

CORRECTIVE ACTION PLAN

For the Fiscal Year Ended June 30, 1997

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-1
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Stan Chesson
Phone Number of Contact Person: (919)733-4640

Current Audit Finding:
Food Stamp Reports Inaccurate

Corrective Action Plan/Anticipated Completion Date:

The FNS-46 report is an automated report that is produced from information from FSIS. The court ordered issuances (Carpenter-McIntyre and Thomas) cited in the findings required special programming in FSIS to produce one-time payments in specific cases. It was not cost effective to reprogram the FNS-46 to include the court ordered issuances. Issuances by Carpenter-McIntyre and Thomas court cases were therefore annotated on the March 1997 Food Stamp Issuance Reconciliation Report (FCS-46) per instructions from USDA in Atlanta. Later, in order to reconcile and up-date other recurring issuances, a programming change was made to the FSIS effective with the April 1997 report. Issuance data from RMDS and the FCS-250 spreadsheet are consolidated into one spreadsheet to determine the differences. The differences are keyed directly onto an FSIS screen. Once this process is completed, a new FCS-46 report is generated which reflects the up-dated issuance information from the individual County FNS-250 reports. Position Number 5403377 will continue to monitor and update the FNS-46 report to ensure that the amounts reported on the FNS-46 reflect the amounts reported by the individual counties on the FNS-250 reports. Additionally, a new program was created that pulls returns data from the Consolidated 250 Program database into an excel spreadsheet. A manual change is made to the FCS-46 Report to reflect the corrected returns. Position Number 5403377 will continue to monitor and update the return amounts reported on the FNS-46 to ensure they reflect the amounts reported on the FNS-250 reports.

We will continue to monitor the amount of authorizations reported on the SF-269 to ensure that any inappropriate accounts are not included in the Food Stamp Authorization totals.

FRU Name: Department of Environment and Natural Resources
Finding Number: 97-SA-2
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Wayne McDevitt
Phone Number of Contact Person: (919)733-4984

Current Audit Finding:
Women, Infants, and Children (WIC) Program – Vendor Agreements for Some Large Store Chains Were Unavailable

Corrective Action Plan/Anticipated Completion Date:

This finding has been corrected and agreements are now on file. While signed agreements were not on file for two vendors, the WIC Section did monitor these vendors throughout the year to insure compliance with program requirements. In addition, the WIC Section Chief will monitor these agreements in the future.

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FRU Name: DHHS - Central Administration
Finding Number: 97-SA-3
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: James Norris
Phone Number of Contact Person: (919)715-8948

Current Audit Finding:
Federal Funds Not Drawn in Accordance With Agreement

Corrective Action Plan/Anticipated Completion Date:
All Staff associated with drawing federal funds and preparing CMIA monthly reports attended in house CMIA training during the April and May, 1998.

If Disagreement over Audit Finding, Explanation and Specific Reasons for Disagreement:
The Controller's Office is in concurrence with the finding and the recommendations with the exception of the TANF finding. The TANF and the FSA Grants were adjusted on the same day with a positive and negative draw of funds between grants. This reclass was recorded February 27, 1997 and did not impact federal cash.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-4
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Stan Chesson
Phone Number of Contact Person: (919)733-4640

Current Audit Finding:
Food Stamp Reports Inaccurate

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-1 for Corrective Action Plan.

FRU Name: Department of Commerce
Finding Number: 97-SA-5
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Rick Carlisle
Phone Number of Contact Person: (919)733-5940

Current Audit Finding:
Security Administration and Access Controls Need Improvements

Corrective Action Plan/Anticipated Completion Date:
Commerce will adopt and implement the policies and procedures outlined for "Use of Computer and Data Resources (RACF)" as outlined in their *SIPS Security Manual*, dated May 1, 1997, Section VIII. The department will also require employees granted FAF security to sign a statement of acceptance, as provided in the *SIPS Security Manual*, Appendix A.

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Commerce will initiate an employee security awareness program in accordance with the policies and procedures outlined in the *SIPS Security Manual*, dated May1, 1997, Section XIII, "Personal Computer Security Procedure."

FRU Name: Department of Commerce
Finding Number: 97-SA-6
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Rick Carlisle
Phone Number of Contact Person: (919)733-5940

Current Audit Finding:
Untimely Receipt and Review of Subrecipient Audit Reports

Corrective Action Plan/Anticipated Completion Date:

The Commerce Finance Center (CFC) has worked with the Division of Community Assistance (DCA) in obtaining copies of the necessary software (MS Access) adapted to track grant management documents and information in CFC. This system was put in place on March 9, 1998, and is tracking both in-coming and out-going materials. In addition to the local grantee audit reports, the system is tracking CFC monitoring and other grantee correspondence, and provides response dates for grant representatives and for management review. Commerce Finance Center information for the Community Development Block Grant program master files will be regularly updated to DCA's master system to insure that current information resides in both divisions.

Additionally, further training on the tracking system is being provided to the administrative position now assigned this responsibility. The Finance Center is also working in cooperation with DCA and the Department of Commerce Personnel Office to create a second grant administrative position. This position will be designed to provide back-up assistance on the tracking system and other grant-related activities, and will be funded from Community Development Block Grant program funds.

FRU Name: DHHS - Division of Epidemiology
Finding Number: 97-SA-7
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: J. Steven Cline
Phone Number of Contact Person: (919)715-6471

Current Audit Finding:
The Division of Epidemiology Failed To Adequately Monitor and Continued To Fund a Subrecipient Even After Becoming Aware of Serious Fiscal Concerns.

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Corrective Action Plan/Anticipated Completion Date:

The Division of Epidemiology did not adequately supervise Drug and Aids Prevention Among African-Americans, Inc. (DAPAA).

The Division is taking immediate corrective action that will assure the appropriate review process, where each expenditure report is being compared to the total dollar amount paid to the contractor and to the budgeted amount so that such overpayments will not occur in the future. The Office of the State Health Director, the Division of Budget, Planning and Analysis, the Office of the Controller and the Office of Internal Audits will review fiscal management procedures of these contracts.

