

PERFORMANCE AUDIT

MARTIN-TYRRELL-WASHINGTON DISTRICT HEALTH DEPARTMENT

AUGUST 2000

Office of the State Auditor



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AUDITOR'S TRANSMITTAL

August 29, 2000

The Honorable James B. Hunt, Jr., Governor
Dr. H. David Bruton, Secretary
Department of Health and Human Services
Members of the North Carolina General Assembly
Mr. Thomas Spruill, Chair
MTW Board of Health
Members of the MTW Board of Health

Ladies and Gentlemen:

We are pleased to submit this performance audit of the *Martin-Tyrrell-Washington District Health Department (MTW)*. This audit was requested by Secretary David Bruton of the Department of Health and Human Services.

This report consists of an executive summary, operational findings and recommendations, and program overview. The objectives of the audit were to: 1) determine and assess governance and oversight responsibilities for MTW, 2) determine the appropriateness of MTW's budget and audit processes, and 3) review and assess operational and fiscal management practices. The Secretary of the Department of Health and Human Services and the MTW Board of Health have reviewed a draft copy of this report. Their written comments are included as Appendix A, page 47.

We wish to express our appreciation to Secretary Bruton and his staff, members of the MTW Board of Health, and the staff of the MTW District Health Department for the courtesy, cooperation, and assistance provided us during this effort.

Respectfully submitted,

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive style.

Ralph Campbell, Jr.
State Auditor



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EXECUTIVE SUMMARY

Program Description

Martin-Tyrrell-Washington District Health Department (MTW), which is governed by a 15 member Board of Health, serves approximately 43,000 residents of the three-county area. The headquarters is located in Washington County with satellite offices in Martin and Tyrrell counties.

MTW operates under the authority of GS §130A-34, which states that a county shall provide public health services. The county may provide those services by participating in a district health department, such as MTW. The Board of Health (Board) appoints a Health Director with the powers and duties outlined in GS §130A-41. Those duties include: 1) administering programs as directed by the local board of health; 2) enforcing rules of the board of health; 3) investigating causes of infectious, communicable and other diseases; 4) exercising quarantine authority and isolation authority; 5) disseminating public health information and promoting the benefits of good health; 6) advising local officials concerning public health matters; 7) enforcing immunization requirements; 8) examining and investigating cases of venereal disease; 9) examining and investigating cases of tuberculosis; 10) examining and investigating and controlling rabies; 11) abating public health nuisances and imminent hazards required by statutes; 12) employing and dismissing employees of the local health department; and 13) contracting in accordance with the Local Government Finance Act, GS §159.

Audit Scope and Methodology

This performance audit was undertaken at the request of the Secretary of the Department of Health and Human Services. The scope of the audit includes the financial and operational procedures of the Martin-Tyrrell-Washington District Health Department. To achieve the audit objectives, we employed various auditing techniques which adhere to the generally accepted standards as promulgated in *Government Auditing Standards* issued by the Comptroller General of the United States.

Audit Objectives

We identified specific objectives relative to the Martin-Tyrrell-Washington District Health Department's operations (referred to throughout the report as MTW). The performance audit focuses on determining and assessing governance and oversight responsibilities; determining the appropriateness of budget and audit processes; and reviewing and assessing operational and fiscal management practices.

Conclusions in Brief

- The General Assembly has established various statutes in recognition that a unified purpose and direction of the public health system is necessary to ensure that all North Carolina citizens have equal access to essential public health services. However, the statutes do not address in detail the level of oversight that should be exercised over local health departments by the Department of Health and Human Services (DHHS) or the local board of health. Because of the ambiguity in the statutes relative to oversight, DHHS' policy is to provide direct assistance only when asked by the local

EXECUTIVE SUMMARY

Health Director. In keeping with this policy, DHHS did not communicate any concerns directly to the local MTW Board. Thus, the Board did not have the needed information to enable it to address timely and effectively the serious problems MTW was facing. Additionally, we found that DHHS has limited staff to provide assistance to all local health departments in the State.

- MTW has failed to adhere to budget requirements outlined in General Statutes for the past two fiscal years. During this same period, MTW has failed to meet Local Government Commission deadlines for submitting year-end audit reports.
- Overall, MTW has suffered from a lack of strong operational and financial leadership and poor decisions made without consideration of the financial condition of the agency. Recordkeeping was spotty at best and, in many instances, non-existent. The former Director knowingly failed to revise inflated visit levels for Home Health services, resulting in overpayments by Medicare of \$1,159,933. These overpayments were used to fund continued operations at MTW. Now MTW must repay Medicare the original amounts plus interest. While MTW has made some progress in establishing internal controls, it still does not have adequate controls in place to ensure the safeguarding of resources. The lack of organized and complete records at MTW is due, in part, to insufficiently trained staff. The result of all these weaknesses was a decline in the fund balance from a positive \$1,405,587 at July 1, 1995 to a negative \$571,850 at June 30, 1999.

The Secretary of the Department of Health and Human Services and the MTW Board of Health reviewed the draft report. Responses from the Secretary and the Board are included as Appendice A, page 47.

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AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

North Carolina General Statutes (GS) 147-64 empowers the State Auditor with authority to conduct performance audits of any State agency or program, as well as local entities, receiving State and federal funds. Performance audits are reviews of activities and operations to determine whether resources are being used economically, efficiently, and effectively.

This performance audit of the Martin-Tyrrell-Washington District Health Department (MTW) was requested by the Secretary of the Department of Health and Human Services. Specific objectives of the audit were identified in the Secretary's request, with additional objectives being identified during the survey phase of the audit. The audit objectives were:

- To determine and assess governance and oversight responsibilities;
- To determine the appropriateness of budget and audit processes; and
- To review and assess operational and fiscal management practices.

During the period of April 4 through June 20, 2000, we conducted the on-site fieldwork for the audit. To achieve the performance objectives, we employed various auditing techniques which adhere to the generally accepted standards as promulgated in *Government Auditing Standards* issued by the Comptroller General of the United States. These techniques included:

- Review of existing General Statutes, federal laws and North Carolina Administrative Codes as they related to district health departments;
- Review of policies and procedures of MTW;
- Site visits to the health department offices in each of the three counties;
- Review of existing audits and reports conducted on MTW;
- Examination of organizational charts, job descriptions, payroll and personnel data;
- Analyses of financial statements and a sample of expenditures;
- Review of fixed assets;
- Review of MTW contracts; and
- Interviews with key personnel, MTW Board of Health members, as well as with persons external to MTW.

This report contains the results of the audit including our conclusions and recommendations. Specific recommendations aimed at improving the operations of MTW in terms of economy, efficiency, and effectiveness are reported. Because of the test nature and other inherent limitations of an audit, together with the limitations of any system of internal and management controls, this audit would not necessarily disclose all weaknesses in the system or lack of compliance. Also, projection of any of the results contained in this report to future periods is subject to the risk that procedures may become inadequate due to changes in conditions and/or personnel, or that the effectiveness of the design and operation of the procedures may deteriorate.

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FINDINGS AND RECOMMENDATIONS

Objective: To determine and assess governance and oversight responsibilities.

To accomplish this objective, we identified relevant State laws, regulations, and rules affecting the functions of local health departments and local boards of health. This review included an identification of the statutory responsibilities of the State-level agencies, as well as the local responsibilities. Additionally, we conducted detailed interviews with Department of Health and Human Services (DHHS) representatives and MTW Board members to obtain an understanding of members' functions and experience levels.

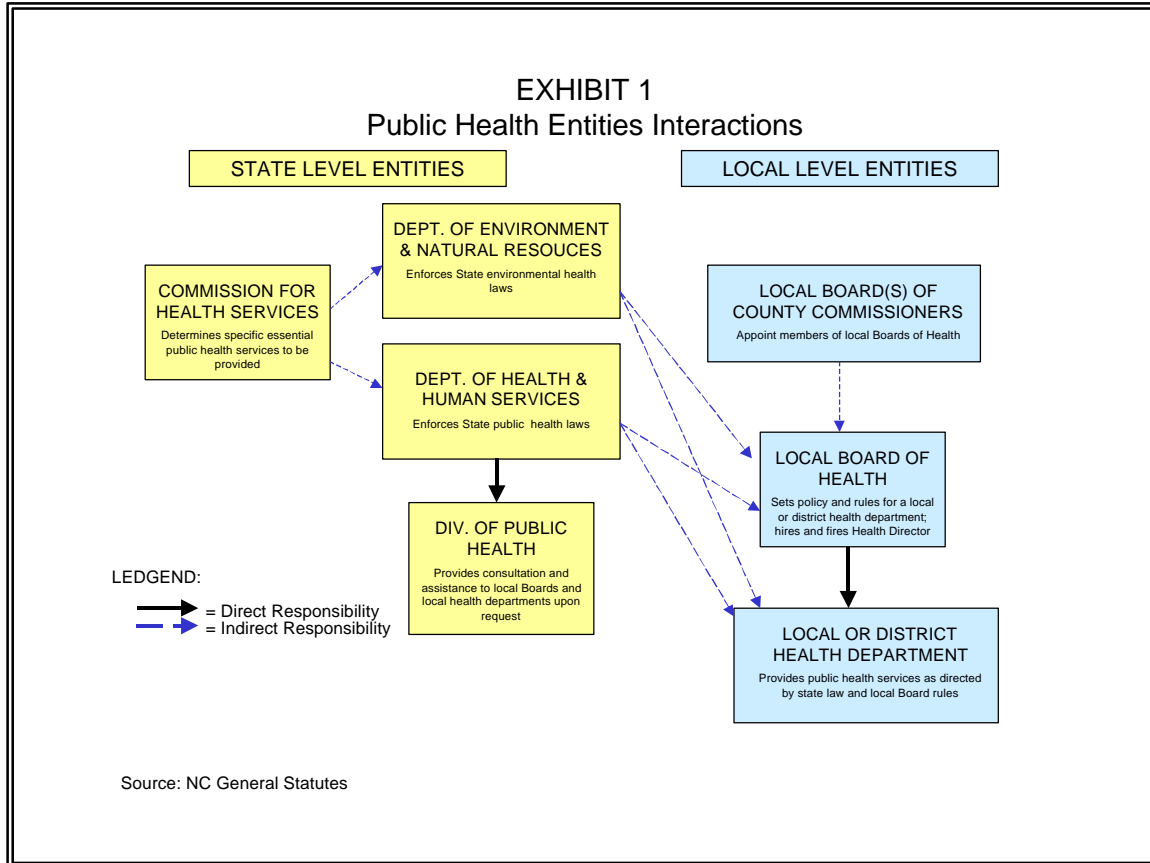
Conclusions: The General Assembly has established various statutes in recognition that a unified purpose and direction of the public health system is necessary to ensure that all State citizens have equal access to essential public health services. However, the statutes do not address in detail the level of oversight that should be exercised over local health departments by the Department of Health and Human Services (DHHS) or the local board of health. Because of the ambiguity in the statutes relative to oversight, DHHS' policy is to provide direct assistance only when asked by the local Health Director. In keeping with this policy, DHHS did not communicate any concerns directly to the local MTW Board. Thus, the Board did not have the needed information to enable it to address timely and effectively the serious problems MTW was facing. Additionally, we found that DHHS has limited staff to provide assistance to all local health departments in the State. Further, the composition of MTW's Board does not include members from statutorily required professions and members were not trained for board-related responsibilities. Lastly, there is a need to repair or replace several of the MTW facilities.

GOVERNANCE AND OVERSIGHT OF LOCAL HEALTH DEPARTMENTS NEEDS CLARIFICATION AND STRENGTHENING.

North Carolina GS §130A-1.1 establishes essential public health missions and essential services. The statute empowers the Commission for Health Services to determine the specific services to be provided under each category of identified essential public health services. GS §130A-4 requires the Secretary, Health and Human Services, along with the Department of Environment and Natural Resources to administer and enforce State health and environmental laws and rules of the Commission for Health Services. When requested by the Secretary, a local health department shall enforce the rules of the Commission under the supervision of the Department. GS §130A-37 provides for the establishment of a local Board of Health as the policy-making, rule-making, and adjudicatory body for a local health department. Health Directors, hired by the local

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board, are responsible for administering the programs of the health department and for enforcing the rules of the board of health. Exhibit 1 shows the different entities with statutory responsibilities for public health and how they interact. (See page 38 for a more detailed discussion of responsibilities).



DHHS’ Local Health Service Section (Section) within the Division of Public Health serves as a liaison with local health departments for general problem solving and technical support. Among its primary activities is assisting local health departments to operate at an optimum level of efficiency and effectiveness. The Section provides local health departments with “administrative consulting services” and advice to local Health Directors. “Consulting services” include Board relations, management teams and staffing, policy development, and general administrative consultation. DHHS policy says that these regional consultants may only provide assistance when asked by the local Health Director.

Interviews with MTW Board members and discussions with DHHS personnel revealed that the MTW Board did not receive direct information from DHHS relative to MTW’s administrative and financial problems. DHHS was aware of MTW’s financial problems and discussed those problems with the former Health Director, providing assistance as

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requested per its policy. DHHS did not communicate its concerns to the MTW Board, assuming that the Director was keeping the Board informed. However, Board members stated that they were not made fully aware of MTW's financial situation until it became a crisis.

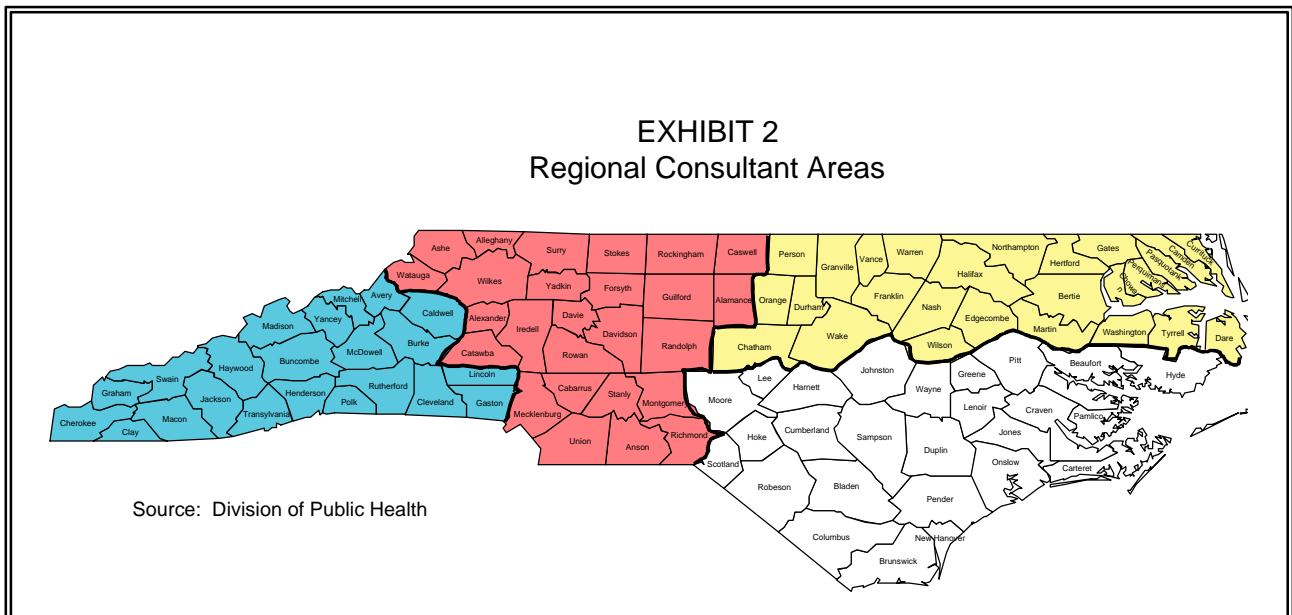
In our opinion, increased oversight, monitoring, and direct communication between DHHS, the District Health Director, and the MTW Board of Health may have prevented or lessened many of the financial and administrative problems MTW experienced.

