention Schedule will be utilized going forward.

### 10. FAILURE TO TIMELY COMMUNICATE ARRA FEDERAL AWARD INFORMATION TO SUBRECIPIENTS

The Department failed to timely communicate to subrecipients all federal award information and additional compliance requirements associated with the American Recovery and Reinvestment Act (ARRA) funds. As a result, there is an increased risk that a subrecipient may not separately account for and report its ARRA federal awards or comply with the additional requirements associated with these funds.

Recipients of ARRA funding are required to separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, appropriate federal award number information and the amount of ARRA funds. In addition, expenditures for ARRA federal awards must be identified separately on the Schedule of Expenditures of Federal Awards (SEFA), including using the prefix "ARRA-," in identifying the name of the federal program. Recipients are required to inform their subrecipients of these requirements.

The Department was unable to provide evidence that the required ARRA federal award information was communicated to its subrecipients. Further, the state compliance supplement for the Immunization grant did not identify the program as a cluster that included the receipt of ARRA funds.

*Federal Award Information:* This finding affects Immunization Grant award #3H23IP422554-07 and #3H23IP422554-07S1 (ARRA).

*Recommendation:* The Department should implement procedures to ensure that it timely informs all subrecipients of the ARRA federal award information and reporting requirements to meet transparency and accountability requirements over expenditures of ARRA awards.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

*DHHS Response:* The Department concurs with the finding and recommendation. The Division of Public Health (DPH) is able to provide supporting documentation related to the timely notification of American Recovery and Reinvestment Act (ARRA) requirements to subrecipients. The DPH Contracts Manager confirmed the originals of the Agreement Addendum for Activity 847 has the ARRA Special Conditions attached. However, the Catalog of Federal Domestic Assistance (CFDA) number was not included in the Agreement Addendum. Letters will be sent to the subrecipients informing them of the CFDA number for the ARRA activity by May 31, 2011. These letters will reference awards for State Fiscal Years 2010-2011 and 2011-2012.

### TANF CLUSTER - TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF)

#### 11. FAILURE TO TIMELY COMMUNICATE ARRA FEDERAL AWARD INFORMATION TO SUBRECIPIENTS

The Department failed to timely communicate to subrecipients all federal award information and additional compliance requirements associated with the American Recovery and Reinvestment Act (ARRA) funds. As a result, there is an increased risk that a subrecipient may not separately account for and report its ARRA federal awards or comply with the additional requirements associated with these funds.

Recipients of ARRA funding are required to separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, appropriate federal award number information and the amount of ARRA funds. In addition, expenditures for ARRA federal awards must be identified separately on the Schedule of Expenditures of Federal Awards (SEFA), including using the prefix "ARRA-," in identifying the name of the federal program. Recipients are required to inform their subrecipients of these requirements.

The Department reclassified \$27.1 million paid to its subrecipients from regular Temporary Assistance for Needy Families (TANF) funds to TANF ARRA supplemental funds. The reclassification affected transactions previously recorded for twelve counties; however, the Department failed to notify those counties of the required ARRA federal award information.

*Federal Award Information:* This finding affects Temporary Assistance for Needy Families (TANF) grant award #1002NCTAN2 (ARRA) for the federal year ended September 30, 2010.

*Recommendation:* The Department should implement procedures to ensure that it timely informs all subrecipients of the ARRA federal award information and reporting requirements to meet transparency and accountability requirements over expenditures of ARRA awards.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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*DHHS Response:* The Department concurs with the finding and recommendation. On February 25, 2011, the Department notified the affected counties of the reclassification and additional reporting requirements for the Temporary Assistance for Needy Families (TANF) American Recovery and Reinvestment Act (ARRA) funds. The February notification also addressed the ARRA funds disbursed to the subrecipients in December of 2010. In the future, the Department will notify subrecipients of award, disbursement and/or reclassification to ARRA funding and related reporting requirements in a timely manner.

### CFDA 93.563 – CHILD SUPPORT ENFORCEMENT

#### 12. APPROPRIATE ACTION NOT TAKEN IN CHILD SUPPORT CASES

The Department did not take appropriate action within 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.

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. We found that 39% of open cases were not in compliance with this requirement.

We have reported a similar finding in previous years.

*Federal Award Information:* This finding affects Child Support Enforcement federal grant award #G1004-NC4004 for the federal fiscal year ended September 30, 2010.

*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.

*DHHS Response:* The Department concurs with the finding and recommendation. North Carolina has shown consistent performance in the area of Establishment Self Assessment. Although there has been marked improvement in the past, corrective action for this category is still imperative for future and continual improvement in the identified area. Each year, North Carolina outlines a corrective action plan for areas where non compliance is shown. In addition to the state corrective action plan, each county showing noncompliance is provided a specific corrective action plan. Additional and continued training will be provided to all staff involved in managing Child Support cases. In addition, the Department will increase the monitoring of the number of cases reviewed quarterly.

Reports are generated in North Carolina's Data Warehouse which can be used by local agents to identify those cases requiring specific activities. The use of the monthly Data

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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Warehouse run reports will be strongly recommended to all staff involved in case management. More stringent emphasis on federal timeframes will be emphasized to agents in local offices. Training will continue to be performed by Policy and Training and Program Representative staff in order to educate agents on the requirements involved in establishment of paternity and support orders.

### CFDA 93.568 – LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM

#### 13. DEFICIENCIES IN FEDERAL REPORTING PROCEDURES

The Department's controls over federal reporting have not operated effectively to ensure the accuracy of the Low Income Home Energy Assistance Program (LIHEAP) financial reports required by federal regulations. As a result, erroneous information has been reported to the federal oversight agency.