Although DAPAA failed to comply with its contractual agreement, the Division of Epidemiology continued awarding grants to DAPAA.

Prior to October 1997 the Division was in the Department of Environment, Health and Natural Resources (DEHNR). It was during this period that most of the funds addressed in this Report were awarded to DAPAA. In DEHNR, the auditing and controllers function were centralized, and responsibility for receipt and review of expenditure information and audit reports resided in the Department. This resulted in some unsatisfactory outcomes.

One of those duties of the DEHNR Controller was the receipt, review and oversight of single audit reports from contractors, including CBO's. In August, 1996, the Division requested copies of single audit reports for DAPAA, because the Budget Officer for the HIV/STD Control Section, Bob Canupp, had concerns about the fiscal management of DAPAA and wanted to find out whether the single audit reports reflected any information that would confirm or allay his concerns. The Division was notified on August 13 by DEHNR Controller Rod Davis that his office had received no single audit reports from DAPAA for FY94 or FY95. When Mr. Canupp asked whether the Division should continue to fund DAPAA, Mr. Davis' response was affirmative (Attachment 3- hand-written note from Rod Davis). The DEHNR Controller's Office granted several extensions to DAPAA to submit these audit reports.

Due to his continued concerns about DAPAA's fiscal management, Mr. Canupp visited DAPAA in February 1997. During that visit he reviewed the books and other financial records of DAPAA. Upon his return to Raleigh, Mr. Canupp contacted Tommy Clark, DEHNR Controller's Office, and discussed his concerns with Mr. Clark. Mr. Clark told Mr. Canupp that he had notified DAPAA that they had forty-five days within which to submit their audit reports or risk loss of funds (no copy available). On March 7, 1997 Mr. Clark notified DAPAA that the audit report for SFY 1996 had not been received and DAPAA must submit the report by April 6, 1997 (Attachment 3). In May 1997 Bob Canupp and Evelyn Foust met with Rod Davis, Dan Stewart and Tommy Clark at DEHNR Controller's Office to discuss DAPAA (Attachment 4). Mr. Davis assured the Division that the situation with DAPAA was being handled properly and there was no need to cut off their funding at that time. DAPAA was given an extension until July 1997, to submit audit reports. On July 29, 1997 Mr. Davis wrote DAPAA in response to an audit report the DEHNR Controller's Office had received from DAPAA indicating that all required reports had not been included and another extension was given to August 31, 1997 (Attachment 5). On July 30 Mr. Canupp wrote DAPAA notifying them that failure to comply with the audit requirements would result in loss of funding from the Division (Attachment 6).

The above history of events explains why the Division continued its funding to DAPAA after the transfer of the Division from DEHNR to DHHS. The General Assembly, effective October 1997, transferred the Division to the newly established Department of Health and Human Services. At that time, Bob Canupp contacted Frank Bobbitt, Director DHHS Office of Internal Audits, who has worked closely with the Division since that time. On

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October 6, 1997 Brenda Crowder-Gaines, Prevention and Community Planning Branch Head and Linda Blackmon, HIV/STD Budget Manager visited DAPAA to review their fiscal records and determined that there were still problems in spite of claims by James Wise, Executive Director, DAPAA, that they had corrected problems that had been identified.

On October 16, 1997 Steve Martin, Deputy Division Director; Evelyn Foust, HIV/STD Prevention and Care Section Chief; Bob Canupp, HIV/STD Budget Officer; and Frank Bobbitt, Director DHHS Office of Internal Audits met with the DAPAA Board of Directors and the Executive Director in order to make it clear that the Division believed that the fiscal management and records of DAPAA were not adequate and unless immediate action was taken to correct matters, the Division would cancel its contracts with them. The Board assured the Division representatives that it had handle the matter by adding a new employee with the appropriate background and skills. As a series of three memos (Attachments 7, 8 and 9) from Stephen S. Martin, Deputy Division Director, to DAPAA indicate, DAPAA was still not in compliance with fiscal reporting requirements. The subsequent visit by Bob Canupp and Eddie Berryman, DHHS Office of Internal Audits, confirmed that the fiscal management problems were not remedied. DAPAA was notified on March 9, 1998 (Attachment 10) that the Division was officially canceling DAPAA's contracts.

DAPAA appeared to have received favoritism in the awarding of grants by the Division of Epidemiology.

The Division does not believe that favoritism was given to DAPAA in selecting its proposals as deserving of funding. In addition to our own assessments of the quality of DAPAA's proposals and projects, the Division regularly received information from external reviewers, federal officials, physicians, local health department staff, staff of other CBO's and other community leaders that DAPAA programs were outstanding examples of how other CBO's should operate.

Following a reorganization of the Division of Epidemiology in July 1994 and the subsequent appointment of Evelyn Foust as Chief of the HIV/STD Control Section, complaints of favoritism toward DAPAA were received. In an effort to deal with these concerns, Janet Wise, Head of the Prevention Branch, HIV/STD Control Section and wife of James Wise, Executive Director of DAPAA, was relieved of all duties and responsibilities pursuant to reviewing and selecting CBO proposals in October, 1995. Complaints continued to be received and additional efforts were made to ensure that Mrs. Wise had no role in the selection of projects to be funded. For example, in August, 1996, Evelyn Foust notified Steve Martin, Deputy Director (Attachment 11) subsequent to a meeting with Mrs. Wise, that she was still following the guidance stated in a memo dated June 22, 1993 (Attachment 12). That memo addresses removing Mrs. Wise from direct involvement with funding recommendation(s), technical assistance, and monitoring of DAPAA.

During 1996 and 1997, several coaching sessions occurred between Mrs. Wise, and one or more of the following: Evelyn Foust, her immediate supervisor, Steve Martin, Deputy Division Director and Pat Collins, Division Personnel Representative. During these sessions, Mrs. Wise indicated that she was not involved in any way in any activity that would cause a conflict of interest. There is a signed statement, dated July 28, 1997, in Mrs. Wise's personnel file that attests to her knowledge of and concurrence with the requirement that she refrain from activity that might be construed as a conflict of interest. This memo was shared with the Office of the State Auditor during the investigation. In the spring of 1997, as part of the reorganization of the Section, Mrs. Wise was placed in a position that had no supervisory responsibilities for the Prevention Branch, which was the Branch in which recommendations for funding of CBO's was initiated. Eventually, in the fall of 1997, due to the limited number of positions appropriate to Mrs. Wise's training and experience, she was assigned to the Office of

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Minority Health, where there was a need for her skills and abilities and where she could continue several initiatives regarding prevention activities in the minority community, such as the African-American Faith Initiative.