RECOMMENDATION

The General Assembly should consider modifying existing statutes to clearly define the level of oversight responsibility DHHS and local boards of health should exercise over local health departments. DHHS should develop specific monitoring procedures and establish a notification process for troubled health departments to ensure Board chairpersons and county managers are kept adequately informed of concerns.

DHHS LACKS SUFFICIENT STAFF TO ADEQUATELY MONITOR LOCAL HEALTH DEPARTMENTS.

As previously stated, DHHS' Division of Public Health provides regional consultants to assist local health departments in various management areas. Currently, there are only four regional consultants to provide these services to all 86 local health departments in the State. The territories served by the regional consultants are shown in Exhibit 2.



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Once the seriousness of the MTW problems was known, DHHS took steps to provide direct assistance. DHHS helped the local Board of Health engage the services of an interim Director, a retired Health Director from another region of the State. Also, since December 1, 1999, DHHS has had one of its four regional consultants working full time at MTW to assist in identifying and resolving many of the financial and administrative problems. Because of the magnitude of MTW's problems, DHHS assigned a second regional consultant to MTW in April 2000. For fiscal year 1998-99, the two regional consultants combined have spent a total of 50% of their time assisting MTW. Plans are to continue this level of support until the local Board hires a new Health Director and Finance Officer¹ and they have an opportunity to begin to properly train the MTW staff.

RECOMMENDATION

We concur with DHHS' decision to continue to offer support until MTW is running efficiently with well-trained staff. However, the current level of support for MTW severely limits staff available to assist other health departments. DHHS should determine the appropriate level of staff needed to adequately provide effective assistance to the State's local health departments. DHHS should then request additional resources from the General Assembly.

THE COMPOSITION OF THE MTW DISTRICT BOARD OF HEALTH DOES NOT MEET STATUTORY REQUIREMENTS.

GS §130A-37 sets forth criteria for local boards of health, stating that each board shall be composed of 15 to 18 members. The Board of Commissioners of each county in the health district are to appoint one County Commissioner to the board of health. The statute also sets forth that, in addition to representatives from the general public, the board shall include at least one member from each of the professions listed in Table 1.

TABLE 1 Occupations Required on Local Boards of Health	
Licensed Physician	Licensed Optometrist
Licensed Veterinarian	Registered Nurse
Licensed Pharmacist	Professional Engineer
Source: North Carolina General Statutes	

The statute allows the appointment of a representative from the general public until a person from the identified professions is available to serve. MTW's Board of Health has been without a physician, optometrist, and veterinarian since December 31, 1999.

The requirements for the composition of the Board do not specifically include individuals with any financial expertise. However, the budget for MTW currently exceeds \$6 million and supports a wide and complex system of services. In February 2000, one County Manager and one County Finance Officer were appointed as members.

¹ The new finance officer began work at MTW on June 5, 2000. The Health Director began work on July 3, 2000.

FINDINGS AND RECOMMENDATIONS

RECOMMENDATION

The County Commissioners from each of the participating counties should actively seek persons from the required professions for appointment to the MTW Board of Health. We encourage the Commissioners to continue to appoint representatives to the Board who have substantial knowledge of governmental accounting and budgeting. Additionally, the General Assembly should consider revising GS §130A-37 to require local boards of health to include members with governmental accounting and budgeting experience.

MTW BOARD MEMBERS HAVE NOT RECEIVED NEEDED TRAINING.

Interviews with current and former Board members revealed that there has been no formal training provided to Board members. While some members come to the Board with experience in serving on other boards, most lack such experience. Specifically, members need education and training on fiscal management, budget development, and fiscal accountability, as well as general operating aspects of the health department. GS §122C-119.1 relating to *Area Boards of Mental Health* requires DHHS to provide training in the identified areas to those board members. In our opinion, some of MTW's past financial problems resulted from Board decisions that were based on inaccurate financial information and projections which Board members did not know to question.

RECOMMENDATION

The General Assembly should consider revising the statutes to charge DHHS with requiring that members of local boards of health undergo training in fiscal management, budget development, fiscal accountability, and orientation on operational issues. The Association of Boards of Health offers this type training at little cost to local boards.

SEVERAL MTW FACILITIES ARE IN NEED OF REPAIR OR REPLACEMENT.

The MTW District Health Department consists of facilities provided by each of the three counties—Martin, Tyrrell, and Washington. The MTW facilities in Plymouth, North Carolina are comprised of three separate buildings owned by Washington County. The building, housing the offices of the Health Director and finance office staff, is small and crowded. The most immediate problem is a lack of storage space for financial records. Most of MTW's records are kept in a storage unit behind the building that used to be the back of a soft drink truck. In addition, on a recent visit to the clinic building in Washington County, we observed leaking resulting in water damage to the ceiling, floor and walls.

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The MTW building used as a clinic in Martin County is an old school building. The day of our visit it was raining and water was coming through the roof in several rooms, some of which were used as part of the clinic. The County is attempting to stop the roof from leaking but because of its type and design, this has proven difficult.

RECOMMENDATION

MTW management should identify needed repairs to all health department facilities and bring these to the attention of the Board of Health. The Board should request assistance from each of the three counties in addressing the physical plant needs of the health department as funds become available.

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Objective: *To determine the appropriateness of budget and audit processes.*

To achieve this objective, we reviewed MTW Board minutes and analyzed MTW reports and financial data. Additionally, we examined relevant State laws for compliance. We interviewed individuals within MTW involved in the preparation of the budgets and financial statements. Lastly, we interviewed contractors and DHHS staff who were involved in assisting MTW with its financial operations at different points in time.

Conclusion: **MTW has failed to adhere to budget requirements outlined in General Statutes for the past two fiscal years. During this same period, MTW failed to meet Local Government Commission deadlines for submitting year-end audit reports.**

MTW’s BUDGET PROCESS DOES NOT MEET STATUTORY REQUIREMENTS.

Preparation and approval of the MTW budgets for fiscal years 1998-99 and 1999-00 did not meet the requirements of GS §159, the Local Government Finance Act. Specific

TABLE 2 Budget Deficiencies	
1998-99 budget	1999-00 budget
<ul style="list-style-type: none"> • The budget presented to the Board of Health was not balanced; no revenues were included, only expenditures. • The budget posted to the general ledger did include projected revenues which were overstated (45.3% higher than previous fiscal year) and unrealistic. • Financial contract personnel and the regional consultant informed MTW of overstated revenues but no reductions were made. • Only one budget revision increasing the budget was contained in the Board of Health minutes. 	<ul style="list-style-type: none"> • The budget ordinance was approved after the statute deadline. • No interim budget was enacted to cover the period of July 1 through July 6, 1999. • A realistic budget was not finalized until May 30, 2000.
Source: Compiled by the Office of the State Auditor	

deficiencies for those budget years are detailed in Table 2. As required by statute, budgets presented for approval should be balanced and revenues included in the budget should be realistic. The deadline for budget ordinance approval is July 1 each year. Changes to the budget should be done though board approved budget revisions.

Except for a six-week period in 1999, MTW has been without an experienced Finance Officer since April 1998. The budget problems described above can be

attributed in part to the lack of a skilled Finance Officer.

RECOMMENDATION

The MTW Board and Health Department Director should immediately put controls in place to ensure compliance with the Local

FINDINGS AND RECOMMENDATIONS

Government Finance Act in its entirety. The Director should designate a qualified individual to prepare a balanced, realistic budget and present it to the Board for approval prior to statute deadline. Changes to the budget should be made only after the Board has approved budget revisions.

THE MTW AUDIT REPORTS WERE SUBMITTED LATE TO THE LOCAL GOVERNMENT COMMISSION FOR FISCAL YEARS ENDED JUNE 30, 1998 AND JUNE 30, 1999.

Under authority granted in GS §159, the Local Government Commission (LGC) sets deadlines for the submission of required annual audits of local government entities. The required submission date is October 31st for June 30th year-end audits. The LGC received the MTW audit reports for fiscal years ended June 30, 1998 and June 30, 1999 nearly six months late. The audit report for 1998 was received on April 21, 1999, and the audit report for 1999 was received on April 12, 2000.

The LGC requires an amended contract for those audit reports not submitted by December 1st. We were unable to locate either the original contract for the fiscal year ending June 30, 1998 or any amendments² for either audit. A representative of the certified public accounting firm that performed the audits in question stated that the poor condition of the MTW accounting records was the reason for the delay in reporting. For these two fiscal years, the CPA was unable to present the financial statements by program. Instead, the accounting firm presented the financial condition of the entity as a whole.

No specific penalties exist for late reports. To be useful, however, the report should be made available to the public, legislators, and local, State, and federal agencies as soon after the reporting period as possible.

RECOMMENDATION

MTW should make every effort to improve financial records to ensure completeness and accuracy. This will eliminate the need for additional time and work by auditors in preparation of annual audited financial statements and allow for timely submission of audit reports to the Local Government Commission.

² For fiscal year ended June 30, 1999, the LGC did not require the amended contract for counties affected by Hurricane Floyd and related flooding, but did request a letter stating the date the audited financial statements would be submitted. No letter was submitted for MTW.

FINDINGS AND RECOMMENDATIONS

Objective: *To review and assess operational and fiscal management practices.*

To satisfy this objective, we interviewed current and former MTW staff, public accounting audit staff, and personnel from MTW's current healthcare consulting firm. We reviewed all policy and procedures that we could locate for personnel, fixed assets, and billing. We also examined agency bank accounts, Medicare and Medicaid billing documentation, general ledger records, fixed assets records, selected expenditures, personnel records, and agency contracts. Additionally, we reviewed relevant General Statutes for compliance. To assist the reader, we have grouped the findings under this objective into the following categories: management issues; financial issues; contracting issues; internal control issues; and personnel issues.

Conclusion: Overall, MTW has suffered from a lack of strong operational and financial leadership and poor decisions made without consideration of the financial condition of the agency. Recordkeeping was spotty at best and, in many instances, non-existent. The former Director knowingly failed to revise inflated visit levels reported for Home Health services, resulting in overpayments by Medicare of \$1,159,933. These overpayments were used to fund continued operations at MTW. Now MTW must repay Medicare the original amounts plus interest. While MTW has made some progress in establishing internal controls, it still does not have adequate controls in place to ensure the safeguarding of resources. The lack of organized and complete records at MTW is due, in part, to insufficiently trained staff. The result of these weaknesses was a decline in the fund balance from a positive \$1,405,587 at July 1, 1995 to a negative \$571,850 at June 30, 1999.

Managerial Issues:

THE FORMER HEALTH DIRECTOR MADE FINANCIAL AND OPERATIONAL DECISIONS WITHOUT ADEQUATE CONSIDERATION OF MTW'S FINANCIAL CONDITION.

The former Health Director suspended MTW's Finance Officer on April 7, 1998 for a number of reasons relating to the absence of financial controls. A specific concern related to a purchase of three computers from a vendor in Washington, North Carolina. The Finance Officer's husband had built these computers and then sold them to the vendor. The Finance Officer then purchased these computers from the vendor for MTW with MTW funds. This resulted in a possible conflict of interest for the Finance Officer.* The other issues all related to the lack of internal financial controls. The Finance Officer ultimately retired on January 1, 1999.

*** Auditor's Note:** *As required by GS §147-64.6(c)(12), we are referring this incident to the State Bureau of Investigation for further review.*

FINDINGS AND RECOMMENDATIONS

The Health Director, who had no specific financial training, designated himself as Finance Officer in April 1998. He then delegated these duties to an employee who also was not trained in the area of finance. During the period of time in which this employee performed the duties of the Finance Officer, the inaccuracy and incompleteness of the financial records did not improve and, in fact, deteriorated.

During the approximate two-year period the Director was the Interim Finance Officer, he took no steps to correct the financial and accounting shortfalls he identified when he suspended the former Finance Officer. When the Director resigned on February 15, 2000, MTW still did not have internal controls in place and was without a fixed asset system. (See discussion on page 30.)

During 1997 through 1999, the Director made a number of financial and operational decisions that adversely affected MTW's fund balance.³ In July 1995, MTW had a positive fund balance of \$1,405,587. By June 1999, the fund balance had been reduced to a negative \$571,850. Table 3 shows the change in MTW's fund balance. The major issues affecting the fund balance are detailed below.

- In October 1997, the Director authorized the employer match portion of a 457K deferred compensation plan for employees. MTW matched contributions to the plan, up to three percent of employee salaries. MTW contributed \$222,697 to the plan from October 1997 through March 2000. At that point, MTW's Board discontinued agency participation.

TABLE 3				
Changes in MTW's Fund Balance				
Fiscal Year	Beginning Fund Balance	Ending Fund Balance	Fund Balance Increase/ (Decrease)	% of Fund Balance Increase/ (Decrease)
95/96	\$1,405,587	\$1,155,449	(250,139)	(17.80%)
96/97	1,155,448	1,033,524	(121,924)	(10.55%)
97/98	1,033,524	1,156,110	122,586	11.86%
*98-99	1,156,110	(571,850)	(1,727,960)	(149.46%)
*Decreased fund balance in FY 1998-99 is due to				
<ul style="list-style-type: none"> • Medicare payback of \$870,000 recognize as a current expense though actual payments will be spread over a three year period. • Spending was based on budgeted revenue of \$8,104,908 rather than actual revenue of \$5,659,716. • Remaining differences could not be identified due to the lack of reliance in MTW's general ledger accounts. 				
Source: Compiled by Office of the State Auditor				

- The Director started a primary care program in fiscal year 1998-99. Initially he contracted with a company to supply physicians for the program; later he hired a physician at an annual salary of \$114,806 to run the program. MTW never applied for a Medicaid provider number in order to be eligible for reimbursement for services provided. The program was terminated after just three months, having lost \$120,000.
- The Director awarded MTW employees a salary increase on July 1, 1998 when MTW was having cash flow problems. He had been advised by the financial contractor to delay the pay raises until January 1, 1999. This action cost MTW \$63,784 which it did not have.

³ General Statutes allow governmental entities to use fund balances to supplement revenues in order to cover program expenditures.

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RECOMMENDATION

All financial and operational decisions for MTW should be based on the actual financial condition. The Director should fully inform the Board of the current financial condition and implications of new initiatives before seeking approval from the Board to embark on new programs or before entering into major financial agreements. Additionally, the Health Director, under direction of the Board, should immediately take steps to hire qualified financial staff for the District Health office.

Auditor's Note: On June 5, 2000 the Interim Director and the Board hired a former city manager to take over the Finance Officer duties for MTW.

THE FORMER HEALTH DIRECTOR DID NOT KEEP THE MTW BOARD OF HEALTH ADVISED ON THE SERIOUSNESS OF FINANCIAL PROBLEMS.

We examined the minutes of all the Board meetings during the time the former Director was employed at MTW. We found no evidence that the Director had adequately described MTW's financial condition. We interviewed Board members to determine whether they had been given any indication of the seriousness of MTW's financial condition. All indicated that the seriousness of the financial problems was not fully explained to them until MTW was in a crisis situation. However, we found no indication in the minutes that Board members had asked for any further details on the financial condition of MTW beyond what the former Director presented. Board members interviewed said that if the Director had shared the information, the Board would have addressed the problems and devised possible remedies much sooner than it did.

RECOMMENDATION

The Health Director should keep the Board fully and accurately informed of MTW's financial condition. Board members should routinely ask questions of the Director and the Finance Officer whenever they do not understand the information being presented.

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Financial Issues:

MTW'S ACCOUNTING RECORDS ARE INCOMPLETE AND INADEQUATE.

