



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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March 11, 2002

Ms. Carmen Hooker Odom, Secretary
North Carolina Department of Health and Human Services
2001 Mail Service Center
Raleigh, North Carolina 27699-2001

Dear Secretary Odom:

We received an allegation through the State Auditor's Hotline that duplicate or erroneous payments were being made by the DHHS Controller's Office to employees of the Division of Vocational Rehabilitation Services (VR).

We have completed a special review of this allegation. The following findings and recommendations are based on interviews with employees and examination of relevant records.

Duplicate Reimbursement of Travel Expenses

On August 29, 2001, a VR employee submitted a travel reimbursement request to the DHHS Controller's Office for \$300.31. On September 10, 2001 the VR employee received a direct deposit notification for the \$300.31 with a reference to invoice number EXP080701-081501. *(Invoice numbers are assigned to travel reimbursement requests for a specific period of time, in this instance, August 7, 2001 through August 15, 2001. An accounts payable technician in the DHHS Controller's Office assigns the invoice number.)*

On September 21, 2001 the VR employee received another direct deposit notification for \$300.31 with a reference to invoice number EXP080701-008150. This appeared to be a duplicate payment for the August 29, 2001 travel reimbursement request.

On October 17, 2001, the VR employee submitted a new travel reimbursement request in the amount of \$357.58 and attempted to show the \$300.31 duplicate payment from September as a credit against the \$357.58, for a net request of \$57.27. The reimbursement request was processed for the full \$357.58 and the VR employee received a Direct Deposit Notification for \$357.58 on October 30, 2001.

On November 26, 2001, the VR employee wrote a personal check payable to VR, in the amount of \$300.31, to correct the overpayment received in September.

The duplicate payment on September 21, 2001 was caused by an accounts payable technician entering the reimbursement information twice. The accounts payable technician said that she forgot to stamp the expense reimbursement form as paid because she suspended the processing of a particular batch of documents in order to obtain an approval on another document in the same batch.

When the expense reimbursement was entered into the accounts payable system a second time, a different invoice number was used. Although the expense reimbursement forms are not pre-numbered, a procedure exists for assigning an invoice number to expense reimbursement requests. Specifically, the beginning and ending dates of the expense-reporting period are required to be entered with a prefix of EXP in the following manner: expmmddy-mmddy. The accounts payable technician said that instead of entering the invoice number as EXP080701-081501, she inadvertently entered the number as EXP080701-008150. If the number had been entered in the correct format, a programmed edit check would have identified the invoice number as a duplicate.

Thus, the accounts payable technician's failure to follow two specific procedures, namely, not stamping an invoice as paid and not entering an invoice number in the correct format, resulted in a duplicate electronic reimbursement. Moreover, personnel in the DHHS Controller's Office did not detect the duplicate reimbursement. It was only corrected because VR personnel notified the DHHS Controller's Office of the error.

Recommendations

- Compliance with specific procedures such as cancellation of documents and entering invoice numbers in a prescribed format should be emphasized to employees to ensure that controls such as system edit checks can function as intended.
- Supervisory personnel should be able to generate reports that can identify duplicate payments to vendors and employees for specific time periods.
- Travel expense reimbursement forms should be uniform for the Department of Health and Human Services (DHHS).
- Procedures for the repayment of overpayments or duplicate payments should be clearly communicated to all DHHS personnel.

Erroneous Payment to Employee for Vendor Provided Services

In June 2001, a VR employee authorized the DHHS Controller's Office to remit a \$300.00 payment to Mental Health Partners of Cumberland County (MHP) for training provided to several VR employees. The authorization was given via a signature on a letter from MHP that confirmed the attendance of VR personnel at the training session and the associated fees.

On June 19, 2001, the accounts payable technician referred to above issued a check to the VR employee who authorized the payment instead of to MHP. The employee returned the check to the DHHS Controller's Office and the check was cancelled. On July 16, 2001, the accounts payable technician processed the request for payment to MHP again but issued the check to Cape Fear Valley Health System, an affiliated organization.

Recommendations

- A payment should never be made to an employee based on the employee's approval. Payments should only be made to employees when there is clear evidence of supervisory or managerial approval of invoices or expense reimbursement requests.
- Only specific forms should be used to facilitate payments to employees, e.g. expense reimbursement forms, travel reimbursement forms, etc.

Overpayment of Employee Travel and Educational Expenses

In July 2001, a VR employee received a \$1,600 stipend directly from Western Oregon University to cover expenses incurred for an educational program attended by the employee. In August 2001, the employee submitted an expense reimbursement request for expenses in excess of the amount of the stipend. The employee's total expenses related to the continuing education were \$2,234.82. The reimbursement request indicated that the employee had received a stipend of \$1,600.00 and was only entitled to \$634.82 as a net reimbursement of expenses. Nonetheless, the accounts payable technician referred to above, processed the reimbursement for the full amount of \$2,234.82.

The VR employee notified the DHHS Controller's Office of the overpayment and subsequently wrote a personal check to reimburse DHHS for the \$1,600.00.

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Recommendations

- Accounts payable technicians should contact employees or vendors whenever there appears to be a question about amounts due.
- DHHS / VR should utilize an educational expense reimbursement form which clearly indicates the receipt of a stipend or other reimbursement to prevent the duplication of expense reimbursements.

We are presenting these findings and recommendations for your review and written response. The purpose of the response is to allow you the opportunity to outline any corrective actions taken or planned. We request the delivery of your written response by March 26, 2002.