We identified errors in the Department's SF-269A Financial Status Report for federal fiscal year 2009 and the LIHEAP Carryover and Reallotment Report for federal fiscal year 2008. Total unliquidated obligations were understated by \$1.1 million on the SF-269A Financial Status report, which resulted in additional amounts being reported incorrectly. Examples of errors for the LIHEAP Carryover and Reallotment Report included the understatement of the current year accounts payable amount by \$323,000, omission of the 10% maximum carryover calculation, and the overstatement of the projected unobligated balance by \$43,000. The independent review of the financial reports was not being performed sufficiently to identify and correct the errors before the reports' final submission.

*Federal Award Information:* This finding affects the Low Income Home Energy Assistance Program federal grant awards #G08B1NCLIEA and #G09B1NCLIEA for the federal fiscal years ended September 30, 2008 and 2009.

*Recommendation:* The Department should strengthen internal control to ensure adequate review and verification of the amounts reported on the financial reports for the LIHEAP program. Reported information should be agreed to supporting documentation and the overall report reviewed for reasonableness prior to submission to the federal oversight agency.

*DHHS Response:* The Department concurs with the finding and recommendation. Although the grant award totals used in calculating the 10% allowable carryforward were incorrectly reported on the carryover request, the carryover request was correctly identified on the report. The internal controls for this reporting requirement are completed through a supervisory review. Smartlink authorizations will be provided to the supervisor to ensure the grant award amounts are accurately reported.

The methodology for calculating obligations did not combine the grant awards together for a total obligation percentage. Rather, an obligation percentage was calculated on

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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each grant award. We agree that the combined grant award obligation percentage is a better methodology. The working papers have been adjusted to incorporate this change.

### CFDA 93.658 – FOSTER CARE – TITLE IV-E

#### 14. INELIGIBLE BENEFIT PAYMENTS FOR THE FOSTER CARE PROGRAM

The Department made payments on behalf of children who were not eligible to receive those benefits under guidelines established for the Foster Care - Title IV-E program. As a result, the Department made erroneous payments resulting in questioned costs of \$118,620, and there is an increased risk that ineligible payments could be made to future program participants.

The Department's Child Welfare Funding manual states that eligibility for Title IV-E funding ends at the end of the month in which a child reaches the age of 18. Using computer aided audit tools, we tested all Foster Care payments made during the year to determine if any children were receiving payments after their eligibility period. We identified 180 payments that were to children over the age of 18, resulting in the questioned costs identified above. The edit checks within the Foster Care payment system are not functioning as designed to prevent this noncompliance.

A similar finding was reported in the previous year.

*Federal Award Information:* This finding affects Foster Care - Title IV-E federal grant awards #10001NC1401 and #1001NC1402 (ARRA) for the federal fiscal year ended September 30, 2010.

*Recommendation:* The Department should take appropriate action to ensure that automated system edit checks or other control processes are implemented to ensure payments are only made to eligible recipients of the Foster Care - Title IV-E program.

*DHHS Response:* The Department concurs with the finding and recommendation. The Department has implemented automated system edit checks to ensure payments are made only to eligible recipients of the Foster Care - Title IV-E program. Specifically, a system edit has been implemented in the Child Placement and Payment System (CPPS) to disallow reimbursement for monthly claims for residential services beginning the month following a child's 18th birthday (as indicated in Field 8 (Date of Birth) if "IV-E" is still indicated in Field 55 (Funding Source) of the DSS-5094. Federal IV-E reimbursement is allowed through the last day of the month of the child's 18th birthday only if Field 19 (Type of Authority) of the DSS-5094 contains a code other than "09" (Contractual Agreement for Residential Services - CARS). If Field 19 contains a code "09" and a fund source other than "State Foster Home Funds" (State) is indicated in Field 55, the system displays an error message, "FUNDING SOURCE INVALID FOR TYPE OF AUTHORITY CODE."

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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A batch edit has also been implemented to deny all payments for children coded as “IV-E” in Field 55 of the DSS-5094 for the service period/month following the child’s 18th birthday. The message “PMT DENIED: FUNDING SOURCE NOT APPROPRIATE FOR CHILD AGE” will appear for such a child on NCXPTR report FC PMT RPT PQA020.

Additionally, the Division has corrected the specific claim error amounts that were processed at the gross amount. This is the amount of the claim before percentages (both state and federal) are applied to produce the questionable cost associated with the finding. An analysis of the audit findings includes the following:

- ≈ Gross claim amounts of \$197,586 less adjusted postings of (\$28,754) within the fiscal year for a total gross adjustment of \$168,832
- ≈ Additional findings for the previous and current fiscal year have a gross adjustment total of \$64, 673
- ≈ One correction was noted for \$1,290 (gross) included within the finding that was determined to be correct. The auditor was contacted in January 2011 and provided with the additional supporting documentation in order to remove this amount from the finding.
- ≈ Gross adjustment total = \$260,969

During the course of the audit when this issue was presented, the State moved forward with adjustments as identified. Adjustments totaling \$28,754 were processed within the state fiscal year 2010. Additional adjustments were processed in the following fiscal year: October 2010 adjustments totaled \$112,669, January 2011 adjustments total 119,546.

Total gross adjustments identified and processed \$260,969

In addition, prior to implementation of the systematic changes, ongoing monthly checks were conducted to identify potential error payments and correct if necessary.

### **CFDA 93.659 - ADOPTION ASSISTANCE (TITLE IV-E)**

#### **15. INADEQUATE CONTROL OVER COUNTY USER ACCESS FOR THE CHILD PLACEMENT AND PAYMENT SYSTEM**

We identified deficiencies in the Department’s oversight and management of user access to the Child Placement and Payment 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.