In our opinion, MTW's records for fiscal years 1997-98 and 1998-99 are in such disarray that we would describe them as unauditible. The accounting records for the period proceeding January 2000 were incomplete in many areas. There were missing bank statements for several months in fiscal year 1998-99. Vendor files were incomplete and lacked supporting documentation for payment of invoices. Authorization to write checks was missing on many invoices. There were instances of unauthorized or duplicate payments of invoices. There were no established written procedures for processing and recording receipts. Revenues were being posted to a holding account rather than distributed to the appropriate revenue account. Checks were posted incorrectly, and salaries were not always charged to the correct fund.

Most of the deficiencies were identified in the fiscal year 1998-99 audit report issued by MTW's independent CPA firm. The Regional Consultant from DHHS has been on site since December 1999 acting as the interim Finance Officer. Much of her time has been devoted to correcting these deficiencies for the current fiscal year.

RECOMMENDATION

MTW should continue to utilize the controls and processes implemented by the interim Finance Officer. Additional controls should be implemented by the new Finance Officer to assure that all the above noted deficiencies will be adequately addressed.

ACTUAL REVENUES FOR CURRENT FISCAL YEAR CANNOT BE ACCURATELY IDENTIFIED IN GENERAL LEDGER.

We attempted to identify actual revenues for the current fiscal year during fieldwork but were unable to do so. As reported above, revenues had been posted to a holding account for a 10-month period. The interim Finance Officer made a number of journal entries to remove revenues from this account. However, general ledger figures were still incorrect due to the magnitude of errors in the holding account. For example, we found that revenues from the previous fiscal year were posted to fiscal year 1999-00. Currently, the general ledger does not have budget revenues posted to all programs, nor are actual revenues posted accurately.

The use of a holding account, lack of posted budget figures, and incorrect posting of revenues can all be attributed to the lack of an experienced Finance Officer to perform these functions for two years. The result is that neither budgeted nor current revenues can be easily determined. Information from various sources must be obtained to manually prepare a compilation of revenues. Monitoring to ensure revenue projections are feasible and expenditures are covered is also made more difficult. Posting revenues

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at the time of receipt would be a more efficient use of time, and program revenue status would be readily available.

RECOMMENDATION

MTW management should immediately assign a qualified, experienced individual the duty of posting budget and actual revenues to the general ledger. Additionally, controls should be established to ensure revenues are posted timely and to the appropriate fiscal year.

MTW IS NOT FULLY UTILIZING ITS ACCOUNTING SOFTWARE.

MTW originally implemented the current accounting software, MUNIS, in September of 1997. A review of the capabilities of the system and the actual uses by MTW revealed the following concerns.

- The payroll and accounts payable functions were used initially, but the general ledger function was prepared off line by MTW's public accounting firm.
- Employees currently assigned to accounts payable and general ledger functions have not been properly trained on the accounting system.
- As of June 1, 2000, the original budget, budget revisions, and cash for fiscal year ending June 30, 2000 had not been completely entered into the accounting system.
- The current database has become cluttered with errors due to the inexperience of system users and will be replaced at the end of the fiscal year. This is the second time since 1997 that MTW will have to start with a new database.
- Current chart of accounts structure makes it difficult to determine revenues by program. Revenues for General Administration, for example, are located in five different areas.
- A manual system is used for tracking leave time balances instead of the payroll system. A review of 27 employee payroll records revealed three errors (11%) in recording leave time. One employee used 41.5 hours of vacation time and only four hours was recorded on the manual system. Another instance revealed an employee used two hours sick leave and 20 hours was recorded on the manual system.

Failure to utilize the general ledger function of the system hinders operations by not being able to readily determine how actual revenue and expenditures are matching up to budgeted amounts. As previously noted, the audit reports for fiscal years 1997-98 and 1998-99 were more difficult to complete resulting in late submission to the Local Government Commission. By not maintaining cash balances through the accounting system, balances must be determined manually or by a separate computer spreadsheet. Additional manual calculations are necessary to obtain all revenues for a particular program.

The Interim Finance Officer has begun to streamline the adjustments to the chart of accounts and directly post revenues, but the process is not complete. Additionally, all financial staff need to be adequately trained to effectively utilize the software. We

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learned that the MUNIS accounting software is used by 41 health departments and local governments in North Carolina and that MUNIS does provide training.

RECOMMENDATION

MTW should increase utilization of accounting software by training staff in assigned areas and use all available program functions for a more efficient use of staff and resources. Additionally, MTW should complete the revision of the chart of accounts and revenue posting procedures for easier analysis of the agency's financial status.

MTW DID NOT REVISE HOME HEALTH MEDICARE PERIODIC INTERIM PAYMENTS TO REFLECT ACTUAL VISIT LEVELS.

One of the programs operated by MTW is the Roanoke Home Health and Hospice program, which receives bi-monthly payments from Medicare for services anticipated to be rendered. These interim payments must then be supported by quarterly cost reports submitted to Medicare. Examination of records shows that during fiscal year 1998-99, MTW received payments to support a higher number of visits than were actually made. Interviews with current and former Home Health staff indicated that the MTW Health Director was aware of the inaccurate data in the cost reports submitted to Medicare. Since MTW was experiencing a cash flow problem at this point in time, it is our understanding that the Director chose not to adjust the Medicare cost reports.⁴ The excess revenue generated from this source allowed the Director to continue MTW operations.

Medicare officials became aware of the overpayment when the final cost report for fiscal year 1998-99 was submitted. Home Health quarterly cost report estimates were based on the previous year's activity level of 37,800. Actual annual visits for fiscal year 1998-99 fell to 19,600 visits, which is 51.85% below previous year services levels. At that point, it was determined that the cost per visit exceeded the Medicare reimbursement and necessitated a payback from MTW of \$1,159,933. In November 1999, Medicare approved a payment plan for MTW as shown in Table 4, page 21. In addition to the overpayment, MTW will be responsible for interest⁵ during the second and third year of the payment schedule. The interest rate will be assessed based on the rate in effect at December 2000. At March 31, 2000, the adjusted payback amount was \$865,803 after Medicare adjustment and MTW payments.

⁴ MTW's health care consultant made recommendations to the Director regarding staffing levels and ways to reduce corresponding costs per visit.

⁵ MTW's Board of Health approved additional expenses of up to \$30,000 to engage an attorney to seek help in reducing or eliminating the payback and interest of this debt. As of June 28, 2000 no expense for an attorney has been incurred.

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TABLE 4 Roanoke Home Care Extended Repayment Schedule For Interim Rate Adjustment Fiscal Year Ended June 30, 1999		
Payment Due Date	Payment Amount	Balance
		1,159,933.00
10/26/1999	21,195.77	1,138,737.23
*10/28/1999	1,240.00	1,137,497.23
12/13/1999	33,455.80	1,104,041.43
01/13/2000	33,455.80	1,070,585.63
02/13/2000	33,455.80	1,037,129.83
03/13/2000	33,455.80	1,003,674.03
04/13/2000	33,455.80	970,218.23
05/13/2000	33,455.80	936,762.42
06/13/2000	33,455.80	903,306.62
07/13/2000	33,455.80	869,850.82
08/13/2000	33,455.80	836,395.02
09/13/2000	33,455.80	802,939.22
10/13/2000	33,455.80	769,483.42
11/13/2000	33,455.80	736,027.62
12/13/2000	33,455.80	702,571.82
01/13/2001	33,455.80	669,116.02
02/13/2001	33,455.80	635,660.22
03/13/2001	33,455.80	602,204.42
04/13/2001	33,455.80	568,748.61
05/13/2001	33,455.80	535,292.81
06/13/2001	33,455.80	501,837.01
07/13/2001	33,455.80	468,381.21
08/13/2001	33,455.80	434,925.41
09/13/2001	33,455.80	401,469.61
10/13/2001	33,455.80	368,013.81
11/13/2001	33,455.80	334,558.01
12/13/2001	33,455.80	301,102.21
01/13/2002	33,455.80	267,646.41
02/13/2002	33,455.80	234,190.61
03/13/2002	33,455.80	200,734.81
04/13/2002	33,455.80	167,279.00
05/13/2002	33,455.80	133,823.20
06/13/2002	33,455.80	100,367.40
07/13/2002	33,455.80	66,911.60
08/13/2002	33,455.80	33,455.80
09/13/2002	33,455.80	0.00
* Adjustment by Medicare		
Source: Palmetto Government Benefits Administrators, LLC, Medicare Audit & Reimbursement		

RECOMMENDATION

MTW's Director and Finance Officer should monitor Home Health services closely to ensure eligible reimbursements are in line with periodic payments. Cost reports should be reviewed and evaluated for reasonableness and accuracy to avoid any future Medicare payback situation. MTW should analyze previous recommendations regarding staffing levels and ways to reduce corresponding costs per visit to ensure maximum reimbursement by Medicare.

MTW DID NOT SUBMIT COMPLETE AND TIMELY BILLINGS FOR MEDICARE AND MEDICAID.

Federal guidelines allow reimbursement for billings only within established timeframes from the date of service (12 months for Medicaid and 18 months for Medicare). Failure to comply may result in denial of payment although expenses have been incurred. We located documentation showing denials for both Medicare and Medicaid payments due to inaccurate, incomplete, or untimely billing submissions. Interviews with the Home Health staff revealed that billings to Medicare and Medicaid were routinely submitted late. Failure to file a complete and accurate billing statement prior to the exhaustion of the federal reimbursement timeframes could result in excessive bad debt write-off for MTW. Due to lack of an audit trail, we were unable to determine how much of debt write-offs were due to billing errors. (See next finding.)

A review of the Home Health policy and procedures manual revealed that staff have been provided with limited billing guidelines. The lack of detailed, written procedures for operations could result in inconsistent practices, employee confusion, and less than optimal job performance.

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RECOMMENDATION

MTW management should review policies and procedures for all billing functions. To ensure consistency and improve billing services, the policies and procedures should detail what information is required by funding source. Once such policies are in place, management should enforce strict adherence to the procedures. The Home Health supervisor and MTW Finance Officer should take steps to ensure that billing information is completed and submitted in a timely manner.

MTW's FINANCE OFFICE DID NOT TRACK AND FOLLOW-UP HOME HEALTH BILLING SUBMISSIONS.

We learned during the audit that MTW does not track billing denials or reasons for non-payment of bills. MTW has not tracked submission of bills to be paid and, therefore, cannot determine the percentage of payments received for bills submitted before May 2000. The MTW Home Health clerical supervisor was not aware that the system had the ability to track billings submitted and trace the number and causes of denials for payments or to generate corresponding reports.

Because of the above concerns, we reviewed the amount of bad debt write-off for fiscal years 1997-98 and 1998-99. We found that MTW wrote off only \$6,412 and \$4,450 as bad debt during the 1997-98 and 1998-99 fiscal years, respectively. However, the independent auditor's reports on MTW for those fiscal years estimated that MTW Home Health Allowance for Doubtful Accounts should have been \$319,473 and \$894,774, respectively. Tracking the billing submissions and monitoring denials for payment and resolution could reduce the amount of bad debt written off.

RECOMMENDATION

Management should utilize the tracking mechanism within the Home Health software program to ensure that any bills for services provided are submitted in a timely manner and any denials for payment are followed up and resolved. Billing department procedures should be modified to assure prompt and accurate handling of all billing submissions and any necessary rebilling. MTW management should research the potential for tracking and monitoring financial reports that could be generated using current equipment and programs and utilize these to monitor the status of all billings.

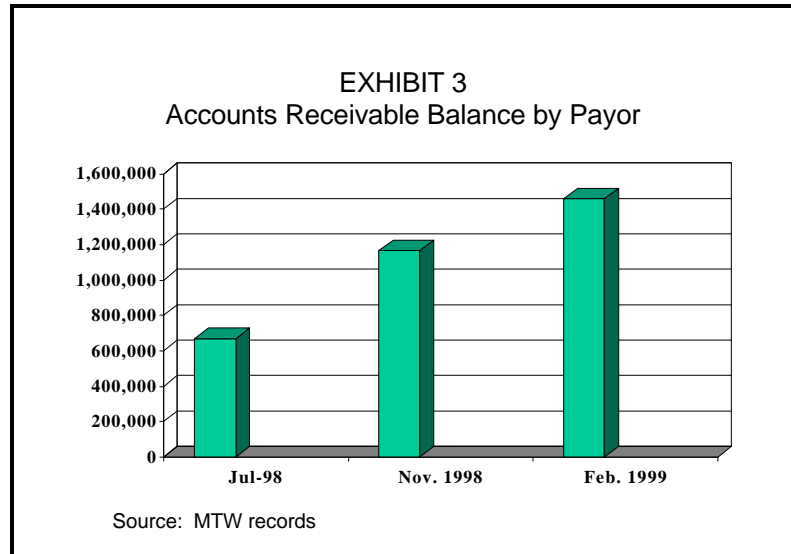
FINDINGS AND RECOMMENDATIONS

MTW HOME HEALTH CLERICAL STAFF LACKED ADEQUATE COMPUTER RESOURCES TO PERFORM JOB DUTIES IN AN EFFECTIVE AND EFFICIENT MANNER.

In July 1998, MTW converted its patient information and billing data to the Genesis Home Health Care system. At the time of the conversion, existing computer equipment did not have adequate capacity to efficiently run this system at a reasonable processing speed. MTW used Genesis from July 1998 until February 1999. During this period, MTW's Accounts Receivable Balances by Payor increased from \$668,585 to \$1,163,560, a 43% increase. The problems with the Genesis system may have contributed to this increase.

In November 1998, a new supervisor determined the need to change systems. She instructed staff to hold all billing submissions until the new system (Barnstorm) was online in February 1999. During this time, Home Health's receivables balance increased from \$1,163,560 to \$1,457,414, approximately a 20% increase. The cumulative result of these delays was that Home Health billings and revenues were approximately seven months in arrears. Exhibit 3 presents this data graphically.

Additionally, MTW's computer system was not on-line with the Martin and Tyrrell County Offices until March 2000. Before this time, staff from the Martin and Tyrrell offices had to drive to the Washington County site to manually enter data once a month. It is possible that there were months in which billing for Martin and Tyrrell counties might not have been submitted if staff could not travel to Washington County on the assigned date.



RECOMMENDATION

Management should continue to upgrade computer equipment and resources to ensure efficiency and effectiveness in the billing process. Prior to any computer purchases or conversions, analysis should be performed to ensure that adequate resources exist to handle the conversion process in addition to the normal workload.

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MTW DID NOT TAKE ADVANTAGE OF REDUCED TELEPHONE RATES AVAILABLE THROUGH THE STATE TELECOMMUNICATION SYSTEM.

In early 1998, MTW's accounting contractor informed the Director that significant savings could be realized if MTW used the State Telecommunication System rather than its local providers. However, the Director took no action to make this change. In February 2000, the interim Finance Officer transferred most of the MTW telephone lines to the State telephone system. The delay in transferring the telephone service cost MTW an estimated \$28,908.

Our review noted one other line in Washington County that could be transferred to the State system. MTW is paying a monthly fee for this line; however, there appeared to be no activity on this line since December 1999. In addition, MTW is required by law to maintain a 1-800-telephone number. An analysis showed the State Telecommunication System could save MTW \$264 annually over a private provider for this service.

RECOMMENDATION

MTW should review the necessity of the telephone line in Washington County. If this line is necessary, MTW should transfer this service and the 1-800 number to the State Telecommunication System.

MTW IS INCURRING UNNECESSARY COSTS FROM INTEREST/FINANCE CHARGES ON OVERDUE INVOICES.

A review of MTW accounts payable revealed \$45,323 in outstanding invoices. Table 5 shows an aging of MTW's accounts payable including interest/finance charges. MTW planned to pay these invoices prior to June 30, 2000. Vendors agreed to waive interest/finance charges if payments were made by that date.