The Division now has questions as to whether Mrs. Wise's statements were accurate in regards to conflict of interest. The Division is now investigating this matter.

The executive director's wife, employed by the state agency awarding grants to DAPAA, received checks from DAPAA totaling \$2,065.

The Division has indication that Mrs. Wise had received verbal permission from her then supervisor. The Division notes Mrs. Wise did not file notice of secondary employment. We have put her on investigatory suspension. Culmination of the investigation resulted in Mrs. Wise being reinstated and being given a written warning regarding the violation of the secondary employment policy. Mrs. Wise is currently assigned to the Office of Minority Health where she has no role or responsibility remotely linked to the funding decisions regarding CBO's.

Finally, the Division of Epidemiology is instituting two additional measures to govern its funding of CBO's. First, two vacant positions are being realigned to serve as fiscal monitors of all CBO's. These staff will monitor the capacity of each CBO to provide the financial procedures to meet the state and federal guidelines. They will visit each CBO at least twice annually, once scheduled and once unannounced to review the financial records to determine compliance. These staff will also be involved in planning and conducting training of CBO staff to insure proper financial accounting practices.

Second, the division is adopting a Pre-Decisional Assessment Tool to evaluate the capacity of each CBO to meet the financial and other requirements of being a subgrantee, regardless of the amount of funding they have requested. The Tool was originally developed by CDC to evaluate CBO's which they fund directly. All staff who monitor CBO's, either financially or programmatically, will be trained in the use of this Tool. It will also be used at any time there is evidence that a particular CBO's capacity to meet reporting requirements has changed. The Tool is included as a hard copy only because it is in WordPerfect and cannot be converted to MSWord.

All of these changes that have not already been implemented will be implemented by October 1, 1998. This timeline will enable us to rewrite job descriptions, establish the new jobs, hire staff and complete training.

FRU Name: Employment Security Commission
Finding Number: 97-SA-8
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: David Canady
Phone Number of Contact Person: (919)733-3121

Current Audit Finding:
Overpayment of TRA and NAFTA Benefit Payments to Individuals

Corrective Action Plan/Anticipated Completion Date:

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Automation efforts to minimize clerical errors will continue. In addition, the Agency will revise processing instructions, improve the unit's training program, apply quality controls each calendar quarter, and hold regular staff meetings to discuss quality control results and emphasize program requirements.

Anticipated Completion Date: September 30, 1998

FRU Name: Department of Commerce
Finding Number: 97-SA-9
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Rick Carlisle
Phone Number of Contact Person: (919)733-5940

Current Audit Finding:
Security Administration and Access Controls Need Improvements

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-5 for Corrective Action Plan.

FRU Name: Employment Security Commission
Finding Number: 97-SA-10
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Manfred Emmrich
Phone Number of Contact Person: (919)733-7522

Current Audit Finding:
Internal Control over JTPA Expenditures Needs to be Improved

Corrective Action Plan/Anticipated Completion Date:
During on-site training sessions for new interviewers and during "refresher" training for local office staff, the importance of properly completing all JTPA forms and keeping documentation in place will be emphasized. Errors and omissions will be routinely pointed out during monitoring and technical assistance visits by Central Office staff - with follow-ups for recurring problems. The requirement that the participant's supervisor and the local office specialist approve time sheets will be strictly followed.

Anticipated Completion Date: September 30, 1998

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FRU Name: North Carolina School of Science and Mathematics
Finding Number: 97-SA-11
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: John Frederick
Phone Number of Contact Person: (919)286-3366

Current Audit Finding:
Time Sheets Not Maintained

Corrective Action Plan/Anticipated Completion Date:

Time sheets are now prepared by all staff who work on federal grants. The procedure will be included in the annual update of the Business Office Procedures Manual by the Business Officer.

FRU Name: Department of Transportation
Finding Number: 97-SA-12
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Norris Tolson
Phone Number of Contact Person: (919)733-2520

Current Audit Finding:
Reimbursement Claim for Disaster Assistance Funds Included Unallowable and Duplicate Costs

Corrective Action Plan/Anticipated Completion Date:

These amounts have been refunded to FEMA.

FRU Name: Department of Public Instruction
Finding Number: 97-SA-13
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Larry McLamb
Phone Number of Contact Person: (919)715-1477

Current Audit Finding:
Strengthen Controls over Electronic Data Processing - North Carolina Accounting System (NCAS)

Corrective Action Plan/Anticipated Completion Date:

1. Strengthen the supervisory review process over requests for security access levels by June 30, 1998.
2. Conduct bi-annual reviews on security access levels to critical NCAS screens - first review to be completed by June 30, 1998.
3. Train key supervisors on appropriate security access levels by July 31, 1998.
4. Add sign-off responsibility to the Personnel Exit Checklist by July 15, 1998 for the NCAS and RACF ID Security Administrator to ensure security is revoked for terminated employees.

FRU Name: Department of Public Instruction

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Finding Number: 97-SA-14
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Bill McGrady
Phone Number of Contact Person: (919)715-1356

Current Audit Finding:
The Allotment Process to Local Education Agencies (LEAs) Needs Improvement

Corrective Action Plan/Anticipated Completion Date:

1. We have already implemented procedures that rely on headcounts maintained by National Computer Systems (NCS), an independent contractor.
2. Review procedures will be implemented by July 31, 1998 to ensure headcounts are accurate and the counts are entered correctly.
3. Conduct a needs assessment by December 31, 1998 for the purpose of developing a needs-based formula to be used to allocate funds in the 1999/2000 fiscal year.
4. Seek approval from the U. S. Department of Education of a "best plan of action" to resolve the under and over misallocations which net to zero - letter seeking approval to be mailed by July 31, 1998.