The Child Placement and Payment System collects information about all children who are in the legal custody of county departments of social services. It summarizes



## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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information regarding county expenditures for both foster care and adoption assistance payments necessary to generate reimbursement of federal funds, as well as meeting federal reporting requirements.

In our sample of 15 counties, we noted that the Department did not have documentation on hand to support the state-level monitoring of county user access for seven counties. The periodic reviews of user access for the Child Placement and Payment System is not being 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 requiring documented reviews of users' rights.

*Federal Award Information:* This finding affects the Adoption Assistance (Title IV-E) federal grant awards #1001NC1407 and #1001NC1403 (ARRA) and Foster Care - Title IV-E federal grant awards #10001NC1401 and #1001NC1402 (ARRA) for the federal fiscal year ended September 30, 2010.

*Recommendation:* The Department should improve internal control over access to the Child Placement and Payment System. Periodic security reviews should be conducted at intervals that meet the minimum schedule as required by statewide information security standards to ensure that access is restricted to authorized users and employee user access rights are systematically evaluated to ensure privileges granted are appropriate for the employees' job requirements.

*DHHS Response:* The Department concurs with the finding and recommendation. County security officers are required to complete security reviews twice each year for each employee with access to the State Information Systems. The Child Placement and Payment System (CPPS) security report (Foster Care and Adoptions, DHRPQA SECURITY TABLE REPORT) was made available in NCXPTR June 1, 2009. Counties were notified of this report via Dear County Director Letter PM-REM-06-2009, and again via Dear County Director Letter PM-REM-09-2009. Counties were reminded of the semi-annual review requirement in Dear County Director Letter PM-REM-02-2010. The review of this report ensures access is still valid, required authorizations are on file, and appropriate action is taken to correct any discrepancies found. County security officers must complete and sign the Documentation of County Security Review form found in Appendix 13 of the Security Manual. This form is maintained in the local county department of Social Services. DSS Administrative Letter, PM-REM-06-2010, dated July 15, 2010, also listed the report names and locations for security reports that must be reviewed twice each year. This Administrative Letter again stressed the requirement of documenting these reviews on Appendix 13.

The requirement that an Information Resource Access Authorization Form (IRAAF) must be generated and maintained on file for every individual with access to State Information Systems is still enforced. Per these requirements, security officers must

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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complete security reviews twice a year to ensure required authorizations are on file and appropriate action is taken immediately to correct any discrepancies noted. For employees granted access after July 1, 2007, it was required that an IRAAF be on file with DHHS Customer Support for every employee with access to any State Information System by August 31, 2010. DHHS Customer Support, the entity which grants system access from the IRAAF, is still processing these annual review forms submitted by counties. Due in part to this backlog, the Department created an automated solution known as the Electronic Information Resource Access Authorization Form (e-IRAAF) that became available for counties to use in January 2011. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights.

DHHS also implemented a new access control requirement for all division/office employees with access to Resource Access Control Facility (RACF) and Online Verification (OLV) via the generation of two new reports. The first report, available through NCXPTR, lists all employees with access to systems through RACF. A second report, available through Web Identify Role Management (WIRM), lists all employees with access to OLV and their respective roles. Per management directive (memorandum titled "Inadequate User Access Controls", issued by Secretary Cansler on October 30, 2009), attention must be given to ensuring that access is granted and/or removed appropriately based on employees' current employment and work responsibilities.

All DHHS division/office Information Security Officials (ISO) are required to review and verify the accuracy of the RACF and OLV reports on a monthly basis. The "Division/Office System Access Control" form is used to report monthly to the DHHS Privacy and Security Office (PSO) with the results of the review via email. The ISOs in the county departments of Social Services submit this form to the State DSS Performance Management Section, who tracks compliance of this requirement.

The Division of Social Services has added items to the DSS Subrecipient Self-Assessment of Internal Controls and Risks (under VIII. SECURITY ACCESS FOR INFORMATION SYSTEMS) and to the Certification of Self-Assessment Form (under V. SECURITY ACCESS FOR INFORMATION SYSTEMS) which address the use of the IRAAF, the semi-annual review of the system access security reports and the monthly review of the RACF USERID REPORT and the OLV Report. Each county must complete the Self-Assessment on an annual basis, unless they meet the requirements allowing completion of only the Certification Form, as outlined in Dear County Director Letter BG-02-2010 issued August 26, 2010. Counties submit the Assessment and/or Certification Form to their Local Business Liaison.

The Division has also added references to the Suggested Audit Procedures under Terminal or Personal Computer Security in the Crosscutting Requirements of the 2011 Program Compliance Supplements. These references specifically mention confirmation that (1) the agency staff are reviewing all required monthly Security Access Review reports and the semi-annual Systems Security Reports; (2) reports on the monthly

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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reviews are submitted to the supervising agency; and (3) Appendix 13 of the DSS Information Security Manual, Documentation of County Security Review has been completed at least twice a year and is retained on file in the County DSS Office.

### CFDA 93.767 – CHILDREN’S HEALTH INSURANCE PROGRAM

#### 16. DEFICIENCIES IN MONITORING PROCEDURES FOR THE CHILDREN’S HEALTH INSURANCE PROGRAM

The Department has not developed or implemented a monitoring plan to ensure Children’s Health Insurance Program eligibility determination activities are being performed adequately by local government subrecipients. As a result, there is an increased risk that health insurance benefits could be provided on behalf of ineligible participants.

The Department’s Quality Assurance and Medicaid Eligibility sections have oversight responsibilities for reviewing for eligibility payment errors, recommending corrective action as appropriate, and tracking the status of those corrective actions. Insurance recipients of the Children’s Health Insurance Program have been included in past special targeted reviews. However, such cases are not a regular component of the annual review performed on active case files receiving eligibility reviews. No Children’s Health Insurance Program case files were reviewed during the 2010 state fiscal year.