Invoices should be paid on time to avoid any interest or finance charges. MTW has not adhered to sound business practice and has incurred \$683 during fiscal year 1999-00 in unnecessary interest and/or finance charges.

TABLE 5			
Accounts Payable Aging as of May 30, 2000			
	Amount	Interest/ finance charges owed	Total
30 to 60 days late	\$6,736	\$2,066	\$8,802
61 to 90 days late	\$7,819	\$0	\$7,819
91 days late	\$28,556	\$3	\$28,559
Unknown	\$2,212	\$0	\$2,212
Total	\$45,323	\$2,069	\$47,392
Source: MTW records			

RECOMMENDATION

MTW should make every effort to pay vendor invoices timely to avoid interest and/or finance charges.

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Contracting Issues:

THE FINANCIAL SERVICES CONTRACT WITH PPCC FAILED DUE TO A LACK OF TRUST AND COOPERATION BETWEEN THE PARTIES.

As discussed earlier, the former MTW Director suspended the Finance Officer in April 1998. In lieu of hiring a Finance Officer or training an existing staff person, the Director entered into a contract with Pasquotank-Perquimans-Camden-Chowan⁶ (PPCC), a neighboring health department, for financial recordkeeping services. The contract covered the period of May 1, 1998 through June 30, 1999. MTW agreed to pay PPCC \$60,000 for May and June 1998 and \$90,000 for July 1, 1998 through June 30, 1999.

Problems emerged between MTW and PPCC almost immediately, as detailed below.

- The PPCC Finance Director furnished MTW with a “working document” for MTW to use to develop a FY1998-99 budget. The working budget significantly over-estimated revenues. However, MTW used that document as its FY1998-99 budget without making any changes or adjustments to the revenue or expenditure line items. This document was presented to the Board as the official budget and was adopted as such, despite repeated efforts by PPCC to get MTW to revise it.
- MTW failed to deliver invoices to PPCC on a timely basis for payment and was coding invoices to the wrong line items. Deposits made by MTW were not being reported to PPCC on a timely basis, making it difficult to determine the current status of cash balances.
- The MTW staff was not trained to use the PPCC accounting system to the fullest. Therefore, the MTW Director was not aware of how much money was available in his budget or of outstanding invoices. He continued to expend funds as if MTW would collect the \$8+ million in revenues that was estimated in the “working budget.” (In fact, MTW only collected approximately \$5.6 million.)
- In October 1998 PPCC sent a letter to MTW's vendors stating that invoices should be sent directly to PPCC. As a result of this request, the MTW Director believed PPCC was attempting to take over his operation. At this point, what cooperation that had existed between MTW and PPCC staff began to deteriorate.

By December 1998, both Health Directors were in agreement that the contract should be canceled. On December 12, 1998 the PPCC Health Director sent a letter to the MTW Health Director terminating the contract effective April 1, 1999, based on a lack of trust and cooperation on MTW's part and costs to PPCC exceeding the contracted amount. As of the time of the audit, MTW had not paid PPCC \$15,000 for the last two months that the contract was in effect.

RECOMMENDATION

The Health Directors of MTW and PPCC should work to resolve the matter of the outstanding balance owed on the contract.

⁶ PPCC is now Albemarle District Health Department, but will be referred to as PPCC throughout this report.

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MTW HAS INADEQUATE CONTROLS OVER CONTRACTS.

MTW does not have written policies and procedures in place to address bidding for purchases or contracting with vendors for goods and services. Nor does MTW maintain a listing or database of current outside vendor contracts. We further noted that monitoring and management of contracts is not centralized within one section, with some contracts maintained in the Administration Section and others kept within Home Health. Additionally, expired contracts were kept on file in one place, while updated or renewed contracts were kept in another. While we reviewed the contract files in each location, we could not assure ourselves that we had a complete list of MTW contracts.

Draft procedures have been written covering contracting and purchasing functions, but the Board never approved these. The Interim Finance Officer is now requiring telephone bids to be obtained on computer and major equipment purchases only. However, without written policies and procedures and centralized control of contracts, management cannot effectively track contractor performance or keep abreast of contract expirations.

RECOMMENDATION

MTW should develop formal written procedures to account for its contracts to include central control over contract management and the maintenance of a complete, up-to-date, listing of all contracts with outside vendors.

MTW CONTRACTS ARE NOT IN COMPLIANCE WITH REQUIREMENTS OF NORTH CAROLINA GENERAL STATUTES.

A review of contracts disclosed several instances of non-compliance with General Statutes and failure to follow prudent business practices in contracting for goods and services. North Carolina GS §159-28 (Local Government Finance Act) requires obligations evidenced by a contract or agreement to include a certification on the face of the document that the instrument has been pre-audited to assure compliance with the Local Government Budget and Fiscal Control Act. We found that pre-audit certifications were not performed on 38 of the 73 contracts (52%) we reviewed. An obligation incurred in violation of the Statute is invalid and may not be enforced. We also noted 8 contracts (11%) had no signatures and 33 contracts (45%) were signed between one and 268 days after the effective date of the contract.

RECOMMENDATION

MTW should review each contract for compliance with North Carolina General Statutes. Management should take immediate steps to assure that MTW is in compliance with all applicable Statutes. In addition, each contract should be signed prior to its effective date.

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MTW IS NOT UTILIZING PROFESSIONAL SERVICES EFFECTIVELY.

MTW uses professional services for audits, special engagements, policy review, research and consultation, and to defend lawsuits. In reviewing these invoices, we noted occasions when MTW paid for a service but never used the resulting report. Table 6 details the costs of legal and accounting services incurred by MTW. While we are not questioning the legitimacy of each item, we are concerned that the services provided by the professionals were either not used by MTW or may not have been necessary in the first place.

TABLE 6 Costs for Professional Services Rendered				
Service Provided	Accounting Cost FY98/99 – FY99/00	Legal Cost FY97/98 – FY99/00	Auditor's Comments	Amounts
FYE 98 financial/ compliance audit	\$39,195			
FYE 99 financial/ compliance audit	52,130			
Fixed asset study	6,925		Study never used	\$6,925
Fraud and Internal Control Review	33,603		Recommendations not implemented	33,603
Medicare Payback	16,286			
Meetings and presentations	8,018			
Miscellaneous Services	1,572			
Contract review		\$13,139		
Lawsuit		9,170		
Meetings		9,736	No recommendations or changes; staff could have covered meetings	9,736
Policy review		2,772	Question the necessity of legal review; revised accounting manual never approved	2,772
Research and consultation		5,158		
Travel		810		
Total	\$157,729	\$40,785		\$53,036
Source: MTW records				

Utilizing funds (\$53,036) to conduct studies and review policy manuals that are never used and to pay an attorney to attend meetings that should be covered by staff is neither a good management nor financial practice.

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RECOMMENDATION

MTW should use professional services only when necessary. When professional services are used, MTW should utilize information provided by such services. To reduce the need for professional services, management should make every effort to hire well trained staff and keep adequate records.

Internal Control Issues:

MTW BANK ACCOUNT RECONCILIATIONS AND SIGNATURE CARDS ARE NOT REVIEWED AND REVISED IN A TIMELY MANNER.

At the time of the audit, MTW had four bank accounts as shown in Table 7. We determined that reconciliation

TABLE 7 MTW Bank Accounts		
Financial Institution	Account Status	Bank Reconciliation Status
Branch Banking & Trust (Original)	Open; inactive except for FICA and Retirement transfers each month since February 1999.	Through October 1999
Branch Banking & Trust	Open and active	Through January 2000
Wachovia	Open; inactive since August 1999, account balances less than \$15.00.	Not necessary
NC Capital Management Trust	Open; active; interest bearing account used for electronic funds from state to MTW.	Current

for two of the checking accounts were not current. As of May 16, 2000, one account was six months behind, while another account was three months behind. Because the accounts had not been reconciled in a timely manner, MTW was assessed charges for insufficient funds in February 2000.

We also reviewed bank account signature cards and authorization forms for these accounts. We noted that the signature of the former Director remained on all the accounts after his separation date, from one to two and one-half months. The NC Capital Management Trust had the former Director designated as the **only** individual authorized to make changes to the account.

Employee signatures should immediately be removed from an agency's bank accounts upon separation of employment. Failure to remove signature rights of separated employees from bank accounts leaves MTW open to possible theft of funds.

RECOMMENDATION

MTW should immediately remove the former Director from the signature cards for all bank accounts. MTW should implement a policy to safeguard funds by removing former employee signatures from bank accounts immediately at the time of separation.

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Additionally, MTW should reconcile bank account statements on a timely basis.

THERE IS A LACK OF SEGREGATION OF PAYROLL AND TIME KEEPING DUTIES.

MTW uses one checking account (the general checking account) to process payroll and accounts payable checks. The Assistant Finance Officer's duties include accessing time keeping records, as well as preparing payroll. This individual is also authorized to sign checks drawn on the general checking account. Proper internal controls require different individuals be responsible for payroll files and the issuing of payroll checks. Issuing payroll checks through a separate account would strengthen internal controls by limiting MTW's exposure to payroll fraud and allowing the delegation of payroll check-signing duties. A separate account would also simplify the reconciliation of the payroll bank account.

RECOMMENDATION

MTW should immediately establish a separate account for payroll checks. One way to accomplish this is by designating one of the inactive checking accounts (see previous finding) to be the payroll account. MTW should authorize employees who are not involved in preparation of payroll to sign payroll checks.

THERE ARE WEAKNESSES IN RECORDKEEPING FOR THE PAYROLL SYSTEM AND THE PERSONNEL FILES.

Work hours are manually recorded into the payroll system from timesheets that are maintained by each employee and approved by supervisors. Supervisors also approve on-call and overtime hours. A review of 27 employee timesheets for accuracy, proper approval, and payroll register accuracy revealed the following errors:

- Three (11%) of the timesheets were not properly approved.
- One (4%) had incorrect posting of time to the payroll causing an overpayment of \$23.60.
- One (4%) overtime sheet was not properly approved.
- One (4%) timesheet had a mathematical error. This caused a program to be undercharged by .5 hours but did not effect the employee's payroll check.
- One (4%) form authorizing a 3% pay increase was missing from the employee's personnel file.

When employees leave MTW, internal procedures call for a PD100 and a final timesheet to be completed. The PD100 form is used to inform payroll of the employee's separation date and reason for leaving MTW. The final timesheet is used to determine the amount of time worked and any unused vacation time owed to the employee. As part of the

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audit, we tested compliance to this procedure. A comparison of 46 employee's separation dates in the payroll system with the PD100 identified 23 inconsistent dates as follows:

- 19 of 23 (83%) had incorrect separation dates in the payroll system;
- 3 of 23 (13%) did not have a PD100 separation form in their personnel file and the inactive date in the payroll system was incorrect; and
- 1 of 23 (4%) had the incorrect separation dates on the PD100.

These errors did not result in any payment errors to employees. However, one employee did not submit a final timesheet in July 1999 and was paid for the average number of hours in a month (173.33 hours). The actual hours recorded by Home Health for this employee was 148. Therefore, the gross pay for this employee was overstated by \$423.22.

Not completing the proper forms and entering incorrect separation dates in the payroll system were due to the lack of training provided to the payroll clerk.

RECOMMENDATION

All employees at MTW should receive adequate training to ensure procedures for timekeeping, pay increases and separation of employees are followed. No employee should receive a payroll check until a timesheet is approved by his/her supervisor and submitted to payroll. The former employee who received the \$423.22 overpayment should be contacted and a refund requested. Finally, an adjustment should be made during the next payroll period for the \$23.60 overpayment made to the current employee.

THERE ARE WEAKNESSES IN THE ACCOUNTABILITY AND MAINTENANCE OF FIXED ASSETS.

Standard accounting practices require entities to maintain a fixed asset inventory list and conduct an annual physical inventory. MTW does not have an accurate fixed asset list, nor is there an adequate system for recording or deleting fixed assets. Currently, the Administrative Assistant is informed when an asset is received; she assigns a fixed asset tag, and sends it to the person in possession of the asset. While an independent accounting firm conducted a physical inventory in 1998, staff were unaware of the existence of this list. (See discussion on page 27.)

As part of the audit, we reviewed policies and procedures, and the fixed asset list for completeness to determine the adequacy of the fixed asset system. The following weakness were noted:

- No one at MTW has been assigned the duties of maintaining the fixed asset list;
- There are no policies or procedures for maintaining a fixed asset list;

FINDINGS AND RECOMMENDATIONS

- A physical inventory is not conducted annually;
- The 1998 fixed asset list has not been updated; and
- The 1998 fixed asset list does not include the serial number of the assets.

A review of the fixed asset list developed in 1998 revealed 136 (38%) items with no fixed asset tag number. Therefore, we examined a sample of assets to verify if (1) the items were properly recorded, (2) fixed asset numbers were attached to the assets, and (3) the assets were physically secure. We traced 13 assets from the inventory list to the actual asset. Overall, 5 (38%) could not be located and 2 (15%) were in the wrong location. Additionally, we traced 6 assets from their physical location to the fixed asset inventory list. Overall, 1 (17%) could not be located and 1 (17%) did not have a fixed asset tag.

The lack of adequate policies and procedures, not assigning one employee to oversee this function, and no training of individuals responsible for maintaining the fixed asset inventory result in an ineffective and inaccurate system.

RECOMMENDATION

MTW should complete written internal procedures for fixed asset management and assign one employee the responsibility of maintaining the fixed asset list. Adequate training should be provided to this employee. Proper documentation for relocating or surplusizing fixed assets should be maintained. Additions, deletions, and modifications to the fixed asset inventory should be made timely to keep the inventory accurate. Lastly, a physical inventory should be conducted annually.

Personnel Issues:

THE LACK OF TRAINED STAFF CONTRIBUTED TO THE UNORGANIZED AND INCOMPLETE RECORDKEEPING AT MTW.

When the contract with PPCC was canceled effective April 1, 1999, MTW resumed all its accounting functions except payroll in February 1999. However, there was still no trained Finance Officer on staff at MTW, nor were any other staff members trained to perform accounting functions. Once MTW regained control over accounting functions, bank accounts were not reconciled, invoices were not paid on time, and billing for revenues was late.

When we arrived at MTW in April 2000, the accounting records were stored in a shed in back of the MTW office in Plymouth. They were not filed in an orderly fashion and appeared to be incomplete. We were unable to locate original bank statements for several

FINDINGS AND RECOMMENDATIONS

months in fiscal year 1998-99.⁷ In our opinion, the conditions described above resulted from the lack of training for financial staff. This lack of training significantly contributed to the overall problems MTW experienced during fiscal years 1998-99 and 1999-00.

RECOMMENDATION

MTW should train and cross-train its staff in financial matters. Staff should be trained to effectively utilize the computer system. Records should be maintained in an orderly fashion and should be complete.

MTW DOES NOT PROVIDE JOB EXPECTATIONS OR ON-GOING JOB RELATED TRAINING FOR STAFF.

We were unable to identify any established guidelines for job performance at MTW. Further, we noted no motivation to perform work in a timely or disciplined manner. (See finding on page 21.) Current activities performed by staff appear to be the result of reactions to a management crisis rather than the result of planned tasks or procedures. This situation has resulted in ineffective and inefficient work habits and, in some cases, possible duplication of work.

Workload indicators or goals and objectives for an individual or work unit assist employees in performing tasks and management in achieving agency goals. Further, these indicators can be used to evaluate and improve employee performance. Standards and specific criteria are critical for evaluating the performance of individuals, programs, departments, and MTW as a whole.

We further found that MTW does not have a formalized, comprehensive training program for any of its staff. As an example, staff members reported that none of the individuals responsible for transferring data between the Home Health software systems received adequate training. This lack of training may have contributed to the large number of denials for payment due to inaccurate or incomplete billing data. A lack of training can also result in confusion over policies and procedures.