FRU Name: Department of Community Colleges
Finding Number: 97-SA-15
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Martin Lancaster
Phone Number of Contact Person: (919)733-7051

Current Audit Finding:
Documentation of Costs Based on Benefits Received Needs Improvement

Corrective Action Plan/Anticipated Completion Date:

The Department of Community Colleges has evaluated and revised internal controls to properly allocate salaries and fringe benefits so that all federal and state program costs are allocated to the program receiving the benefit.

FRU Name: Department of Public Instruction
Finding Number: 97-SA-16
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Larry McLamb
Phone Number of Contact Person: (919)715-1477

Current Audit Finding:
Strengthen Controls over Electronic Data Processing - North Carolina Accounting System (NCAS)

Corrective Action Plan/Anticipated Completion Date:

See 97-SA-13 for Corrective Action Plan.

FRU Name: Rowan-Cabarrus Community College

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Finding Number: 97-SA-17
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: R.L. Brownell
Phone Number of Contact Person: (704)637-0760

Current Audit Finding:
Federal Pell Grant Program – Student Payment Summary

Corrective Action Plan/Anticipated Completion Date:

The College concurs with the finding concerning the Federal Pell Grant Program – Student Payment Summary and will implement corrective action to resolve the deficiency in internal controls. The College will submit to the U.S. Department of Education the necessary adjustments and documentation to correct the reporting errors identified and implement procedures to ensure the Student Payment Summary data is reconciled to the general ledger disbursements on a timely basis.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-18
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: James Norris
Phone Number of Contact Person: (919)715-8948

Current Audit Finding:
Federal Funds Not Drawn in Accordance With Agreement

Corrective Action Plan/Anticipated Completion Date:

See 97-SA-3 for Corrective Action Plan.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-19
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: James Norris
Phone Number of Contact Person: (919)715-8948

Current Audit Finding:
Federal Program Expenditures Reported Inaccurately

Corrective Action Plan/Anticipated Completion Date:

The reported expenditures for the 1997 Child Care Development Fund grant were corrected and agree on the expenditure reports and the PMS 272 report for the quarter ending September 30, 1997.

The close out process for the AFDC Grants is in process. The supplemental AFDC grant awards have been received and the adjusting entries between AFDC and TANF were made in May 5, 1998.

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The discrepancies noted for the 1996 and 1997 VR Grants to States (Blind Services) were due to a reclass of expenditures requiring the reopening of June 1997 general ledger after the SF 269 reports had been completed. The SF 269 reports have been revised. The US Department of Education no longer requires the submission of the 272 report. The DHHS Controller's Office, Federal Grants Branch will follow up with the Department of Education in July 1998 to determine what steps are needed to correct the submitted 272 report.

FRU Name: Department of Public Instruction
Finding Number: 97-SA-20
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Larry McLamb
Phone Number of Contact Person: (919)715-1477

Current Audit Finding:
Strengthen Controls over Electronic Data Processing - North Carolina Accounting System (NCAS)

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-13 for Corrective Action Plan.

FRU Name: Department of Public Instruction
Finding Number: 97-SA-21
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Larry McLamb
Phone Number of Contact Person: (919)715-1477

Current Audit Finding:
Strengthen Controls over Electronic Data Processing - North Carolina Accounting System (NCAS)

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-13 for Corrective Action Plan.

FRU Name: Department of Public Instruction
Finding Number: 97-SA-22
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Larry McLamb
Phone Number of Contact Person: (919)715-1477

Current Audit Finding:
Strengthen Controls over Electronic Data Processing - North Carolina Accounting System (NCAS)

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-13 for Corrective Action Plan.

FRU Name: Department of Public Instruction

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Finding Number: 97-SA-23
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Bill McGrady
Phone Number of Contact Person: (919)715-1356

Current Audit Finding:
Procedures for Collecting Student Counts Need Improvement

Corrective Action Plan/Anticipated Completion Date:

1. Clear written instructions were communicated on February 11, 1998 to employees compiling student counts.
2. Establish a review procedure no later than June 30, 1998 to ensure counts are accurate.
3. Seek written approval from the U. S. Department of Education by July 31, 1998 to waive correction of the misallocations based on the immaterial amounts and the minute impact on the programs.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-24
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Gary Fuquay
Phone Number of Contact Person: (919)733-0169

Current Audit Finding:
Some Subrecipient Audit Reports Not Received

Corrective Action Plan/Anticipated Completion Date:

Audit reports have been received from six of the seven subrecipients for the fiscal year ended June 30, 1996. The financial records of the seventh subrecipient, Montagnard Dega Association, have been declared unauditible by their audit firm. Staff of the DHHS, Office of the Internal Auditor have scheduled a fiscal monitoring visit to Montagnard Dega Association to determine the status of the fiscal records and the agency's internal controls.

The Controller's office has in place a tracking system for subrecipient audit reports which includes the fiscal year date and audit due date. This information is pulled from the DHHS accounting system, in the form of an I.E. Report, which shows payments that have been sent to the subrecipient.. The tracking system is set up to reflect the type of financial reporting required based on funds received by the subrecipient from DHHS only. The Division adequately tracks whether all required subrecipient audit reports have been submitted.

Since the consolidation of the Controller's office in January 1997 a full-time employee has the responsibility to track all audits. We feel that adequate controls are in place to track and follow-up on outstanding subrecipient audit reports and no additional corrective action is necessary.

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FRU Name: DHHS - Central Administration
Finding Number: 97-SA-25
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Curtis Crouch
Phone Number of Contact Person: (919)715-1313

Current Audit Finding:
Costs Charged Incorrectly to Federal Programs

Corrective Action Plan/Anticipated Completion Date:

The errors mentioned above were due to extremely large, difficult to manage Excel workbooks. These workbooks were managed by various staff. If one person added a line without notifying another person, the latter would download portions of the workbook into a set format and would not realize that the data would be off a line in terms of appropriate allocations. Along with stricter review processes, the implementation of Access databases for cost allocating computer processing costs have streamlined and facilitated the allocation process. A journal voucher (Document ID 20318D0102) was prepared and keyed on June 23, 1998 to correct the above finding.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-26
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: James Norris
Phone Number of Contact Person: (919)715-8948

Current Audit Finding:
Federal Funds Not Drawn in Accordance With Agreement

Corrective Action Plan/Anticipated Completion Date:

See 97-SA-3 for Corrective Action Plan.