Federal requirements specify that grantees monitor subrecipient activities to ensure compliance with applicable rules and that performance goals are met.

*Federal Award Information:* This finding affects the Children’s Health Insurance Program federal grant awards #05-0905NC5021 and #05-1005NC5021 for the federal fiscal years ending September 30, 2009 and 2010.

*Recommendation:* The Department should develop and implement a formal plan to ensure that subgrantee eligibility determination processes for the Children’s Health Insurance Program are monitored on an annual basis.

*DHHS Response:* The Department concurs with the finding and recommendation. Quality Assurance will develop and implement a formal monitoring plan to ensure that subgrantee eligibility determination processes are monitored annually. Anticipated completion date for resolution is September 30, 2011.

### MED – MEDICAID CLUSTER

#### 17. ERRORS IN MEDICAID PROVIDER BILLING AND PAYMENT PROCESS

The Department made payments on behalf of medical assistance program participants that did not comply with the activities allowed or allowable cost requirements for the

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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program. The Department erroneously made net overpayments of \$26,399 to Medicaid providers resulting in questioned costs of \$19,720, which represents the federal share of the overpayments.

We examined a sample of 276 Medicaid claims and identified 28 claims that were paid in error or not sufficiently documented. Examples of the deficiencies noted included insufficient or missing documentation in support of the services rendered, documentation that failed to meet the requirements established by Medicaid policy, incorrect calculations of the claim payment, and 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. Federal regulations require that medical records disclose the extent of services provided to Medicaid recipients.

Similar aspects of this finding have been reported in previous years.

*Federal Award Information:* This finding affects Medical Assistance Payments federal grant awards #05-0905NC5028, #05-0905NCARRA, #05-1005NC5MAP, and #05-1005NCARRA for the federal fiscal years ended September 30, 2009 and 2010.

*Recommendation:* The Department should continue to enhance its control procedures to improve the accuracy of the claims payment process. Management should ensure the proper implementation of system changes, including effective payment edits and/or audits. Emphasis should be placed on educating providers as to proper coding and documentation standards necessary to support the medical services being provided. Identified over or underpaid claims should be followed up for timely and appropriate collection or payment.

*DHHS Response:* The Department concurs with the finding and recommendation. The Department will continue to enhance control procedures to improve the accuracy of the claims payment process. Management will continue to be involved in the implementation of system changes, including effective payment edits and/or audits. Emphasis will be placed on educating providers as to adequate documentation to support medical necessity and services billed to Medicaid. Corrective action has occurred on all but 3 of the 28 claims identified as payment errors or claims not having sufficient documentation. The anticipated completion date for corrective action on the 3 remaining claims is June 1, 2011.

### 18. DEFICIENCIES IN MONITORING PROCEDURES OVER THE PROVIDER ELIGIBILITY ENROLLMENT PROCESS

We identified deficiencies in the Department's monitoring procedures over the provider eligibility enrollment process. The Department did not have sufficient policies and

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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procedures in place to ensure the accuracy and completeness of the Medicaid provider enrollment and re-verification process administered by a contract service provider. This increases the risk that ineligible providers may have been enrolled in the Medicaid program.

The Department contracts with a service provider to handle the responsibilities for enrollment, credentialing, and verification activities for provider participation in the Medicaid program. A review of the service provider's provider eligibility enrollment practices identified that there was a lack of segregation of duties in the enrollment processes as both the verification and approval of applications could be performed by the same individual. Control processes were updated in April 2010 to require a separate final review of the initial credentialing decision.

In addition, our review of a sample of 60 group and individual provider files noted the following exceptions:

- Basic background checks were not consistently maintained in the provider files. Five files were missing the background check. There was no evidence to support that background checks had been performed for business owners and/or managing employees in 10 additional files.
- There was no evidence to support that the proper license was submitted or verified for two providers.
- Numerous instances were noted where required or expected disclosures were incomplete.
- One provider failed to sign the application forms, provider agreement, or the letter of attestation.

The provider eligibility enrollment process was contracted to a service provider as part of the development of the new Medicaid Management Information System. The Department is still in the design and implementation phase for establishing an adequate monitoring system that will oversee the contracted provider enrollment and re-verification processes.

Similar deficiencies have been reported in prior year audits.

*Federal Award Information:* This finding affects Medical Assistance Payments federal grant awards #05-0905NC5028, #05-0905NCARRA, #05-1005NC5MAP, and #05-1005NCARRA for the federal fiscal years ended September 30, 2009 and 2010.

*Recommendation:* The Department should continue to develop and strengthen its monitoring procedures to ensure that the provider eligibility enrollment process complies with applicable laws and regulations.

*DHHS Response:* The Department concurs with the finding and recommendation. The Department will implement management controls to ensure the accuracy and

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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completeness of the provider eligibility enrollment process. The Office of Medicaid Management Information Systems (OMMIS) will review the fiscal agent Computer Sciences Corporation's (CSC) policies and procedures for compliance with applicable laws and regulations. We will also require CSC updates as needed to ensure the completeness and accuracy of the provider enrollment approval/denial and reverification/recertification processes.

The Department will also require OMMIS to direct CSC to develop processes in its enrollment and reverification process to disclose ownership information relative to the disclosing entity or subcontractors having a direct or indirect ownership interest in the company of five percent or more; and that owners, and all those with a controlling interest including agents and contractors, disclose all criminal offenses in any program under Medicare, Medicaid, or the Title XX services program. The anticipated completion date for corrective action is June 30, 2011.