RECOMMENDATION

MTW management should identify specific criteria and standards for evaluating the performance of its various divisions. Standards should include specific guidelines on when and how work should be performed. Annual employee performance evaluations should be conducted. Finally, MTW should establish a training program for all staff. Each staff member's experience and existing competencies should be determined and a training plan developed for each person

⁷ MTW claims that PPCC did not give MTW all of its financial records for May 1998 through January 1999 resulting in delays and inaccuracies in recordkeeping. PPCC claims it gave all the records to MTW with some records copied and given to MTW more than once.

FINDINGS AND RECOMMENDATIONS

depending upon his or her needs. This training program should be modified as software, equipment, or policy changes dictate.

MTW IS NOT CONDUCTING ANNUAL PERFORMANCE EVALUATIONS AS REQUIRED BY INTERNAL POLICY.

Section 6 of MTW's Personnel Policy and Procedures Manual requires performance appraisals to be conducted at the end of an employee's probationary period and annually on the anniversary date of each employee's appointment. (Current policies and procedures do not address the development of individual employee workplans as discussed in the previous finding). Review of personnel files revealed that MTW had not established an employee evaluation system to include individual employee work plans and evaluations were not conducted as required by policy. Table 8 shows the results of our sample.

TABLE 8 Annual Performance Appraisals Not Completed		
Employee Sample Number	Number Annual Evaluation Periods	Number Not Completed
1	26	26
2	23	23
3	22	22
4	19	19
5	19	19
6	19	19
7	15	15
8	7	7 ¹
9	3	3 ²
10	2	2 ²

Source: MTW Personnel Files
¹Numerous patient and co-worker complaints registered regarding employee's behavior and performance. Employee given two written warnings because of poor performance.
²Employee received written warning for poor performance.

The failure to provide performance evaluations to each employee diminishes important communication between employees and supervisors and decreases the likelihood that all employees are aware of what is expected of them. Furthermore, formalized work plans establishing criteria relating to employees duties and responsibilities, and personnel evaluations

are necessary to rate employee performance and justify personnel actions such as merit raises, promotions, and terminations.

RECOMMENDATION

MTW should develop individual employee work plans identifying specific criteria relating to each employee's duties and responsibilities. In addition, MTW should adhere to its policy of providing and documenting annual performance evaluations based on the criteria established under the work plans.

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ISSUES FOR FURTHER STUDY

1. ACCOUNTABILITY FOR LOCAL HEALTH DEPARTMENTS

As we conducted the audit of MTW, we became concerned about the lack of direct oversight of operations at local health departments. In effect, local health departments function as independent entities even though each local health department, by statute, is “overseen” by a local Board of Health. However, since the members of the local Board are not full-time, this leaves the local Health Director to manage health department affairs with little true oversight. As seen with MTW, this situation can, and has, lead to local Health Directors making poor operational, managerial, and financial decisions. This is much the same oversight structure that exists within the State’s mental health services delivery system. After an exhaustive study on the mental health system, the Office of the State Auditor and its consultant, Public Consulting Group, Inc., recommended significant changes to that oversight structure. (*Study of State Psychiatric Hospitals and Area Mental Health Programs, March 31, 2000*) In our opinion, the General Assembly should consider examining in detail the governance and oversight questions surrounding the State’s local health services delivery system.

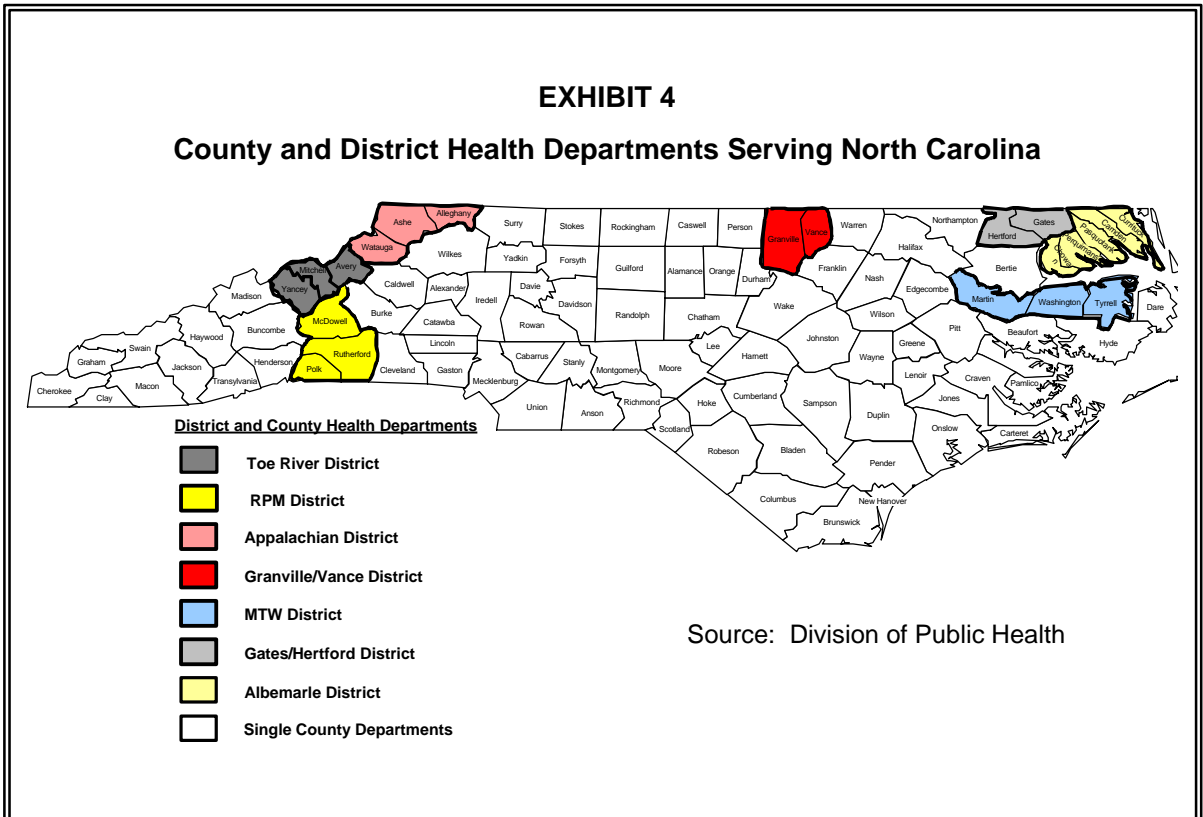
2. STANDARDIZED MANAGEMENT INFORMATION SYSTEM FOR LOCAL HEALTH DEPARTMENTS

During the MTW audit, we learned that there is no standardized management information system or chart of accounts for local health departments. This situation significantly impacts DHHS’ ability to effectively monitor health service activities at the local level. A standardized system would allow consistency in the collection and reporting of health department data, thereby affording DHHS the opportunity to better assist local Boards of Health, local Directors, and to more effectively monitor the provision of health services across the State.

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BACKGROUND

Public health facilities have been an important part of the on going improvement in the health and lives of North Carolinians since they were set up by the General Assembly in 1935. Improved quality of life and longevity for North Carolina's citizens can be attributed in large part due to the increased number of public health programs dedicated to the prevention and control of infectious diseases. The North Carolina Division of Public Health within the Department of Health and Human Services credits the efforts of public and private health care providers and organizations with increasing the life span of North Carolina citizens by 25 years since 1900, as well as reducing the State's infant mortality rate by 61 percent since 1970. Today 86 county and district health departments serve North Carolina as shown in Exhibit 4.



BACKGROUND

Statutory Authority

Department of Health and Human Services and Department of Environment and Natural Resources--GS §130A-1 outlines the Public Health Law of North Carolina. The Department of Health and Human Services and the Department of Environment and Natural Resources are the agencies designated to provide essential public health services and are responsible for accounting for the financing of these services. The three broad areas of those services are: Health Support, Environmental Health, and Personal Health. Table 9 gives a brief list of services under each area.

TABLE 9 Public Health Services		
Health Support	Environmental Health	Personal Health
<ul style="list-style-type: none"> • Assessment of health status, health needs and environment risks to health • Patient and community education • Public health laboratory • Registration of vital events 	<ul style="list-style-type: none"> • Lodging and institutional sanitation • On-site domestic sewage disposal • Water and food safety and sanitation 	<ul style="list-style-type: none"> • Child health • Chronic disease control • Dental public health • Family planning • Health promotion and risk reduction • Maternal health
Source: NC General Statutes		

The Local Health Services section, located in the Department of Health and Human Services, Division of Public Health, works to assist local health departments throughout the State in strengthening and increasing services to the public. As part of this effort, Local Health Services Administrative Consultants provide consultation and technical assistance in the areas of budgeting, fiscal, administrative, and management support. There are four consultants assigned to assist all 86 health departments in the State.

Commission for Health Services--The Commission for Health Services, created by GS §130A-29, has the authority and duty to adopt rules to protect and promote the public health and to implement the public health programs administered by the Department of Health and Human Services. Four of the 13 members are elected by the North Carolina Medical Society and the Governor appoints nine. Members serve a four-year term. A licensed pharmacist, registered engineer, licensed veterinarian, licensed optometrist, licensed dentist, and a registered nurse must be among the appointed members.

MTW Board of Health--GS §130A-36 allows for the creation of a local or district health department with the approval of the county commissioners and the local board of health having jurisdiction over each of the counties involved. The local board of health as outlined in GS §130A-37 is the policy and rule making body for the district health department. One county commissioner from each county will serve on the board and appoint other members of the board. The board shall have 15 to 18 members serving three-year terms. The local health director serves as secretary to the board. Meetings are to be held at least quarterly. GS §13A-39 further states that the board of health has a responsibility to protect and promote the public health and the authority to adopt rules

BACKGROUND

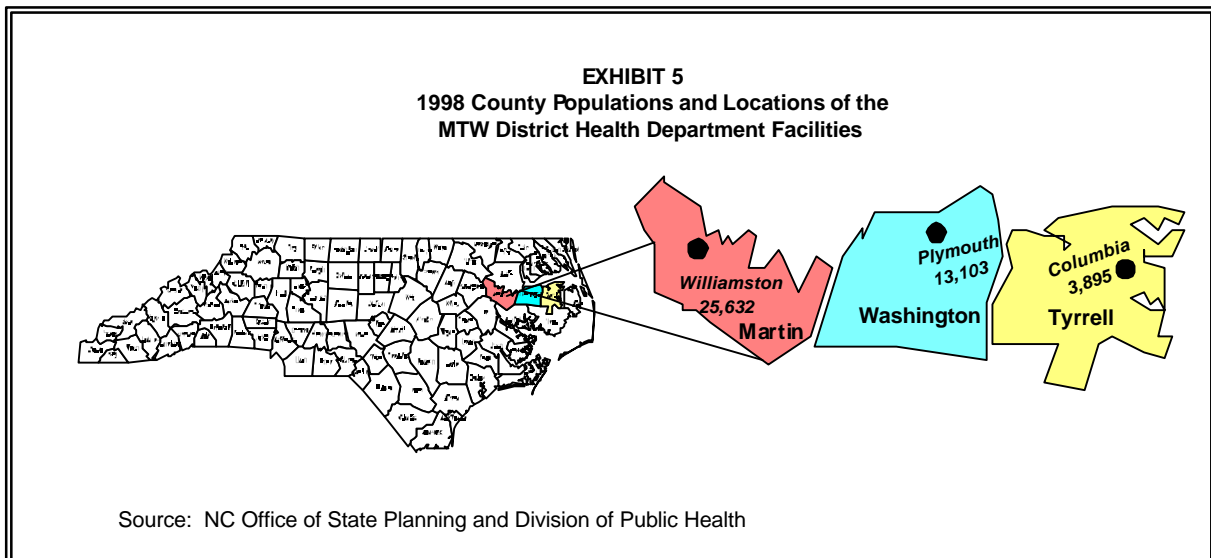
necessary for that purpose. Appointment of a local health director is also a responsibility of the local board of health, GS §130A-40.

History of Martin-Tyrrell-Washington District Health Department

When the North Carolina General Assembly established local health departments in 1935, some counties found it difficult to provide adequate health services alone. Therefore, with the support of the State Board of Health, a number of smaller counties combined their resources to establish district health departments to provide better services to all their citizens.

In July 1937, Washington, Tyrrell, and Hyde counties combined to establish a district health department. The initial budget was \$16,560, with the district having a staff of eight providing services for the three counties. In 1938 Dare and Currituck counties were added to the district. In the ensuing years, the composition of the district changed a few more times, and services provided also changed. The current composition of Martin-Tyrrell-Washington was formed January 1, 1974 when the Martin Health Department and the Tyrrell-Washington District Health Department merged.

The Martin-Tyrrell-Washington District Health Department (MTW) is headquartered in Plymouth North Carolina. MTW serves approximately 43,000 citizens in the three-county area. Satellite offices are located in Williamston (Martin County) and Columbia (Tyrrell County) in order to better serve the residents of those counties. Exhibit 5 shows the county populations and locations of the MTW District Health Department facilities.



BACKGROUND

Organizational Structure, Staff and Functions

The MTW Board of Health is the governing authority over the operations of the MTW District Health Department. Clinics are located in each county, with the administration offices located in Washington County. A list and description of services provided by MTW are shown in Table 10.

TABLE 10 Martin-Tyrrell-Washington District Health Department	
Programs/Services	Purpose/Description
Environmental Health	This section is responsible for inspection, enforcement of regulations, and education to protect the public from environmental health hazards.
Child Health Program	This program's purpose is to reach as many infants and children up to age 21 as possible who are not under medical supervision and to provide these children with health screening and their parents with education to achieve optimal health. Services available to children are: <ul style="list-style-type: none"> • Pediatric Supervisory Clinics; Nurse Screening Program; Child Service Coordination Program; School Health Program; Adolescent Health Awareness (Adolescent Pregnancy Prevention); Child Health Supportive Services; Children's Special Health Services; Developmental Evaluation Centers; Metabolic Screening and Genetic Counseling; Orthopedic Clinics; and Immunizations
Maternal Health Program	Provides comprehensive medical and educational pre-delivery services to pregnant women not receiving such care from a private physician. Education is also given covering newborn care, breast feeding, well child care, etc.
Women's Health Services	Helps couples plan the number and spacing of their children through the use of family planning methods. Sterilization, infertility, and problem pregnancy counseling is also available.
Sexually Transmitted Disease	Provides testing, treatment, counseling, and education regarding syphilis, gonorrhea, AIDS, and herpes for men and women.
Tuberculosis Control	Provides skin tests to screen for cases of TB. Supervised in-home therapy and follow-up of TB cases are provided.
Breast Cancer & Cervical Cancer Prevention/Well Women Clinic /Adult Health	Services included: <ul style="list-style-type: none"> • Clinical Breast exam with self breast exam instruction; biManual Pelvic with Pap smear; Mammogram referral; if BCCCP eligible, authorization completed. • Cancer Screening Services for men include screening for oral cancer, skin cancer, and instructions and literature on signs and symptoms of other cancers. • Hypertension Screening – Routine measurement of blood pressure. • Diabetes Screening – Blood test for diabetes screening, except known diabetics, are done routinely. • Diagnosed Diabetics and/or Hypertensive People Services are provided to people, with physician's order, who have been diagnosed with diabetes and/or hypertension.
Health Education/Health Promotion Program	Designed to assist citizens in preventing disease, rather than cure, by reducing risks associated with diseases.
Vital Records	Birth or death certificates are prepared by the hospital/funeral home and sent to the local health department. A copy is sent to the county's Register of Deeds where certified copies are issued, a copy is maintained at the health department, and the original certificates are mailed to North Carolina Vital Records in Raleigh.
Home Health Services	Provides care in the home for persons who are home bound because of illness or injury. Persons may be referred for an evaluation by their family or friends, as well as health care professionals. Care is given on an intermittent basis.