FRU Name: DHHS - DMH/DD/SAS (Wright and Whitaker Schools)
Finding Number: 97-SA-27
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Adele Spitz-Roth
Phone Number of Contact Person: (919)733-0598

Current Audit Finding:
Determine Eligibility Before Paying Benefits

Corrective Action Plan/Anticipated Completion Date:

At the time of the audit, both Wright and Whitaker Schools implemented corrective action plans to respond to the initial findings and then review all other applications to ensure compliance. This was successfully completed within a month's period of time. To ensure further compliance in case of future benefit eligibility for students and school services, the Schools have modified their current "Practice Standards: Record Audit" policy and

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procedure. It will now include the review of any and all eligibility applications in a systematic manner as to preclude any inconsistencies.

We agree with the second part of the finding. At the time of application, another State agency had already determined eligibility in the State's unified system and had limited eligibility to cash only. Since the School could not modify this application, technically we should have not have billed for services rendered. Therefore, we agree that the \$5,640 should be returned.

If Disagreement over Audit Finding, Explanation and Specific Reasons for Disagreement:

The Division does not agree regarding the audit finding that questioned the cost (\$15,602) associated with the student who "did not meet residency requirements". At the time of placement at Whitaker School, the student was residing in North Carolina and was in Pitt County DSS custody, because either the child and/or family were in danger. Upon the child's placement at Whitaker the mother left the State of North Carolina, however, the child continued to reside in North Carolina and remained in the custody of Pitt County DSS. Throughout the student's treatment at Whitaker School, he remained in the custody of Pitt County DSS and continued to reside in N.C. During this time, the child's paternal grandparents, residing in Farmville, N.C., were identified and agreed to be a visiting resource for him while at Whitaker School. Based upon this information, the student did meet the residency requirement and, therefore, no questioned costs should have been identified.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-28
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: James Norris
Phone Number of Contact Person: (919)715-8948

Current Audit Finding:
Federal Program Expenditures Reported Inaccurately

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-19 for Corrective Action Plan.

FRU Name: DHHS - DMH/DD/SAS
Finding Number: 97-SA-29
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Phillip Hoffman
Phone Number of Contact Person: (919)733-7013

Current Audit Finding:
Procedures Insufficient to Monitor Subrecipient Compliance

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Corrective Action Plan/Anticipated Completion Date:

If Disagreement over Audit Finding, Explanation and Specific Reasons for Disagreement:

The Department disagrees that it has not performed monitoring of activities for subrecipients (local governments and public authorities). The Compliance Supplement, Section M. Subrecipient Monitoring states:

Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determination, reviewing the subrecipient's single audit or program-specific audit results and evaluating audit findings and subrecipient's corrective action plan.

The Department uses a risk-based approach where the results of reviews of financial and programmatic reports, single audit reports, consulting visits, and interactions with county staffs are the cornerstone of the Department's monitoring function. The Department's monitoring policy is not intended to ensure that an on-site monitoring visit would be performed on each subrecipient annually. We perform on-site monitoring visits in those instances where circumstances dictate. We feel that the Department's current monitoring policy is consistent with the requirements of OMB Circular A-133.

The American Institute of Certified Public Accountants (AICPA), Statement of Position (SOP) 98-3: *Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards* states in paragraph 9.31.

Considering Risk Factors When Developing Monitoring Procedures

The preamble to the Circular A-133 states that the OMB expects pass-through entities to consider various risk factors (such as the relative size and complexity of the federal awards administered by subrecipients, the entity's prior experience with each subrecipient, and the cost-effectiveness of various monitoring procedures) in developing subrecipient-monitoring procedures. For example, if a pass-through entity provides a large percentage of the only federal award it expends to ten subrecipients that each expend less than \$300,000 in federal awards annually, the pass-through entity should carefully consider the most cost-effective method of monitoring these federal awards. Perhaps the majority of this federal award is provided to two subrecipients. The pass-through entity might consider conducting site visits at these two subrecipients and simply reviewing the documentation supporting requests for reimbursement from the other eight subrecipients. Conversely, if a small percentage of a federal award is provided to subrecipients that each expend less than \$300,000 in federal awards, the risk to the pass-through entity is most likely low and, therefore, the monitoring procedures could be minimal.

The auditor is correct that the Department may not perform an on-site monitoring visit for a subrecipient in which a program was not considered a "major program" as part of its single audit. This is partly because the Department relies upon the CPA's professional judgment that the program is low-risk. This judgment may be based on the dollar amount of the award or a risk assessment, and thus, the CPA considered the program to be non-major (low-risk). However, as described above, this is only one of several indicators of whether an on-site monitoring visit is appropriate.

CORRECTIVE ACTION PLAN

For the Fiscal Year Ended June 30, 1997

Even in those instances where the Department determines that an on-site monitoring visit is not appropriate, significant other types of monitoring activities are performed. These include reviewing the single audit reports which are available for all of the counties and public authorities. The Department has also built edits and audits into computer systems to detect errors and supports a help-desk for its subrecipients. Also, division staff review monthly cost reports, tentative settlement reports, units of service reports, and programmatic reports as applicable to each program. In addition, the Divisions have various field staffs who work with counties and public authorities on a continuing basis. These include local support teams, local business liaisons, regional accountants and numerous program consultants. The Department also has a Program Integrity and Quality Control/Quality Improvement Section that monitors county's compliance with regulations through state-wide statistical samples. While each of these activities may not affect every program, they provide the Department with a cost-effective basis for determining that an entity has complied with rules and regulations. These monitoring activities are an on-going process that involves continuous interaction between the Department and its subrecipients. For that reason, the Department feels that this process, in most instances, is more effective than an annual on-site monitoring visit.