### 19. CONTROL DEFICIENCIES OVER THE PROVIDER SANCTION NOTIFICATION AND TERMINATION PROCESS

The Department did not have sufficient policies and procedures in place to ensure the accuracy and completeness of the Medicaid provider termination process administered by a contract service provider. A control was not in place to monitor professional licensing board notifications of sanctioned and suspended providers and their subsequent termination from the Medicaid program. As a result, there is an increased risk that unlicensed and sanctioned providers will continue to be enrolled on the Medicaid program.

The contract service provider was responsible for processing e-mail communications from the Medical Board, Dental Board, and the Division of Health Services Regulation; however, there was no formal process established to monitor the handling and timely completion of the notifications. In addition, service provider staff had the ability to move and delete these notifications without adequate oversight. Our review of the service provider's handling of licensing actions noted 14 instances where licensees that either had a period of inactivity, a temporary or indefinite suspension, a voluntary work stoppage, or revoked privileges were not properly end-dated or terminated from the Enrollment, Verification, and Credentialing system.

In addition, we noted that the Department was only receiving sanction notifications from the above three licensing boards. There are additional licensing authorities that affect Medicaid providers that are not currently monitored. The Department is still in the design and implementation phase for establishing an adequate monitoring system that will oversee the Medicaid provider sanction and termination process.

*Federal Award Information:* This finding affects Medical Assistance Payments federal grant awards #05-0905NC5028, #05-0905NCARRA, #05-1005NC5MAP, and #05-1005NCARRA for the federal fiscal years ended September 30, 2009 and 2010.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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*Recommendation:* The Department should continue to develop and strengthen its monitoring procedures to ensure that the provider sanction and termination process complies with applicable laws and regulations.

*DHHS Response:* The Department concurs with the finding and recommendation. The Department will implement management controls to strengthen the accuracy and completeness of the provider sanction notification and termination process. The Office of Medicaid Management Information Systems (OMMIS) will review the fiscal agent Computer Sciences Corporation's (CSC) policies and procedures and require updates as needed to ensure that the provider sanction notification and termination process is documented in a timely and accurate manner.

The Department also will require OMMIS to direct CSC to implement quality controls and assurance measuring standards for monitoring the following:

1. Tracking and reporting provider sanctions notification and terminations for enrolled providers.
2. The validation of current provider licensure and ownership information.
3. The supervision and monitoring of e-mail history completeness, access, retention and deletion tracking.
4. Validation of data entry team supervision and the monitoring process for quality control.
5. Supervision of provider validation for licensing, credentialing, reverification, enrollment changes and end-dating.

The anticipated date for completion of the corrective action is June 30, 2011.

### 20. DEFICIENCIES IN CASH MANAGEMENT PROCEDURES FOR THE MEDICAID PROGRAM

The Department did not have controls in place to ensure that the drawdown of Medicaid funds was in accordance with federal requirements. As a result, there is an increased risk of drawing down excessive federal funds and noncompliance with the Treasury-State agreement.

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 a sample of 73 Medicaid drawdown requests noted:

- One drawdown request included costs incurred for qualified public hospital claims that were not eligible for federal participation. The error, in the amount of \$9 million, occurred in July 2009, and the Department subsequently made adjustments to the drawdown process to compensate for this error.
- Two errors were noted as a result of applying the incorrect federal matching percentage, resulting in total overdraws of \$195,000.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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- Our review of the Department's Cash Management Improvement Act spreadsheets identified significant positive federal cash balances that exceeded the three-day rule throughout the fiscal year.

Similar findings have been written the past two years.

*Federal Award Information:* This finding affects Medical Assistance Payments federal grant awards #05-0905NC5028 and #05-1005NC5MAP, and Medicaid Administrative Payments federal grant awards #05-0905NC5048 and #05-1005NC5ADM for the federal fiscal years ended September 30, 2009 and 2010.

*Recommendation:* The Department should strengthen internal controls to ensure proper drawdowns by reconciling federal revenues and expenditures and improve cash management procedures such that drawdowns are made in compliance with the Treasury-State Agreement.

*DHHS Response:* The Department concurs with the finding. At the time of the drawdown request, which included costs incurred for qualified public hospital claims that were not eligible for federal participation, no report was available to identify claims payments with their corresponding funding allocations. Therefore, the Department deemed it necessary to use estimates in the calculations. The Department worked with its administrator to develop a report to provide the necessary information based on actual claims payments. This report was developed and incorporated into our process in November 2010.

Although the application of the incorrect federal matching percentage, resulted in total overdrafts of \$195,000, the revenue clearing monthly settlement draw corrected any underdrawn/overdrawn funds that occurred during the month. A supervisor will continue to review the federal drawdown requests to reduce the likelihood of error.

The portion of the draws affected by drug rebate payments continues to be an estimated amount. The Department will work to develop a more accurate model of drug rebate payments. In addition, the Department is researching the possibility of offsetting excess federal funds against future draws, which would significantly reduce the time such excess funds are held. Anticipated completion date is June 30, 2011.

### 21. 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.

The Medicaid Management Information System (MMIS) provides for operational support of the Medicaid program, including claims processing, coordination of benefits,



## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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surveillance and utilization review, federal and management reporting, and case management.

The Department could not provide documentation to support that quarterly security reviews of user access was performed, and as of June 30, 2010, was still working on finalizing the security review for all active MMIS users. Our testing of separated employees identified that two of 29 separated employees continued to have access after their separation. Departmental policies were not followed regarding quarterly reviews of user access and immediate termination of separated employees' user access rights.

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. 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.

A similar finding was reported the previous three years.

*Federal Award Information:* This finding affects Medical Assistance Payments federal grant awards #05-0905NC5028, #05-0905NCARRA, #05-1005NC5MAP, and #05-1005NCARRA for the federal fiscal years ended September 30, 2009 and 2010.