BACKGROUND

TABLE 10 (continued)	
Programs/Services	Purpose/Description
Hospice	Provides comprehensive care to terminal patients and their families including that part of health care that addresses the emotional and social needs. Hospice Service includes: counseling and support, pain management, spiritual counseling, volunteer services, and bereavement counseling for family.
Nutrition Services	Services are provided to individuals needing education for health/disease prevention and to individuals with complex nutritional problems.
Dental Health Program	A District Dental Hygienist is employed to carry out, through preventative measures, a Dental Health Education Program working primarily with children in schools.
Lineberger Grant	Sponsors the UNC Breast Cancer Program. It is based at the UNC Lineberger Comprehensive Cancer Center at Chapel Hill. The grant pays for community outreach specialists who monitor/coordinate about 100 trained health advisors in breast cancer education and mammography education.
Baby Love- Health Start	This Medicaid program removes barriers from prenatal care such as transportation, translation services, and child care.
Intensive Home Visiting	This program funds social workers and nurses to do assessments and intensive home visits focusing on parenting skills, child development, child health, and other aspects of family function. Focuses on first time moms and user guidelines from Prevention Child Abuse America.
Maternity Care Coordinator/Maternity Outreach Worker	This is Medicaid case management funded on a per service basis. Provides support and assistance for the prenatal patients.
HOPWA	Housing opportunities for persons with Aids. The purpose of the federal housing opportunities for Persons with Aids Program is to provide resources to devise long-term strategies for meeting housing needs of persons with AIDS and their families.
Ryan White HIV Care	Created to enable local communities, through HIV care consortia, to improve the quality, availability and coordination of outpatient health care and support services for individuals and families with HIV disease. The program emphasizes the delivery of a comprehensive continuum of outpatient care for persons living with HIV disease.
Speech and Hearing Services	Provides diagnosis and treatment for difficulties with speech or hearing for all ages.
Source: MTW District Health Department	

The major staffing areas are Finance, Environmental, Clinic, Nutrition, and Roanoke Home Health, and Hospice. Exhibit 6, page 42 shows the organizational structure in place at the time of the audit.

Finance--The Finance department is responsible for preparation and maintenance of budgets, payroll and accounts payable.

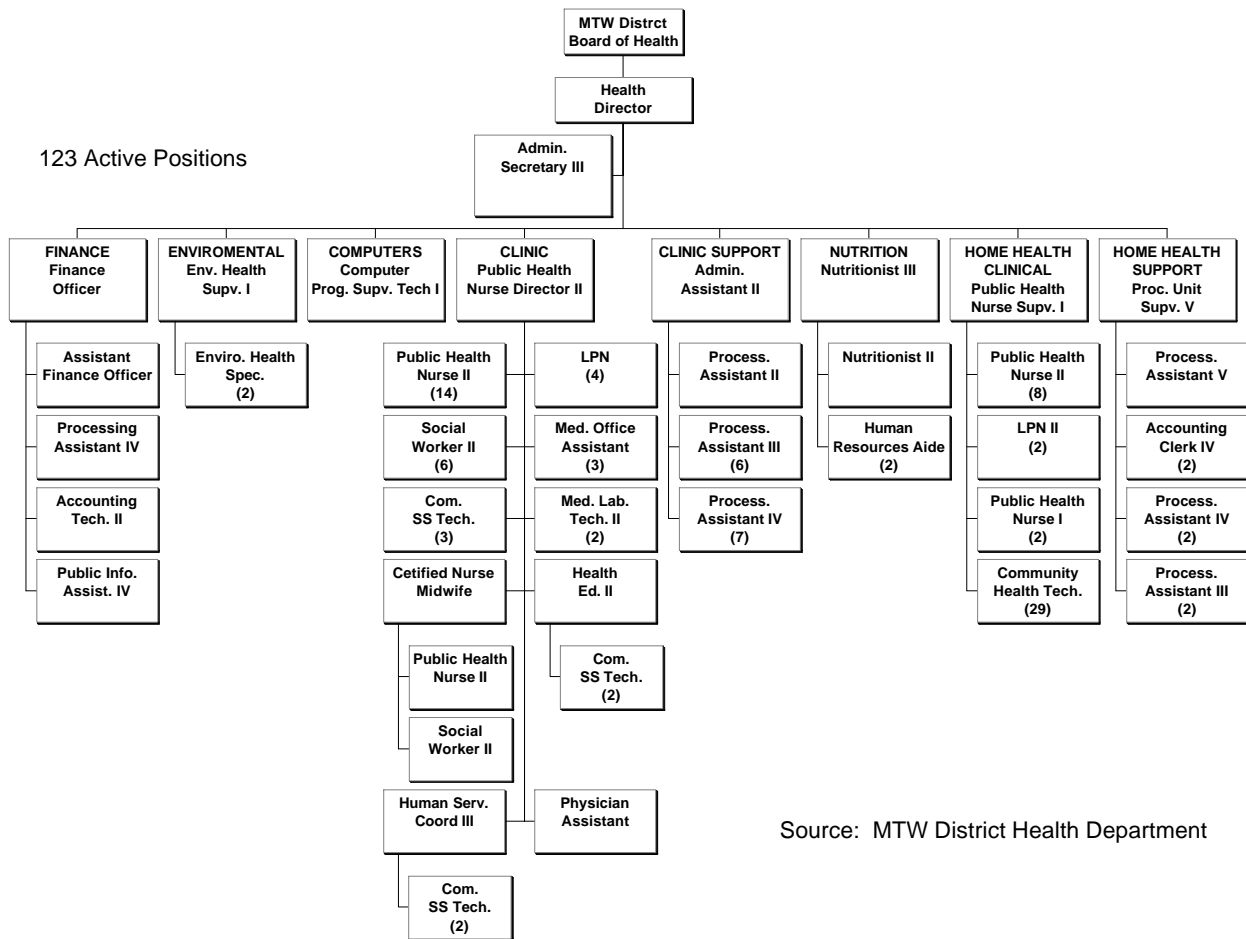
Environmental--The Environmental Health section is responsible for inspection, enforcement of regulations, and education to protect the public from environmental health hazards. It is staffed by qualified environmental health personnel and handles the work in the following program areas.

- Food, lodging and institutional sanitation--school buildings & lunchrooms, trailer parks, hospitals, rest homes, motels, restaurants, food and drink stands, meat processing plants, etc.
- Individual sewage disposal—septic tanks and privies.

BACKGROUND

- Individual water supply—private wells.
- Migrant housing.
- Lead investigation.
- Complaint investigation.
- Provides rabies control services upon request in all three counties.

EXHIBIT 6
Martin-Tyrrell-Washington Health Department
Organizational Chart as of June 2000



BACKGROUND

Clinic--The staff working in the clinic may spend their time in any of the over 30 programs provided. (See Table 10). Clinic services are provided in each of the three counties focusing on prevention and education, as well as treatment.

Nutrition--The nutrition staff includes registered dietitians who cover the three county health district. Direct services are provided to individuals needing education for health/disease prevention and to individuals with complex nutritional problems. In addition to the educational opportunities provided to the pregnant/lactating females, infants and children up to 5 years and eligible applicants may participate in the supplemental food program (WIC) to realize their goal(s) for better nutritional health. Nutrition consultation is available for a fee to private/public group facilities needing menu development/evaluation, in-house dietary instruction for an individual, and developing education sessions for staff development.

Roanoke Home Health and Hospice--The purpose of this program is to provide temporary care in the home for persons who are home bound because of illness or injury. Persons may be referred for an evaluation by their family or friends, as well as health care professionals. Home Health services include nurses, physical therapists, speech therapists, occupational therapists, medical social workers, aides, and/or nutritionists. Care is given on an intermittent basis. A companion program of Homemaker/Home Health Aides Services sponsored by the State Aging Division is also available to clients age 60 and older and/or their spouses in need of supportive services in the home.

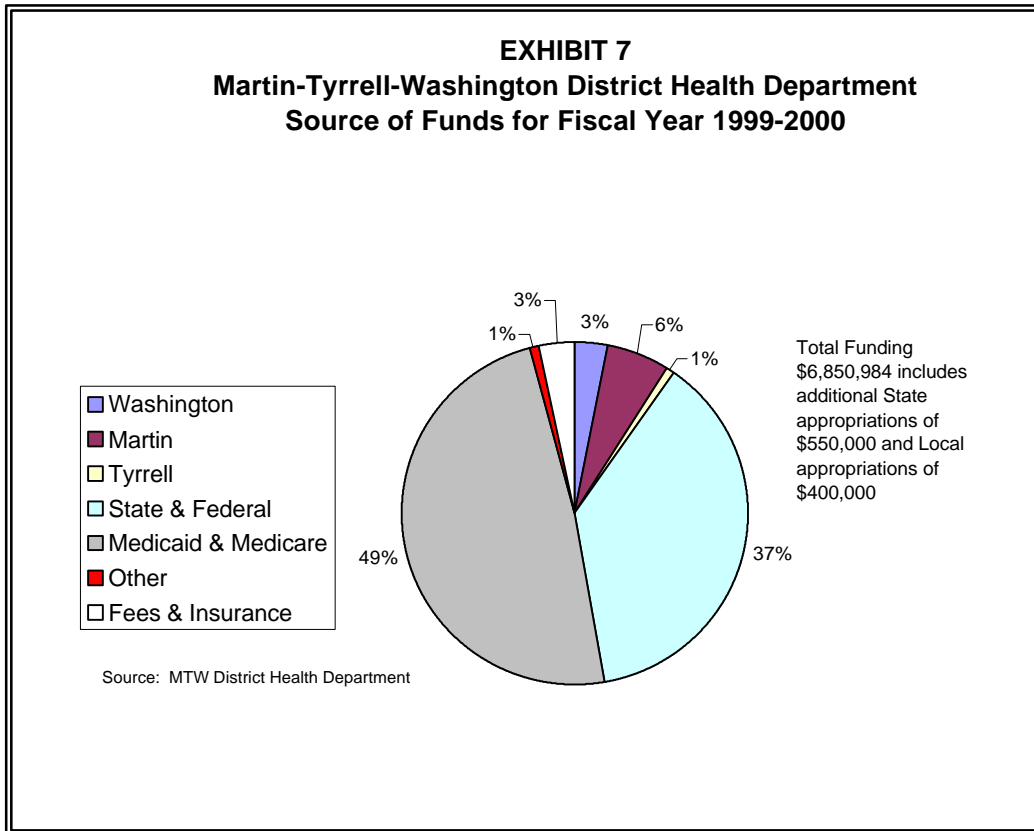
Hospice is a program of comprehensive care offered to terminal patients and their families. Part of the care offered addresses the emotional and social needs of the participants. Hospice Service includes: counseling and support, pain management, spiritual counseling, volunteer services, and bereavement counseling for family as indicated.

Financial Data

Each fiscal year, MTW executes a contract with the State to draw down State, federal, and other special funding. Contract addenda outline program budget amounts, as well as program deliverables, target population, and objectives to be accomplished.

Funding for the Martin-Tyrrell-Washington District Health Department comes from a number of different sources, as shown in Exhibit 7, page 44. The majority of funds come from federal programs (Medicaid and Medicare), with the next largest percentage coming from state funds. Additionally, each of the three counties contributes funding based on a pro-rated formula. At June 30, 1999, the last year for which a financial audit was completed for MTW, revenues totaled \$5,659,716 and expenditures totaled \$7,387,676. In order to meet obligations, MTW had to use its fund balance, leaving a deficit fund balance at June 30, 1999 of \$571,850.

BACKGROUND



Budgeted revenue for fiscal year 1999-00 is projected at \$6,850,984. The Roanoke Home Health and Hospice Program accounts for over 43 of MTW's revenues, with \$2,970,778 of the \$6,850,984 budgeted revenues. Additionally, the budgeted revenue includes additional one-time contributions by the three counties and the State. In February 2000, each of the three counties composing the district agreed to pay a total of \$400,000 in additional funds to help MTW meet financial obligations.⁸ The North Carolina General Assembly also approved a special appropriation of \$550,000⁹ to assist MTW with its current financial problems.

⁸ Martin County contributed 60 percent, Tyrrell County, 10 percent, and Washington County, 30 percent of the \$400,000 in additional funds.

⁹ In April 2000, the North Carolina General Assembly allocated \$550,000 to MTW without any obligation to pay back these funds.

APPENDICES

APPENDIX	DESCRIPTION	PAGE
A	Response from the Department of Health and Human Services and the MTW Board	47

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North Carolina Department of Health and Human Services
 2001 Mail Service Center Raleigh, North Carolina 27699 -2001
 Tel 919-733-4534 Fax 919-715-4645 Courier 56-20-00

James B. Hunt Jr., Governor

H. David Bruton, M.D., Secretary

August 17, 2000

Mr. Ralph Campbell, Jr., State Auditor
 2 S. Salisbury Street
 20601 Mail Service Center
 Raleigh, NC 27699-0601

Dear Mr. Campbell:

As requested in your letter dated July 18, 2000, we have completed our review of the preliminary draft report of the performance audit of the Martin-Tyrrell-Washington District Health Department (“MTW”) and are providing our response to the findings and recommendations contained therein. Additionally, we are providing the response to the same from the Management of MTW, which we reviewed and evaluated in developing our own response. Rather than repeating the contents of the findings and recommendations contained in your preliminary draft, we are providing only the objectives and the brief descriptions of the findings followed in order by the MTW Management’s response and the Department of Health and Human Services (“DHHS”) response.

Objective: *To determine and assess governance and oversight responsibilities.*

GOVERNANCE AND OVERSIGHT OF LOCAL HEALTH DEPARTMENTS NEEDS CLARIFICATION AND STRENGTHENING.

MTW Management’s Response: In agreement with the findings of the report and consistent with the North Carolina General Statutes (NCGS), MTW shall enforce the rules of the Commission for Health Services under supervision of the Department of Health and Human Services and the Department of Environment and Natural Resources. MTW will utilize the Board of Health as the policy-making, rule, making and adjudicator

Location: 101 Blair Drive Adams Building An Equal Opportunity / Affirmative Action Employer
 Dorothea Dix Hospital Campus Raleigh, N.C. 27603



The response from the Department of Health and Human Services and the MTW Board has been reformatted to conform with the style and format of the rest of the audit report. However, no data has been changed.

Mr. Ralph Campbell, Jr., State Auditor
August 17, 2000

body for the local health department. The Health Director, hired by the board, will be responsible for the administering of the programs of the health department and enforcing the rules of the Board of Health.

{During this process the Board of Health has become much more active in the running of the department, and has a much greater understanding of and responsibility for the role. Dianah C. Bradshaw, the new Health Director, hired with a clear understanding of the expected role, began work on 07-03-00.}

DHHS Response: We agree that the Department should establish a notification process for trouble health departments to ensure Board Chairpersons and counties are kept adequately informed of programmatic, administrative, and fiscal concerns. This will be implemented immediately. At this time, we do not think that a statutory change is necessary in order to implement this policy and process.

DHHS LACKS SUFFICIENT STAFF TO ADEQUATELY MONITOR LOCAL HEALTH DEPARTMENTS.

MTW Management's Response: MTW is appreciative of the assistance given by the State in working through the problem areas identified by the consultants and during the audit process. Continuation of this assistance is vital to the future of the department, as both the new Health Director and new Finance Officer need adequate orientation and training in local health department governance.

{For the greatest efficacy and efficiency in running the department, we request continued assistance from the State until adequate control has been achieved.}

DHHS Response: We will continue to provide technical assistance as needed by MTW. It is our plan to keep on-site staff until the FY 2001 budget is approved and the FY 2000 is effectively closed.