If you have any questions or wish to discuss this matter further, please contact us. We appreciate the cooperation received from the employees of the DHHS Controller's Office and the Division of Vocational Rehabilitation Services.

Sincerely,



Ralph Campbell, Jr., CFE
State Auditor

RCjr/mfd

Management letters and responses receive the same distribution as audit report.



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Michael F. Easley, Governor

Carmen Hooker Odom, Secretary

March 25, 2002

The Honorable Ralph Campbell, Jr., State Auditor
Office of the State Auditor
2 S. Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Dear Mr. Campbell:

We have reviewed your March 11, 2002 management letter on the findings and recommendations resulting from your special review of the Department of Health and Human Services, Division of Vocational Rehabilitation in regards to three allegations of duplicate or erroneous payments to employees. The following represents our responses and corrective action plans to the Special Review Findings and Recommendations.

Finding: Duplicate Reimbursement of Travel Expenses:

Response: The DHHS Controller's Office concurs with this finding.

Corrective Action: The accounting technician identified with this finding has been notified of the finding cited in the State Auditor's management letter. The unit supervisor responsible for the Division of Vocational Rehabilitation's accounts payable functions has met with and counseled the accounting technician concerning the items identified in the finding. Stressed were the importance of following established procedures relating to payment of employee expense claims and invoices in general. Also included were emphasizing the importance of properly canceling of invoices with the "Entered" stamp and accuracy in keying as well as consistency in format. Even though the accounting technician stated that the invoice error was a mistake, the unit supervisor counseled the employee on the importance of not "forcing" the accounting system to take an entry it may reject due to duplication of data; an edit built in to assist in preventing this type of event from occurring.

The DHHS Controller's Office is currently exploring the development of reports for assistance in locating duplicate payments in the system. Unfortunately, current feedback indicates the large volume of data in such reports would make this impractical. However, we will continue to study and analyze the problem and try to find a reasonable solution through this venue.

Uniform travel expense forms are used throughout the Department of Health and Human Services (DHHS) with the exception of the Division of Vocational Rehabilitation (DVR).



When the DHHS Controller's Office was consolidated in 1997, it was noted that DVR had an automated expense form utilized by their personnel statewide. However, that form does not comply with the form format or new coding structure utilized by the North Carolina Accounting System (NCAS).

The DHHS Controller's Office has urged the DVR to convert to the new format and to adopt the Office of the State Controller's recommended employee expense reimbursement request form for submitting employee travel expense claims. DVR has acknowledged the problem since 1997 but has yet to implement the changes outside the central Raleigh office. We will continue to urge them get the remaining statewide offices on the proper format. It should be noted that the form being used did not contribute to the errors cited in this finding.

The DHHS Controller's Office also agrees with the recommendation that the procedures for handling overpayments and duplicate payments should be clearly communicated to all DHHS personnel. The DHHS Controller's Office will develop a written procedure for these events and will distribute the written instructions to appropriate management of each agency within the Department. Completion of this procedure is targeted for no later than May 31, 2002.

Finding: Erroneous Payment to Employee for Vendor Provided Services

Response: The DHHS Controller's Office concurs with the finding.

Corrective Action: As in the previous finding, the accounts payable technician was made aware of this finding and counseled in logic and appropriate procedure. It must be noted the accompanying note authorizing payment of this invoice was poorly worded and punctuated leading to the possibility that a reasonable person could have interpreted it in such a way, as did the technician. Notwithstanding, the technician should have, at a minimum, questioned the authorizing employee or employee's supervisor on their intent. Accounts payable technicians are clearly trained to never reimburse an employee for any expense unless the appropriate forms are used with proper supervisory authorizations. The affiliate of the intended payee, as referenced in the finding, was paid due to erroneous vendor group identification instructions received from the DVR. However, upon the entry of the data into the NCAS, the accounts payable technician should have had the presence of mind to notice the payee found by the accounting system did not match the entity name at the top of the invoice. The correct vendor, Mental Health Partners of Cumberland County, was ultimately paid and no further action is required on this finding.

Finding: Overpayment of Employee Travel and Educational Expenses

Response: The DHHS Controller's Office concurs with the finding. However, we note for the record that the DVR employee submitted the claim without properly identifying the stipend as being from an outside source and gave the appearance of being an employee cash advance. When the accounts payable technician researched for an

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outstanding advance, none was found in the system and she *assumed* it was an error on the part of the employee during the composition of the claim and reimbursed the claim without consideration of the stipend.

Corrective Action: As in the previous two findings, the accounts payable technician was made aware of this finding and counseled in logic and appropriate procedure. The accounts payable technician received reinforcement in the term "never assume, always question." The DHHS Controller's Office also agrees with the recommendation that agencies should submit reimbursement requests for educational expenses on the proper form. We have instructed the accounting technician in this finding to reject payment of any educational expenses unless they are submitted on the correct form.

We appreciate the assistance and professionalism provided by your staff in the performance of this review. If you have questions or need additional information, please contact Jim Lampley at 919-715-9058.

Sincerely Yours,



Carmen Hooker Odom

cc: Deputy Secretary
Director, DHHS Office of Internal Auditor
Section Chief, General Accounting and Financial Management
Branch Head, GA&FM, Team C
Unit Supervisor, GA&FM, Team C, General Accounting for DVR
Director, Division of Vocational Rehabilitation
Office of the State Controller