The Department is committed to maintaining an exemplary monitoring function. Because of the unique relationship resulting from a state supervised/county administered system, the Department has developed a monitoring philosophy that is supported by its historical interaction with each of the counties and public authorities. The Department is continuously re-assessing its monitoring efforts to identify those activities that are the most efficient and effective to insure compliance with program regulations. During discussions concerning the Department's monitoring activities, the auditor made many helpful observations and recommendations. The Department will consider each of these in the context of its current monitoring philosophy. However, to conclude that the Department's current monitoring activities represent a "material" instance of non-compliance, when those efforts are so closely aligned with the current guidance provided through OMB and the AICPA, is a clear indication that the only monitoring activities which the auditor considered effective were on-site monitoring visits. The Department feels that an on-site monitoring visit is only one of many activities that should be considered. In some instances an on-site monitoring visit may be necessary; however, in many instances other monitoring activities may be more appropriate or cost-effective.

Throughout the last several years, we have relied primarily on the local audits for a variety of compliance issues. In addition, various staff in the Division perform on-site monitoring for a number of purposes, all of which support the proper administration and accountability of area programs. For example, Willie M. and Thomas S. staff are routinely involved in on-site monitoring around both fiscal and program issues; Division Medicaid Technical Assistance staff provide on-going Medicaid monitoring and technical assistance to area programs; Division staff also conduct overall area program reviews, which focus on area administration, contracting, service delivery, medical records, etc., for the purpose of standards compliance and readiness for managed care; CAP staff are also heavily involved in reviewing and monitoring area administration and implementation of the CAP waiver program.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-30
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: James Norris
Phone Number of Contact Person: (919)715-8948

CORRECTIVE ACTION PLAN

For the Fiscal Year Ended June 30, 1997

Current Audit Finding:

Federal Funds Not Drawn in Accordance With Agreement

Corrective Action Plan/Anticipated Completion Date:

See 97-SA-3 for Corrective Action Plan.

FRU Name: DHHS - DMH/DD/SAS

Finding Number: 97-SA-31

Fiscal Year: 1997

Contact Person Responsible for Corrective Action: Phillip Hoffman

Phone Number of Contact Person: (919)733-7013

Current Audit Finding:

Procedures Insufficient to Monitor Subrecipient Compliance

Corrective Action Plan/Anticipated Completion Date:

See 97-SA-29 for Corrective Action Plan.

FRU Name: DHHS - Central Administration

Finding Number: 97-SA-32

Fiscal Year: 1997

Contact Person Responsible for Corrective Action: Margaret Kendall

Phone Number of Contact Person: (919)715-5841

Current Audit Finding:

Some Employees Have Improper Access to NCAS

Corrective Action Plan/Anticipated Completion Date:

The Department agrees with this finding. A request was made to OSC to consider modifying the SBM screens to allow inquiry only access. They have determined that this is not a feasible task to complete in the near future.

The NCAS staff developed an Information Expert (I.E.) program which is run and distributed every morning with the current SBM entries listed. This eliminates the need to access the SBM screens for inquiry.

A re-evaluation of all NCAS access has been in progress during the last half of the 1998 fiscal year. The re-evaluation of access to SBM has been completed. Users that are not required to access the SBM screens for correcting or releasing journal vouchers will have access removed. This task is planned for completion August 1998.

FRU Name: DHHS - Central Administration

Finding Number: 97-SA-33

Fiscal Year: 1997

Contact Person Responsible for Corrective Action: Jack Chappell

Phone Number of Contact Person: (919)715-8985

CORRECTIVE ACTION PLAN

For the Fiscal Year Ended June 30, 1997

Current Audit Finding:

Cash Disbursement Control Procedures Not Consistently Performed

Corrective Action Plan/Anticipated Completion Date:

The corrective action plan is, in essence, an ongoing plan of action. As mentioned above, the turnaround of skilled employees has caused some of the problems that were cited. As new employees are hired and trained to perform their tasks and as they become familiar with all aspects of their job functions, these problems should show a noticeable decrease.

We will, however, continue to enforce to all of the DYS training schools and institutions as well as all of the DHHS Divisions the necessity of proper documentation, classification and approval levels and will continue to try to obtain these documents when they are missing from a package. We will make every effort to ensure that no payments are made unless all proper supporting documentation is attached.

We have reinforced to all of the general accounting clerks the necessity of entering a due date for each invoice rather than entering each invoice with the terms of "Net", which would pay immediately. Again, the mind set of the old DAS system was to pay invoices as entered, and this practice was carried forward into NCAS. We are making every effort to change this mind set which would utilize NCAS more efficiently.

In October 1997 we implemented the process of a supervisory review and approval of all Accounts Payable documents that are entered into NCAS. This practice hopefully should detect some of the above mentioned errors and give the general accounting clerk the opportunity to correct the errors before the invoice is entered into NCAS.

In October 1997, we also instructed all general accounting clerks to cancel each invoice entered into NCAS by stamping each document "Entered". The process of stamping each invoice will effectively "cancel" each document and should eliminate the potential for duplicate entry.

Again, we are of the opinion that most of the incidents listed are isolated and are exceptions rather than routine occurrences. We will certainly make every effort to ensure that all payments are made accurately as well as timely. As people with good accounting skills are placed in vacant positions and with the continual and ongoing training of the current staff, we hope as well as expect that these occurrences will decrease during the coming fiscal year.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-34
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Jack Chappell
Phone Number of Contact Person: (919)715-8985

CORRECTIVE ACTION PLAN

For the Fiscal Year Ended June 30, 1997

Current Audit Finding:

Inadequate Separation of Duties for Accounts Payable Processors

Corrective Action Plan/Anticipated Completion Date:

The Department agrees with the finding. It is important to have proper controls that are uniformly followed. Effective October 6, 1997, all accounts payable processors were directed to have a supervisor's approval on all invoices before they are entered into NCAS. After each batch is tallied and is ready for data entry, a supervisor is designated to approve each invoice, as well as, the batch header sheet. Some divisions had already been doing this. In addition, approver backups have been designated in order to not impede the progress of entering invoices into NCAS.