Local Health Services (a section of DPH) currently has 4 (four) Administrative Consultants and 1 (one) Administrative Training Consultant to provide the 86 local health departments with technical assistance via training of staff from health director to front line management support staff in the fiscal and administrative functions necessary to effectively manage the departments. Additionally, the monitoring function of daily operations rests with these staff in that technical assistance requests often highlight problems and concerns locally which provide the avenue to teach and course adjust daily activity.

The response from the Department of Health and Human Services and the MTW Board has been reformatted to conform with the style and format of the rest of the audit report. However, no data has been changed.

Mr. Ralph Campbell, Jr., State Auditor
August 17, 2000

5 (Five) people cannot adequately cover 86 departments in this capacity. Numerous requests for additional staff have been made (including the current Expansion Budget request for 8 additional consultants), but to date resources have not been appropriated.

In the absence of adequate resources, we have had to prioritize the consultation to the high-risk counties/ departments based on feedback from other consultants within DPH and direct requests for assistance from local health directors and other health department staff. We will continue to do the best we can with the staffing available. Significant additional staff is needed to help assure that other departments do not follow the MTW example.

THE COMPOSITION OF THE MTW DISTRICT BOARD OF HEALTH DOES NOT MEET STATUTORY REQUIREMENTS.

MTW Management's Response: NCGS set forth criteria for local boards of health. MTW will, by 01-01-01, have in place representatives all the occupations required on local boards of health. County Commissioners will be encouraged to appoint representatives to the Board who have substantial knowledge of governmental accounting and budgeting. MTW concurs with the suggestion that the General Assembly should consider revision of the NCGS to require local boards of health to include members with governmental accounting and budgeting experience.

{The appointment to the board of one County Manager and one County Finance Officer, during this time of departmental dysfunction, will be further scrutinized and assessed by the board. If it is deemed that one or both of these positions is/are needed on a continuous basis, then the composition of the MTW Board of Health will change to permit the representatives of these occupations to remain members. The composition of the board will still not be in excess of the 15-18 members set forth in the NCGS criteria.}

DHHS Response: The Department agrees with the recommendation and the District's response. The Composition of Local Board of Health has been dictated by State statute since the NC General Statute authorized the establishment of local health departments. The basis for the individual board designations varies, but clearly, it was the intent to provide local boards with professional representation to assist the department with various professional issues that local public health departments face (medical, pharmacy, veterinary, nursing, optometry, dental, environmental and engineering, and county governmental.) Normally, in addition to the professional expertise these members bring, they also possess certain administrative and management expertise from their various professional vocations. Additionally, the County Commissioner member has access to the respective county

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August 17, 2000

administrative/management staff to assist in the review and control function of the county commissioner. Finally, the three public member slots are available for appointments that the County Commissioners deem necessary for proper oversight and administration of departments (i.e., commissioners could appoint community CPA, industry controller/CFO, general auditor, fiscal/financial staff from other local or regional government enterprises, etc.) Given the flexibility and latitude for appointments, county commissioners already have significant opportunity to influence the composition and oversight abilities for local health departments. Normally, district health departments do not have as much county government involvement in day to day operations of their health departments. However, the county commissioner again has extensive flexibility in what he/she wants reported by the local health department and in what fashion utilizing the skill and energies of county government staff to review and interpret.

MTW BOARD MEMBERS HAVE NOT RECEIVED NEEDED TRAINING.

MTW Management's Response: MTW board members need education and training on fiscal management, budget development and fiscal accountability, as well as general operating aspects of the health department. MTW concurs with the suggestion that the General Assembly should consider revising the statutes to charge DHHS with the requirement that these trainings be provided and required.

{Future efforts on the part of the board of MTW will include taking advantage of the trainings in governance offered by the Association of Boards of Health or DHHS.}

DHHS Response: **General Statute modification is one vehicle to require board member training, but DPH could also modify the Consolidated Contract with Local Health Departments to require board member training as a condition of funding. This modification to the Consolidated Contract is planned for the FY 2001-2002 Contracts.**

Local Boards of health have access to an active and effective Association in the NC Association of Local Boards of Health. The major responsibility of the Association is to provide training to board members, specifically on their roles and responsibilities as board of health members. All 100 counties joined the Association last year, but the degree of participation in the events and educational sessions varied county to county.

Clearly, board members have significant responsibility to monitor and impact not only policy, but also fiscal management of local health departments, and they need to have the training and skills in fiscal management, budget development, and accountability. In addition to the NCABOH training, DPH will provide some basic

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Mr. Ralph Campbell, Jr., State Auditor
 August 17, 2000

training about how DPH consultants work in local health departments, their availability to boards and directors for consultation, and the further access of Local Health Services Raleigh-based staff for consultation and assistance as needed. This will begin in the quarterly meetings with Local Health Department directors and the State Health Director.

SEVERAL MTW FACILITIES ARE IN NEED OF REPAIR OR REPLACEMENT.

MTW Management's Response: The Board of Health, the Health Director and the management team continue to assess the damage, deterioration and need for repair or replacement of the administrative unit of MTW and of the clinical/environmental health service delivery areas of all the counties. Requests will be made to the three counties for addressing the physical plant needs, as soon as possible, on a prioritized basis.

{Areas with damage, which might result in health concerns, or danger to employees will take precedence over addressing areas which have overcrowded conditions.}

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. We recommend that the audit finding remain open until needed repairs are identified, the Board of Health makes a request for assistance from the three counties, and action is taken to address the physical plant needs of the District agency.

Objective: To determine the appropriateness of budget and audit processes.

MTW's BUDGET PROCESS DOES NOT MEET STATUTORY REQUIREMENTS.

MTW Management's Response: NCGS speak to preparation and approval of budgets in the Local Government Finance Act. Specific deficiencies, noted and detailed in the audit report, to be corrected in this and future budgets, includes presentation of a balanced budget with inclusion of realistic revenues, in a timely manner. Budget revisions will be brought to the board, in a timely manner, as appropriate. These budget actions and revisions will be detailed in the minutes of the Board of Health. Compliance with the Local government Finance Act, in its entirety will be a priority.

{As noted previously, the addition of the new Health Director and Finance Officer, after appropriate training and orientation, will compliment these happenings.

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DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. The Local Health Service's consultants are preparing a balanced, realistic budget ordinance for presentation to the Board of Health at the August 2000 meeting. The ordinance shall establish when it is necessary for revisions to the budget to have Board approval and the staff will be trained accordingly. The agency is operating on a Board approved interim budget from July 1, 2000 to August 31, 2000. The new finance officer is receiving training in budget preparation and will be provided assistance by Local Health Services next year in the FY 2002 budget cycle upon request. This will remain open until the budget is adopted for FY 2001.

THE MTW AUDIT REPORTS WERE SUBMITTED LATE TO THE LOCAL GOVERNMENT COMMISSION FOR FISCAL YEARS ENDED JUNE 30, 1998 AND JUNE 30, 1999.

MTW Management's Response: The base reason identified for the lateness of the audit reports of MTW was the poor condition of the MTW accounting records for the two fiscal years noted. The CPA was unable to present the financial statements by program and had to present the financial condition of the entity as a whole. MTW has already made significant changes to improve the financial records to ensure completeness and accuracy. The interim Finance Director (a state administrative consultant) has begun institution of measures to assist in compliance with this directive. These measures are supported and are being actively adopted by the new management staff of MTW. Timely submission of audit reports to the Local Government Commission will be a priority for the year 2000 and the future.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. Additional information from MTW reveals that an audit firm has been contracted with for FY 2000 to complete the process in a timely manner. Much emphasis has been placed on having records ready and available for the firm the last week of August 2000. The Local Health Service's consultants will be available to assist. The Department will keep this finding open until the District achieves timely submission to the Local Government Commission ("LGC") of an audit report.

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Mr. Ralph Campbell, Jr., State Auditor
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Objective: To review and assess operational and fiscal management practices.

Managerial Issues:

THE FORMER HEALTH DIRECTOR MADE FINANCIAL AND OPERATIONAL DECISIONS WITHOUT ADEQUATE CONSIDERATION OF MTW'S FINANCIAL CONDITION.

MTW Management's Response: MTW feels it is imperative that all financial and operational decisions are to be based on the actual financial condition of the department. The Health Director will fully inform the board of the current financial condition and implications of new initiatives before seeking approval for new programs and before entering into major financial agreements. The Board will question the Health Director as to the financial standing and look at information presented to ascertain the capacity of and impact on the department prior to giving approval to new initiatives or agreements. These efforts are in place as of 07-03-00.

{The Financial Officer (new as of June 5, 2000) and the Health Director (new as of July 3, 2000) will work together to ensure the truthfulness, thoroughness and completeness of all information presented to the Board.}

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. Local Health Service's consultants have been very impressed with the new finance officer's demonstrated abilities and feel that the auditor's recommendation to hire a qualified financial person has been met. Accordingly, we recommend that this finding be closed.

THE FORMER HEALTH DIRECTOR DID NOT KEEP THE MTW BOARD OF HEALTH ADVISED ON THE SERIOUSNESS OF FINANCIAL PROBLEMS.

MTW Management's Response: The Health Director will keep the Board fully and accurately informed of MTW's financial condition. Board members will ask questions of the Director and Financial Officer whenever they do not fully understand the information being presented. Details of information shared by management team with the Board will be recorded in the minutes of the Board. These efforts are in place and being utilized as of 07-01-00.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. Local Health Service's consultants have observed first hand a more active Board of Health role and have been asked by

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the new management to assist in preparing a financial report that can be presented to the Board on a monthly basis. Accordingly, we recommend that this finding be closed.

Financial Issues:

MTW's ACCOUNTING RECORDS ARE INCOMPLETE AND INADEQUATE.

MTW Management's Response: MTW will continue to utilize the controls and processes implemented by the interim Finance Officer. Additional controls are being implemented by the new Finance Officer to assure that all the above noted deficiencies will be adequately addressed. Lack of controls noted by the audit team have been addressed and adequate controls are now in place and will be noted in written accounting procedures.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. According to the Local Health Service's consultant that served as Interim Finance Officer the following training occurred during her tenure: (1) Appropriate filing and retention of financial records; (2) Appropriate vendor files to include: requisition, purchase order, shipping sheet, invoice, approval of invoice for payment; (3) Balancing of vendor statements to invoices paid and/or outstanding; (4) Payment of invoices in a timely manner; (5) Appropriate procedures for processing and recording receipts; (6) No holding accounts allowed; and (7) Appropriate costing of programmatic expenditures for salaries, operating and equipment costs. The Department will keep this finding open until accounting policies are adopted by the Board of Health and certified by the Health Director.

ACTUAL REVENUES FOR CURRENT FISCAL YEAR CANNOT BE ACCURATELY IDENTIFIED IN GENERAL LEDGER.

MTW Management's Response: The Assistant Finance Officer has been assigned the duty of posting revenues accurately. A form has been developed to identify where the daily receipt of receivables is to be posted. DHHS consultants are providing training to the new Finance Officer in accurately posting grant dollars. All accounts receivable staff has received training in how to identify and rectify posting errors and procedures have been written into the accounting manual.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. According to the Local Health Service's consultant that served as Interim Finance Officer, receipts are now being

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posted on a daily basis by the assigned employee. Procedures have been put into place to assure internal control (e.g., same person making deposit is not balancing bank statement; same person collecting monies is not making deposits). The consultant feels that most of the items in the holding account were indeed identified and transferred to the appropriate revenue line item. Also, budgeted revenues have been posted to all programs. An intense effort was made to assure all revenues received were posted accurately. A final review of revenue accounts will occur before the local audit occurs and fund balance is tallied. Journal entries will be prepared for all funds received for the prior fiscal year. Accordingly, we recommend that this finding be closed.

MTW IS NOT FULLY UTILIZING ITS ACCOUNTING SOFTWARE.

MTW Management's Response: MTW has increased utilization of accounting software by training staff in assigned areas and use all available program functions for a more efficient use of staff and resources. Additionally, MTW has completed the revision of the chart of accounts and revenue posting procedures for easier analysis of the agency's financial status. All MUNIS accounting modules applicable to a District Health operation are now in use. MUNIS has provided training for those applications both in-house and at remote locations for the Finance Officer, Assistant Finance Officer, Accounts Payable and Payroll. Training in Fixed Assets will be held soon. All efforts are be made to fully utilized MUNIS software.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. According to the Local Health Service's consultant that served as Interim Finance Officer, the new finance officer has done a remarkable job in identifying and correcting the problems with the current accounting system. Upon consultation with MUNIS, the previous fiscal year's books were closed which then allowed validations (identification of errors and ability for corrections to be made) to be run for each month of FY 2000. Validations were completed; thus, eliminating the system being cluttered with errors and the need to create a new database. The FY 2000 budget and budget revisions have been completely entered into the system. Bank statement reconciliation for the twelve-month period has occurred using the system. Revenues are now posted up-to-date using the system and guidelines established. Cash balances can now be maintained using the system and do not have to be computed on a spreadsheet. MUNIS staff were brought onsite at MTW to provide two days worth of training for all finance staff members (payroll, accounts payable, journal entries, bank reconciliation, balance sheets, general ledger). The Finance Officer and Assistant Finance Officer attended a one-day MUNIS seminar in Raleigh focused on the appropriate closing of a fiscal year. MUNIS is available by phone at

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any given point the agency needs technical assistance. The chart of accounts has been streamlined to eliminate unnecessary accounts and create a clean audit trail. The report writer program can be utilized to create revenue reports in any manner the agency wishes (MUNIS can provide training). This finding will remain open until leave time balances are corrected and MUNIS or another automated system is utilized to track appropriately.

MTW DID NOT REVISE HOME HEALTH MEDICARE PERIODIC INTERIM PAYMENTS TO REFLECT ACTUAL VISIT LEVELS.

MTW Management's Response: The poor financial management leading to the decision to not revise the Medicare interim payments will not be tolerated in the future at MTW. Close monitoring of Home Health Services by the Health Director and the Financial Officer will ensure eligible reimbursements are in line with periodic payments. Cost reports will be reviewed and evaluated for reasonableness and accuracy to avoid any future Medicare payback situation. Staffing levels and reduction of costs per visits are constantly being studied to ensure maximum reimbursement, but not overpayment. Accurate and detailed reports will be made to the Board regarding the status of Home Health Medicare interim payments. These reports will be detailed in the minutes of the Board of Health.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. According to the Local Health Service's consultants, a cost accounting firm has been hired to prepare quarterly, as well as annual Home Care cost reports. The firm has worked extensively with the Interim Finance Officer to streamline the general ledger to capture all costs involved appropriately. The firm has been very complimentary of the new billing supervisor and staff in Home Care on clean up of old bills, and timely submission of new ones. The last quarterly cost report indicated the agency's Periodic Interim Payment (PIP payment) was well below the visit level. The agency was due \$215,000 for the fourth quarter. We recommend that this finding be closed due to the following: (1) the District is appropriately tracking visits (billing is up-to-date), (2) cost reports are being prepared in a timely manner, (3) PIP payments will come to an end when the system changes to Perspective Pay on October 1, and (4) staffing levels/ productivity are tracked on automated billing reports.

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MTW DID NOT SUBMIT COMPLETE AND TIMELY BILLINGS FOR MEDICARE AND MEDICAID.

MTW Management's Response: MTW management is in the process of reviewing all policies and procedures of billing functions. Revised policies and procedures will detail required information, and staff will be adequately prepared and trained to perform these tasks. Strict adherence to these policies, after adoption by the Board, will be enforced. The Home Health Supervisor and MTW Finance Officer will consistently take steps to ensure that billing information is completed and submitted in a timely manner. The review, revision and adoption of these policies and procedures will occur by 06-30-01.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. We recommend that this finding remain open until the revised policies and procedures with respect to billing functions are adopted by the Board of Health and certified by the Health Director.

MTW's FINANCE OFFICE DID NOT TRACK AND FOLLOW-UP HOME HEALTH BILLING SUBMISSIONS.