*Recommendation:* The Department should improve internal control over granting and managing access to the Medicaid Management Information System (MMIS). Specifically, the Department should perform and document periodic reviews of system access at the state level in accordance with state policy. Separated employees' access rights should be immediately revoked to prevent improper access to Medicaid program data systems.

*DHHS Response:* The Department concurs with the finding and recommendation. The Division of Medical Assistance (DMA) Security Official is now developing a standardized Memorandum of Agreement that will formally document the process and requirements associated with granting and managing access to the Medicaid Management Information System (MMIS). The Department will also continue to enhance its procedures for tracking the user access controls in MMIS by standardizing the policies and processes. The new replacement MMIS system will track and validate the access based on the role/responsibilities of each user. The target implementation date of the new MMIS system is October 2012.

The Department will establish the necessary protocols to ensure compliance with the use of current procedures; requiring notification of "key individuals" of an employee's separation in conjunction with newly developed audit logs created by the DHHS Privacy and Security Office (PSO). The audit logs will enable divisions and offices to audit themselves on a regular basis to ensure that system access for its employees is granted and terminated appropriately and in a timely manner.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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Upon receipt of testing details from the auditors, the Department will confirm access to the Medicaid Management Information System was revoked for the two separated employees identified in the audit. The anticipated completion date for corrective action is June 30, 2011.

### 22. DEFICIENCIES NOTED WITH PROGRAM INTEGRITY CASE MANAGEMENT TRACKING SYSTEM

The Department has not implemented effective controls to track case files within the Program Integrity unit. As a result, there is an increased risk that cases could be improperly closed without completing a proper investigation or finalizing referral procedures.

The Department's Program Integrity unit works to ensure compliance, efficiency, and accountability within the Medicaid program by detecting and preventing fraud, waste, and program abuse. Complaints are investigated and potentially fraudulent cases are referred to the Attorney General - Medicaid Investigations Unit. In our review of 40 sample case files, we noted:

- Three cases did not have supervisory sign-offs, which indicate the case was properly investigated and properly reviewed for closure.
- One case did not have the Attorney General referral memorandum in the file. The case was identified as being referred; however, it could not be located as a referral by the Attorney General's office.

Federal requirements and the state plan require the establishment of procedures for evaluating the appropriateness and quality of Medicaid services, as well as methods for investigating Medicaid complaints. The Program Integrity case management tracking system provides a mechanism to ensure all cases are tracked, reviewed, and referred if necessary.

*Federal Award Information:* This finding affects Medical Assistance Payments federal grant awards #05-0905NC5028, #05-0905NCARRA, #05-1005NC5MAP, and #05-1005NCARRA for the federal fiscal years ended September 30, 2009 and 2010.

*Recommendation:* The Department should take appropriate steps to ensure effective tracking and monitoring of the results of the case reviews performed by Program Integrity. The Department should ensure that cases referred by Program Integrity are reconciled to active cases within the Attorney General - Medicaid Investigations Unit to verify completeness of the process.

*DHHS Response:* The Department concurs with the finding and recommendation. Program Integrity is continuing its efforts to acquire a Program Management Information System which will be a critical component in the utilization of technology to improve case review, case closure and document sharing and storing. Pending the acquisition of the Program Management Information System, Program Integrity continues to develop

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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and strengthen its manual case monitoring procedures with the implementation of two new procedures effective January 30, 2011. An additional verification was developed to be completed prior to filing all case records, thereby ensuring the completeness of the case tracking form. Once all completed documentation is reviewed by the supervisor, the updated case tracking sheet will be signed to verify proper investigation and closure. In addition, a Supplemental Memorandum form was developed for use in the Program Integrity referral process. All referrals to the Medicaid Investigation Unit and their responses will be filed in the appropriate case file.

### CFDA 93.917 – HIV CARE FORMULA GRANTS

#### 23. DEFICIENCIES IDENTIFIED WITH THE HIV INDIVIDUAL ELIGIBILITY VERIFICATION PROCESS

We identified deficiencies in the Department's processes for determining participant eligibility for the North Carolina AIDS Drug Assistance Program (ADAP), as funded by the HIV CARE Formula Grant. As a result, there is an increased risk that new enrollees could be added to the program that would be ineligible to receive benefits.

Individuals request ADAP assistance by submitting applications to the Office of Purchase of Medical Care Services. Final determination of eligibility is based on financial and medical criteria, including the requirement that the benefit recipient not have any other third-party coverage such as private insurance or Medicaid that would enable them to otherwise obtain the medications. For a sample of 40 participants, we noted three instances where documentation was not available to support the verification of the applicants' Medicaid status prior to approval. Further review identified that one of the three applicants did have Medicaid coverage while also receiving ADAP benefits. The ADAP program subsequently was reimbursed for the costs incurred; therefore, there were no questioned costs associated with the noncompliance.

*Federal Award Information:* This finding affects HIV CARE Formula Grant awards #2X07HA00051-19-00 and #6X07HA00051-19-01 for the federal fiscal years ending June 30, 2009 and 2010.

*Recommendation:* The Department should strengthen internal control over the individual eligibility determinations for the ADAP program to ensure that only eligible participants receive services.

*DHHS Response:* The Department concurs with the finding and recommendation. Processes have been implemented within the Office of Purchase of Medical Care Services to prevent recurrence of this finding. The new procedures require signed and dated documentation of eligibility verification be included in the participant file prior to processing staff's final approval or denial of participant eligibility within the system.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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### 24. DEFICIENCIES IN INTERNAL CONTROL OVER EARMARKING REQUIREMENTS

We identified deficiencies in the Department's oversight of the earmarking requirements for the HIV CARE Formula Grant funds. As a result, there is an increased risk of noncompliance related to meeting the required expenditure percentages for specified program cost categories.