If Disagreement over Audit Finding, Explanation and Specific Reasons for Disagreement:

The Department does not agree that it is feasible to restrict access to vendor setup screens for accounts payable processors due to the few number of General Accounting staff available to accomplish all related tasks. The additional internal control specified above will help compensate for the access to both add vendors and pay invoices.

The OSC has set up the security and training for accounts payable processors to be responsible for keying vendor adds and changes, as well as, entering invoices. The department has been following the OSC procedures for processing payments.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-35
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Jack Chappell
Phone Number of Contact Person: (919)715-8985

Current Audit Finding:

Untimely Disbursing Account Reconciliations

Corrective Action Plan/Anticipated Completion Date:

The \$59,730 unreconciled difference (DYS) was corrected in State fiscal year 1998.

Two of the four accounts referenced (CA & DSD/HH) are now reconciled on a current basis; however, each account has an unreconciled difference. Staff currently is working on identifying these unreconciled differences and they should be cleared during the current year.

An accountant has been assigned to work on the two accounts for DMH. The "old" DAS account should be cleared and closed within the next month. (August 1998)

The DMH "new" NCAS account should have all its unreconciled differences identified and corrected during State fiscal year 1999.

It is our goal and desire to concentrate very heavily and make it a priority to have the bank reconciliations for Child Support current by September 30, 1998. We have reconciled the months of March through August 1997

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For the Fiscal Year Ended June 30, 1997

and are currently working on the months of September and October 1997. Additionally, we are in the process of requesting paid checks with exceptions for the months of November and December 1997 from the Child Support Office.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-36
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Curtis Crouch
Phone Number of Contact Person: (919)715-1313

Current Audit Finding:
Costs Charged Incorrectly to Federal Programs

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-25 for Corrective Action Plan.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-37
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: James Norris
Phone Number of Contact Person: (919)715-8948

Current Audit Finding:
Federal Funds Not Drawn in Accordance With Agreement

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-3 for Corrective Action Plan.

FRU Name: DHHS - Central Administration - Division of Information Resources Management
Finding Number: 97-SA-38
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Bill Cox
Phone Number of Contact Person: (919)733-8900

Current Audit Finding:
Approvals for Contractual Service Contract Not Obtained

CORRECTIVE ACTION PLAN

For the Fiscal Year Ended June 30, 1997

Corrective Action Plan/Anticipated Completion Date:

We concur with the finding and recommendation. To help prevent this from happening in the future, a Budget Officer's position has been established for this Division and one of this position's responsibilities will be to monitor contracts. The position was established late in State fiscal year 1997

FRU Name: DHHS - Division of Social Services
Finding Number: 97-SA-39
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Jerry Robbins
Phone Number of Contact Person: (919) 571-4114

Current Audit Finding:
Initiate Appropriate Enforcement Action in Child Support Cases

Corrective Action Plan/Anticipated Completion Date:

The Child Support Enforcement Section recognizes the problems addressed in this audit finding and is implementing its correction action plan. First, with the completion of conversion in September 1997, all consultants and area supervisors have returned to their monitoring and advisory capacity, and are no longer needed as trainers for conversion purposes. Secondly, as required by federal mandate, the Child Support Section is initiating an annual program self-assessment plan to be monitored by state staff. This plan will evaluate the state's performance in such areas as establishment of paternity and support orders, case closure, enforcement, disbursement, expedited process, and interstate services. Furthermore, the Child Support Program has, through Welfare Reform funding, created 18 additional staff positions to be used to improve service delivery. Additionally, the Child Support Program has requested 108 additional agents. This is necessary to improve local service delivery in our 31 state-operated counties and can be funded in part by the reinvestment of TANF shares return into the Child Support Program. Increased staffing and continued turnover on the local level, as well as the need to keep workers knowledgeable of any changes to the program requires an ongoing training program. Child Support has seen this need and offers on a monthly basis, new employee training along with special needs training precipitated by changes in the program. Anticipated completion date by the end of the SFY 98-99 (June 30, 1999).

FRU Name: DHHS - Division of Social Services
Finding Number: 97-SA-40
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Jerry Robbins
Phone Number of Contact Person: (919)571-4114

Current Audit Finding:
Some Child Support Payments in Error

Corrective Action Plan/Anticipated Completion Date:

The Child Support Program is aware of these problems and has implemented or completed corrective action on the above (3) three distribution errors. The first situation occurs when the IV-A(EIS) grant trigger does not match with a case in the new ACTS system and "errors out". When this occurs the responsible Child Support

CORRECTIVE ACTION PLAN

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worker receives a EIST worklist indicating the problem. If the condition is not fixed within a 15 day period, the worker receives a TRER worklist indicating the error is over 15 days old. These worklist are monitored by the local IV-D supervisors, as well as IV-D field representatives to ensure that local workers are indeed correcting the errors. We continue to train as necessary utilizing contracted trainers which go from county-to-county. If questions arise, the local program staff can immediately contact the ACTS Help Desk for any additional information.

The second issue concerns a clean-up report that identified cases where beginning Unreimbursed Public Assistance (URPA) balances were not built at the time of conversion to our new ACTS system. This error allowed the distribution of funds to the client, which, if correct in the system would have offset URPA balances. On 11/18/97 a clean-up report was mailed along with a letter containing "fix" instructions to each local Child Support office. Once again the local IV-D supervisors, and IV-D field representatives are responsible for monitoring the completion of this report. As a follow-up, a second report will be created and given to IV-D field staff listing those counties with remaining Public Assistance cases with no URPA balances. The field staff will take this report to each county and work with local staff to ensure completion by the end of SFY 98-99 (June 30, 1999).