MTW Management's Response: Home Health is now utilizing the tracking ability of their software. All denials are looked at on a daily basis by the Finance Officer and are being handled on a daily basis and resubmitted in a timely manner. The number of days in receivables has been reduced and all billing and denials are handled in a prompt manner. MTW is currently looking for ways to utilize the abilities of the software to its fullest and is pulling and utilizing tracking data on a daily, weekly and period basis.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. This finding will remain open until the billing policies (referenced in the previous answer) are written and adopted by the Board of Health and certified by the Health Director.

MTW HOME HEALTH CLERICAL STAFF LACKED ADEQUATE COMPUTER RESOURCES TO PERFORM JOB DUTIES IN AN EFFECTIVE AND EFFICIENT MANNER.

MTW Management's Response: Management has continued to upgrade computer equipment and resources to ensure efficiency and effectiveness in the billing process. Prior to any computer purchases or conversions, analysis will be performed to ensure that adequate resources exist to handle the conversion process in addition to the normal workload. All clerical staff now have access to billing software and have been trained in

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how to use the software. New computers have been purchased and installed in critical billing areas. All clerical staff is now integrated into the network and no travel is necessary to ensure data entry. Conversion from the old software to the new software is now complete.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. The Local Health Service's consultants indicate that billing is submitted electronically within 10 days of the following month of service and is up-to-date with the exception of old billings being resubmitted manually. Denials received electronically are automatically resubmitted as they are received. Accordingly, we recommend that this finding be closed.

MTW DID NOT TAKE ADVANTAGE OF REDUCED TELEPHONE RATES AVAILABLE THROUGH THE STATE TELECOMMUNICATION SYSTEM.

MTW Management's Response: MTW has reviewed the necessity of the telephone line in Washington County. The situation has been rectified. All appropriate long distance is now with the State Telecommunication System.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. We recommend that this finding be closed.

MTW IS INCURRING UNNECESSARY COSTS FROM INTEREST/FINANCE CHARGES ON OVERDUE INVOICES.

MTW Management's Response: MTW is making every effort to pay vendor invoices in a timely manner to avoid interest and/or finance charges. Since MTW has adequate cash available for daily operations, invoices for goods and services are being processed and paid in a timely manner.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. We recommend that this finding be closed.

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Contracting Issues:

THE FINANCIAL SERVICES CONTRACT WITH PPCC FAILED DUE TO A LACK OF TRUST AND COOPERATION BETWEEN THE PARTIES.

MTW Management's Response: MTW did not enter into a full cooperative agreement, as had been contracted, with PPCC during the documented dysfunctional period of financial management. The agreements and reported periods of work time need further evaluation so a clear understanding can be reached between the two departments. The Health Director will further research this issue, for clarification of work done. The Health Director will meet with the Health Director of PPCC to resolve outstanding balances or issues by 06-30-01.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. This finding will remain open until the issue is resolved between the two directors.

MTW HAS INADEQUATE CONTROLS OVER CONTRACTS.

MTW Management's Response: MTW has developed written procedures for contract accountability. These are included in the accounting manual. Contract performance is being scrutinized on an ongoing basis and a contract list has been developed. Contracts are now being filed correctly.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. The Local Health Service's consultants recommend the complete listing identify the source of funding for each contract, start and end dates, and the process be centralization in the finance officer's office. We recommend that this finding remain open until the accounting policies are adopted by the Board of Health and certified by the Health Director.

MTW CONTRACTS ARE NOT IN COMPLIANCE WITH REQUIREMENTS OF NORTH CAROLINA GENERAL STATUTES.

MTW Management's Response: MTW is in the process of review of each contract for compliance with North Carolina General Statutes. Management is taking immediate steps to assure that MTW is in compliance with all applicable Statutes. Since the new Health Director came on board on 3 July, 2000, all contracts have been reviewed to insure compliance. As of 31 July, 2000 all contracts were in compliance and signed.

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DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. Local Health Service's consultants recommend that a concerted effort be made in FY 2002 to have all contracts signed prior to their effective date. We recommend that this finding be closed.

MTW IS NOT UTILIZING PROFESSIONAL SERVICES EFFECTIVELY.

MTW Management's Response: Professional services are now utilized sparingly and only when necessary. MTW now heeds the recommendations of those professional services retained. MTW continues to hire trained individuals for job vacancies and train existing personnel to ensure that outside professional services are not necessary.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response and recommends that this finding be closed.

Internal Control Issues:

MTW BANK ACCOUNT RECONCILIATIONS AND SIGNATURE CARDS ARE NOT REVIEWED AND REVISED IN A TIMELY MANNER.

MTW Management's Response: MTW did immediately remove the former Director from the signature cards for all bank accounts. All signature cards are now up-to-date and procedures to handle signature authority is included in the accounting manual. All bank statements are now reconciled and will be reconciled on a timely basis in the future.

DHHS Response: The Department concurs with both the Auditors' recommendation and the District's response. We recommend that this finding be closed.

THERE IS A LACK OF SEGREGATION OF PAYROLL AND TIME KEEPING DUTIES.

MTW Management's Response: MTW will designate a separate checking account to handle payroll checks as soon as the current supply of payroll checks is exhausted. In the mean time, adequate controls are in place and only the Health Director and Finance Officer sign payroll checks and are not involved in the preparation of payroll checks.

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DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. At this time, the separate checking account has not been designated. We recommend that this finding remain open until the new account is opened and designated for payroll.

THERE ARE WEAKNESSES IN RECORDKEEPING OF THE PAYROLL SYSTEM AND THE PERSONNEL FILES.

MTW Management's Response: All MTW personnel handling payroll and/or personnel matters are now or are being adequately trained. However, training in these areas are always ongoing due to constant changes. Every effort is being made to train supervisors and employees in the proper completion of timesheets. No one receives a payroll check without a correctly completed timesheet that has been approved by his/her supervisor. The payroll software is being fully utilized to insure that payroll costs are accurately allocated. The issue of the overpayments and underpayments are currently being investigated. Exit interviews are now being done, and PD100's are completed on a timely basis.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. This finding will remain open until the issue of overpayments and underpayments is resolved.

THERE ARE WEAKNESSES IN THE ACCOUNTABILITY AND MAINTENANCE OF FIXED ASSETS.

MTW Management's Response: MTW now has procedures for handling fixed assets and conducting annual fixed asset inventory which are included in the accounting manual. One individual has been assigned the task of handling fixed assets and is currently being trained. That individual will report directly to the Finance Officer. MTW has a current list of fixed assets provided by the firm that completed the last fixed asset inventory. Plans for the next fixed asset inventory are underway. All inventory of fixed assets will be documented and maintained properly.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. We recommend that this finding remain open until the current list of fixed assets is established and a physical inventory is taken and certified by the Director.

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THE LACK OF TRAINED STAFF CONTRIBUTED TO THE UNORGANIZED AND INCOMPLETE RECORDKEEPING AT MTW.

MTW Management's Response: MTW's current staff are being trained and cross-trained in recordkeeping. MTW's software provider has conducted training in the financial areas to include payroll and accounts payable. DHHS consultants continue to train staff and continue to be on call. The Finance Officer will attend the Finance 101 course in October of this year. Records are being kept in an orderly fashion and are being transitioned to completeness. Procedures for accurately maintaining records are included in the accounting manual.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. According to the Local Health Service's consultant that served as Interim Finance Officer, training of financial staff has occurred on a daily basis from January 2000 until the present time. As problem areas were identified at the agency, the consultant reviewed the issues with staff members detailing the proper way to handle in the future. The consultants are planning in-depth financial training for the new finance officer and health director during the months of August and September 2000. We recommend that this finding remain open until August and September training sessions are completed and Board approval, as well as until Health Director certification of the accounting manual occurs.

MTW DOES NOT PROVIDE JOB EXPECTATIONS OR ON-GOING JOB RELATED TRAINING FOR STAFF.

MTW Management's Response: MTW management is in the process of identifying specific criteria and standards for the performance of the various divisions. The management team has already determined the importance of criteria-based job descriptions and evaluations. Specific guidelines on when and how work is to be accomplished will be adopted. Annual performance evaluations, per policy, will be a priority. We will work to establish a data bank of staff experience and existing competencies in order to develop a training plan for each person and for the department. These individualized plans will be modified as changes dictate. These activities will be in place by employees by 07-01-01.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. We recommend that this finding remain open until activities are in place and certified by the Health Director.

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MTW IS NOT CONDUCTING ANNUAL PERFORMANCE EVALUATIONS AS REQUIRED BY INTERNAL POLICY.

MTW Management's Response: There is a renewed commitment on the part of the management team to perform required performance appraisals at the end of the probationary period and annually on the anniversary date of employment. This evaluation of the employee will be criteria based, based on the job description, and utilized to compile a listing of employee competencies and training needs. These efforts will include individualized work plans and assessment of training needs. These efforts will improve communication between management and staff and increase responsibility for accomplishment of work. Personnel actions will be resultant from these efforts also. Personnel folders will reflect these activities.

DHHS Response: The Department concurs with both the Auditor's recommendation and the District's response. This finding will remain open until the evaluation process is in place and certified by the Health Director.

ISSUES FOR FURTHER STUDY

1. ACCOUNTABILITY FOR LOCAL HEALTH DEPARTMENTS

MTW Management's Response: MTW concurs with the recommendation that the General Assembly consider examining in detail the governance and oversight questions surrounding the State's local health delivery system. The experiences of the recent past, which we are still struggling to overcome, have awakened the Board of Health to the responsibilities and importance of a stable public health system. This Board and Department share a renewed commitment to "putting the past behind us" as we look toward the future and opportunities offered by a new management team with optimistic views and enthusiasm for future endeavors.

DHHS Response: See DHHS response to State Auditor's finding that states "DHHS lacks sufficient staff to adequately monitor local health departments" under the objective entitled "To review and assess operational and fiscal management practices." The Department firmly agrees that Local Health Services, within DPH, needs additional Administrative Consultants.

As for Governance, the current district health department arrangement provides more flexibility for health departments to operate in a "health care arena" which often is not available when the department is a department of a single county government – a clear benefit. However, this arrangement does not afford as much

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day to day control for fiscal and management involvement by county administration - which in the case of MTW has been a very negative situation.

In the other six (6) district health departments covering 18 counties, the configuration appears to have worked well in that we see model operations and outcomes and good accountability for resources which we cannot say for some of the single county departments.

It seems that the single county, multi-county district, and the new public health authority model of health departments could function well as a vehicle to provide public health services for NC citizens. However, each is dependent on qualified health directors and staff, active and informed boards of health, and interested and committed county commissioners and their staff (county managers, finance officers, and others) to assure that adequate services are provided and financial resources are properly accounted for and used.

Finally, DPH has learned a significant lesson in that, as health directors are seen as the primary conduit of information between DPH and the local department for daily operation, summary reports and findings need to be sent to the Board Chairman and perhaps county commissioner member(s) to be sure that all significant interested parties are apprised of situations with department operations with potential for significant financial impact or disruption of services. This practice will be initiated by DPH with the beginning of the 2000-2001 Fiscal Year.

2. STANDARDIZED MANAGEMENT INFORMATION SYSTEM FOR LOCAL HEALTH DEPARTMENTS

MTW Management's Response: The importance of a standardized management information system or chart of accounts for local health departments cannot be minimized. Consistency in the collection and reporting of data would afford not only DHHS the opportunity to better assist local Boards of Health and local Directors, but would also serve to effectively monitor the provision of health services across the State.

DHHS Response: A consolidated and coordinated public health management/services information system is a critical need for NC public health. The local public health staff and the State staff would both benefit greatly from such a system.

Currently, approximately 60 departments use the HSIS software (Health Services Information System- state developed and maintained software) to report their service activity and bill Medicaid. The system software is a technical dinosaur. The

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other 26 departments have purchased proprietary software to provide them some actual management functions in addition to reporting state requirements. There are approximately 5 to 6 such systems serving the 26 departments. None are currently adequate to meet either local or state needs.

The local health directors, supported via the state through active participation in work groups and technical services contracts for limited strategic staff, has just ended a three year effort to obtain through a RFP process, an off-the-shelf software that could be minimally modified to meet local needs and provide state minimum services data needs. The work done by this group did not yield a canned software for purchase as reported at the July 27, 2000 Local Health Directors meeting, but did lay the ground work for a state/ local partnership to obtain a software system that, in the end, will provide local and state public health staff the information needed to manage public health into the 21st century. A MOU is being developed between DPH, DIRM, and the NC Association of Local Health Directors to establish roles and responsibilities of the various parties in this new and exciting endeavor. Significant local resources (approximately \$2.8 million) are now committed to this project. The State has committed in principal to support the development effort and to advocate for additional funding as possible within the constraints of the DPH Budget and other Federal and private foundation sources.

Local and state resources will be needed to make this system a reality, but leadership commitment seems strong for assuring successful outcome. A uniform and effective management/ services information system would provide consistent collection and reporting of data. This will not only provide DHHS/ DPH the opportunity to better assist local Boards of Health and local Directors in the management of their departments, but will also serve to effectively monitor the provision of health services across the State. Current DPH staff resources could more effectively monitor and direct field staff resources to problem areas and enhance technical assistance based on actual need instead of perceived need (i.e., more risk-based consultation).

MTW's Summative Comment: These responses have been prepared in a thoughtful manner. Our department continues to be in a transition period as our new management personnel go through orientation and training. The assistance of the state consultants is still vital to the stability of the department, until hired personnel can function without assistance. We are very appreciative and thankful for the support we have been given during this unstable time. We feel we now have in place staff who will be successful at leadership and management of the department. As a Board, we have learned the importance of the work of the Board, the importance of communication with management and the importance of staying aware and abreast of work efforts and

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information passed on to us at our meetings. We know, first hand, the impact the local health department's work has on our communities.

DHHS Conclusion: We appreciate the opportunity to provide our comments and recommendations. The Department will make every effort to assist MTW's Management in strengthening its internal controls and in implementing the necessary action to effectively rectify the conditions that resulted in the findings noted above. As noted, we stated that several audit findings remain open until certain actions have been taken. We will not recommend closure of this audit until such time as all corrective action has been implemented. If you have questions or need clarification on any of the above, please contact me or my staff.

Sincerely,



H. David Bruton, M.D.
Secretary
Department of Health and Human Services

HDB:gf

cc: Jim Edgerton
Dr. Dennis McBride
Dennis Harrington
Gary Fuquay
Board Chairperson, District Health Department
District Health Department Finance Officer
County Managers (Martin, Tyrrell and Washington Counties)
Chairpersons, Boards of County Commissioners (Martin, Tyrrell and Washington Counties)

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DISTRIBUTION OF AUDIT REPORT

In accordance with GS §147-64.5 and GS §147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

EXECUTIVE BRANCH

The Honorable James B. Hunt, Jr.	Governor of North Carolina
The Honorable Dennis A. Wicker	Lieutenant Governor of North Carolina
The Honorable Harlan E. Boyles	State Treasurer
The Honorable Michael F. Easley	Attorney General
Mr. Marvin K. Dorman, Jr.	State Budget Officer
Mr. Edward Renfrow	State Controller
Dr. H. David Bruton	Secretary, Department of Health and Human Services
Mr. Thomas Spruill	Chair, Martin-Tyrrell-Washington Board of Health

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative James B. Black, Co-Chairman
Senator Frank W. Ballance, Jr.	Representative Martha B. Alexander
Senator Patrick J. Ballantine	Representative E. Nelson Cole
Senator Roy A. Cooper, III	Representative James W. Crawford, Jr.
Senator James Forrester	Representative W. Pete Cunningham
Senator Wilbur P. Gulley	Representative Ruth M. Easterling
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Other Legislative Officials

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August 29, 2000

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