Earmarks are used to designate funds to be expended for particular purposes. The HIV CARE Formula Grant funds are subject to eight different earmarking requirements. We determined that the Department has not established policies and procedures to adequately monitor compliance with these requirements. Program expenditures are not being adequately tracked in the accounting system to sufficiently demonstrate compliance with the various earmarking requirements. Further, we noted calculation errors within the tracking spreadsheets, a lack of a reconciliation with the departmental accounting system, and the inability to segregate program data necessary for the accurate calculation of the earmarking requirements.

Our audit procedures indicated that the Department had substantially complied with the various earmarking requirements; however, the Department's current processes make it difficult to monitor compliance with the program requirements. A similar finding was reported in the previous year. The Department indicated that corrective actions would be implemented with the federal fiscal year 2011 Ryan White grant award.

*Federal Award Information:* This finding affects HIV CARE Formula Grant award #6X07HA00051-19-01 for the federal fiscal year ending June 30, 2010.

*Recommendation:* The Department should develop policies and procedures and implement controls to ensure that the program can identify, track, and account for the applicable cost categories necessary to support the earmarking requirements for the HIV CARE Formula Grant.

*DHHS Response:* The Department concurs with the finding and recommendation. The spreadsheet used by the program to record earmarks has been revised to accurately identify, track, and account for applicable costs. In addition, monthly reconciliations have been scheduled to ensure accuracy.

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

### 25. DEFICIENCIES IN INTERNAL CONTROL OVER EARMARKING REQUIREMENTS

We identified deficiencies in the Department's oversight of the earmarking requirements for the Block Grants for Prevention and Treatment of Substance Abuse funds. As a result, there is an increased risk of noncompliance related to the expenditure of grant funds for designated purposes.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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States must use not less than 20% of allotted grant funds for prevention activities that address individuals who do not require treatment for substance abuse. Our review of the supporting schedules and underlying accounting records indicated that this earmarking requirement was not met by \$261,000.

As a designated State, defined as a State whose rate of AIDS is 10 percent or more per 100,000 individuals, the State must expend 5% of allotted grant funds for HIV early intervention services at the sites where individuals are undergoing substance abuse treatment. The Department reported its failure to comply with this HIV set-aside in the amount of \$272,000.

The Department's failure to meet its earmarking requirements resulted in the federal oversight agency delaying the release of the 2010 federal fiscal year Block Grants for Prevention and Treatment of Substance Abuse funds until the noncompliance was remedied. As such, the State was not able to draw down federal funds in a timely manner.

A similar finding was reported in the previous year.

*Federal Award Information:* This finding affects Block Grants for Prevention and Treatment of Substance Abuse federal grant award 08BINCSAPT for the federal fiscal year ended September 30, 2008, which closed out during our period of review.

*Recommendation:* The Department should strengthen internal controls to ensure the proper tracking, evaluation, and monitoring occurs for obligations and expenditures for specified earmarking purposes. Reallocations of funding should occur to ensure appropriate earmarking percentages are met.

*DHHS Response:* The Department concurs with the finding and recommendation. The Department initiated corrective measures to properly track, evaluate, and monitor the allocation of funds and the reporting of expenses for the prevention and HIV set aside requirements. Enhancements of the Department's internal controls to ensure the earmarking of not less than 20% of the statewide Substance Abuse Prevention and Treatment Block Grant (SAPTBG) funds for prevention and not less than 5% for HIV were accomplished through a coding structure for each grant year within the North Carolina Accounting System (NCAS), effective July 1, 2010.

### 26. MONITORING PROCEDURES NEED IMPROVEMENT

We identified deficiencies in the monitoring procedures for the Block Grants for Prevention and Treatment of Substance Abuse program. As a result, there is an increased risk that noncompliance at the subrecipient level could occur and not be detected in a timely manner.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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

- No 2010 fiscal monitoring reviews were performed for the LMEs.
- The Department's fiscal monitoring policies need further enhancement to ensure that subrecipients take timely and appropriate corrective action on deficiencies noted in during-the-award monitoring.
- There was no monitoring plan developed that identified the overall population of substance abuse service providers.

Federal and departmental guidelines require the monitoring of subrecipient activities to provide reasonable assurance that subrecipients are complying with applicable laws and regulations.

A similar finding related to the enhancement of the subrecipient monitoring activities has been reported the past two years.

*Federal Award Information:* This finding affects Block Grants for Prevention and Treatment of Substance Abuse federal grant award 09B1NCSAPT and 10B1NCSAPT for the federal fiscal year ended September 30, 2009 and 2010.

*Recommendation:* The Department should continue to enhance its monitoring plans for the Block Grants for Prevention and Treatment of Substance Abuse program. Comprehensive policies should address all aspects of the monitoring efforts, including the plan for programmatic and fiscal monitoring activities, documentation of the monitoring procedures performed, and the appropriate follow-up of corrective action plans. The Department should take appropriate steps to ensure that its monitoring activities encompass all providers of substance abuse services within the LME system.

*DHHS Response:* The Department concurs with the finding and recommendation. Effective September 2010, the Division of Mental Health/Developmental Disabilities/Substance Abuse Services (DMH/DD/SAS) developed procedures to facilitate monitoring activities, including the development and implementation of a fiscal monitoring plan for the Local Management Entities (LME) during State 2009-2010 fiscal year. DMH/DD/SAS also developed written procedures entitled "DMH/DD/SAS Budget & Finance Team Settlement and Sub-recipient Monitoring Procedures for Local Management Entities" to ensure fiscal operations related to the LME services delivery and systems management are being documented and reported accurately.

The new monitoring procedures should ensure that all of the monitoring activities are adequately documented and a more timely follow-up on corrective actions is implemented by the LME and/or subrecipient.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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### 27. DEFICIENCIES IN INTERNAL CONTROL OVER FEDERAL REPORTING

The Department's controls over federal reporting have not operated effectively to ensure the accuracy of the Block Grants for Prevention and Treatment of Substance Abuse program financial status reports required by federal regulations. As a result, erroneous information has been reported to the federal oversight agency.

The Department reported expenditures of \$38.4 million on its SF-269 financial status report for the period ending September 30, 2008; however, the supporting accounting records identified expenditures of \$42.8 million for the same time period. In addition, the SF-269 financial status report for the 2008 federal fiscal year has overstated expenditures by \$390,000.

Significant journal entries have been necessary to reclassify expenditures between federal grant periods to ensure proper federal reporting. For example, a journal entry for \$5.7 million was made in January 2010 that affected the 2007 grant award. Three additional journal entries, ranging from \$4.2 million to \$9.6 million, were made in the 2010 fiscal year that affected the 2008 and 2009 grant awards. Grant expenditures are not being reviewed in a timely manner to ensure the coding of expenditures to the proper period, which would result in more accurate financial reporting.

*Federal Award Information:* This finding affects Block Grants for Prevention and Treatment of Substance Abuse federal grant award 07B1NCSAPT, 08B1NCSAPT, and 09B1NCSAPT for the federal fiscal years ended September 30, 2007, 2008, and 2009.

*Recommendation:* The Department should strengthen internal control to ensure adequate review and verification of the amounts to be reported on the financial reports for the Block Grants for Prevention and Treatment of Substance Abuse grant. Expenditures should be classified to the appropriate federal reporting code to ensure accurate reporting of expenditures to the federal oversight agency.

*DHHS Response:* The Department concurs with the finding and recommendation. Although the expenditures were recorded incorrectly in the North Carolina Accounting System (NCAS), they were included in the federal report in order to balance the federal report to NCAS. The reclass journal entries were prepared subsequent to the completion of that federal report in order for the expenditures to be reclassified to the appropriate federal reimbursement code. This grant has 5% and 20% set aside requirements that are monitored by the Division of Mental Health/Developmental Disabilities/Substance Abuse Services (DMH/DD/SAS) Budget Office. To effectively manage the set aside requirements and NCAS coding of expenditures to the appropriate federal fiscal year, the Controller's Office and DMH/DD/SAS Budget Office will work on a transition plan so that the monitoring and tracking of the FRCs and set asides will be the responsibility of the DMH/DD/SAS Budget Office. Anticipated completion is June 30, 2011.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

### CENTRAL TESTS – SUBRECIPIENT MONITORING

#### 28. DEFICIENCIES IDENTIFIED IN THE MONITORING CONTROLS FOR NONGOVERNMENTAL SUBRECIPIENTS

We identified deficiencies in the Department's monitoring controls for nongovernmental subrecipients. As a result, there is an increased risk that the Department may not adequately monitor its subrecipient activities.

Federal regulations require the Department to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws and regulations. The Department has created a tracking system for its nongovernmental entities to assist in its monitoring efforts. Our review of the tracking system identified the following deficiencies:

- Reconciliation between the departmental listing and the NC Grants listing (maintained by the North Carolina Office of State Budget and Management) identified 113 nongovernmental subrecipients that had received funding from the Department, but were not listed on the departmental listing.
- Five subrecipients that received funding at a level that required the organization to receive an audit were omitted from the departmental listing.
- Six subrecipients were identified as requiring an audit; however, the audit had not been received by the Department according to the departmental listing. Subsequent auditor review determined that the audits had been received, but the information in the tracking system was incorrect or had not been properly updated. Additional errors were noted with the correctness and the consistency of information being maintained in the tracking system.

Failure to adequately monitor subrecipients could result in federal funds being expended for unallowable purposes as well as subrecipients not properly administering federal programs.

*Federal Award Information:* This finding affects the following federal programs:

- HIV CARE Formula Grant awards #2X07HA00051-19-00, #6X07HA00051-19-01, #1X08HA16859-01-00, #2X07HA00051-20-00, and #6X07HA00051-20-01 for the federal fiscal years ending June 30, 2009 and 2010.
- Child Care Development Fund award #0901NCCCCDF for the federal fiscal year ended September 30, 2009.
- Child and Adult Care Food Program grant award #5NC300300 for the federal fiscal years ended September 30, 2009 and 2010.



## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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*Recommendation:* The Department should strengthen its monitoring procedures and its nongovernmental subrecipient tracking system to ensure that its monitoring activities encompass all organizations receiving departmental funding and results of monitoring activities are completed in accordance with federal requirements.

*DHHS Response:* The Department concurs with the finding and recommendation. The Audit Resolution and Monitoring Branch (ARM) within the Department of Health and Human Services (DHHS) Office of the Controller will develop and implement procedures to address the identified issues. New procedures will include requiring divisions to report new grant awards to appropriate ARM staff at the time they are recorded in the online [www.NCGrants.gov](http://www.NCGrants.gov) reporting system. In addition, ARM staff will investigate the possibility of using reports generated from the Department's Contracts Database and Nongovernmental Audit Confirmation website to ensure the tracking log and NCGrants.gov contain all appropriate grant data. ARM staff will also utilize new reports available in the online [www.NCGrants.gov](http://www.NCGrants.gov) reporting system to confirm the current nongovernmental subrecipient tracking mechanism accurately captures the appropriate level of State funding for each subrecipient. ARM will strengthen its internal controls to include periodic supervisory review of the manual tracking logs in comparison to data in the NCGrants system to verify data is updated in a timely manner. Corrective action, including revisions to existing policies and procedures, will be completed prior to June 30, 2011.

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