The final issue involved the double issuance of disregard checks to clients in March 97. This was a one-time system error, and has since been corrected by our technical support team.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-41
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Gary Fuquay
Phone Number of Contact Person: (919)733-0169

Current Audit Finding:
Some Subrecipient Audit Reports Not Received

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-24 for Corrective Action Plan.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-42
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Gary Fuquay
Phone Number of Contact Person: (919)733-0169

Current Audit Finding:
Some Subrecipient Audit Reports Not Received

CORRECTIVE ACTION PLAN

For the Fiscal Year Ended June 30, 1997

Corrective Action Plan/Anticipated Completion Date:

See 97-SA-24 for Corrective Action Plan.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-43
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: James Norris
Phone Number of Contact Person: (919)715-8948

Current Audit Finding:

Federal Funds Not Drawn in Accordance With Agreement

Corrective Action Plan/Anticipated Completion Date:

See 97-SA-3 for Corrective Action Plan.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-44
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: James Norris
Phone Number of Contact Person: (919)715-8948

Current Audit Finding:

Federal Program Expenditures Reported Inaccurately

Corrective Action Plan/Anticipated Completion Date:

See 97-SA-19 for Corrective Action Plan.

FRU Name: Division of Child Development
Finding Number: 97-SA-45
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Ron Penney
Phone Number of Contact Person: (919)662-4535

Current Audit Finding:

Procedures Insufficient to Monitor Subrecipient Compliance

Corrective Action Plan/Anticipated Completion Date:

If Disagreement over Audit Finding, Explanation and Specific Reasons for Disagreement:

The Department disagrees that it has not performed monitoring of activities for subrecipients (local governments

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For the Fiscal Year Ended June 30, 1997

and public authorities). The Compliance Supplement, Section M. Subrecipient Monitoring states:

Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determination, reviewing the subrecipient's single audit or program-specific audit results and evaluating audit findings and subrecipient's corrective action plan.

The Department uses a risk-based approach where the results of reviews of financial and programmatic reports, single audit reports, consulting visits, and interactions with county staffs are the cornerstone of the Department's monitoring function. The Department's monitoring policy is not intended to ensure that an on-site monitoring visit would be performed on each subrecipient annually. We perform on-site monitoring visits in those instances where circumstances dictate. We feel that the Department's current monitoring policy is consistent with the requirements of OMB Circular A-133.

The American Institute of Certified Public Accountants (AICPA), Statement of Position (SOP) 98-3: *Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards* states in paragraph 9.31.

Considering Risk Factors When Developing Monitoring Procedures

The preamble to the Circular A-133 states that the OMB expects pass-through entities to consider various risk factors (such as the relative size and complexity of the federal awards administered by subrecipients, the entity's prior experience with each subrecipient, and the cost-effectiveness of various monitoring procedures) in developing subrecipient-monitoring procedures. For example, if a pass-through entity provides a large percentage of the only federal award it expends to ten subrecipients that each expend less than \$300,000 in federal awards annually, the pass-through entity should carefully consider the most cost-effective method of monitoring these federal awards. Perhaps the majority of this federal award is provided to two subrecipients. The pass-through entity might consider conducting site visits at these two subrecipients and simply reviewing the documentation supporting requests for reimbursement from the other eight subrecipients. Conversely, if a small percentage of a federal award is provided to subrecipients that each expend less than \$300,000 in federal awards, the risk to the pass-through entity is most likely low and, therefore, the monitoring procedures could be minimal.

The auditor is correct that the Department may not perform an on-site monitoring visit for a subrecipient in which a program was not considered a "major program" as part of its single audit. This is partly because the Department relies upon the CPA's professional judgment that the program is low-risk. This judgment may be based on the dollar amount of the award or a risk assessment, and thus, the CPA considered the program to be non-major (low-risk). However, as described above, this is only one of several indicators of whether an on-site monitoring visit is appropriate.

Even in those instances where the Department determines that an on-site monitoring visit is not appropriate, significant other types of monitoring activities are performed. These include reviewing the single audit reports which are available for all of the counties and public authorities. The Department has also built edits and audits

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into computer systems to detect errors and supports a help-desk for its subrecipients. Also, division staff review monthly cost reports, tentative settlement reports, units of service reports, and programmatic reports as applicable to each program. In addition, the Divisions have various field staffs who work with counties and public authorities on a continuing basis. These include local support teams, local business liaisons, regional accountants and numerous program consultants. The Department also has a Program Integrity and Quality Control/Quality Improvement Section that monitors county's compliance with regulations through statewide statistical samples. While each of these activities may not affect every program, they provide the Department with a cost-effective basis for determining that an entity has complied with rules and regulations. These monitoring activities are an on-going process that involves continuous interaction between the Department and its subrecipients. For that reason, the Department feels that this process, in most instances, is more effective than an annual on-site monitoring visit.

The Department is committed to maintaining an exemplary monitoring function. Because of the unique relationship resulting from a state supervised/county administered system, the Department has developed a monitoring philosophy that is supported by its historical interaction with each of the counties and public authorities. The Department is continuously re-assessing its monitoring efforts to identify those activities that are the most efficient and effective to insure compliance with program regulations. During discussions concerning the Department's monitoring activities, the auditor made many helpful observations and recommendations. The Department will consider each of these in the context of its current monitoring philosophy. However, to conclude that the Department's current monitoring activities represent a "material" instance of non-compliance, when those efforts are so closely aligned with the current guidance provided through OMB and the AICPA, is a clear indication that the only monitoring activities which the auditor considered effective were on-site monitoring visits. The Department feels that an on-site monitoring visit is only one of many activities that should be considered. In some instances an on-site monitoring visit may be necessary; however, in many instances other monitoring activities may be more appropriate or cost-effective.

In SFY 1998-99, the Division of Child Development plans to conduct at least 18 monitoring visits to county departments of social services and other subrecipients (three times as many as in SFY 1996-97). In addition, the Division will continue its practice of having its subsidy program field staff make at least three visits annually to each of the 100 county departments. Training sessions will also be held three times per year by the field staff for the counties in their respective regions.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-46
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Gary Fuquay
Phone Number of Contact Person: (919)733-0169

Current Audit Finding:
Some Subrecipient Audit Reports Not Received

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-24 for Corrective Action Plan.

FRU Name: DHHS - Division of Social Services

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Finding Number: 97-SA-47
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Chuck Harris
Phone Number of Contact Person: (919)733-9467

Current Audit Finding:
Foster Care Payments Made to For-Profit Child Placement Agencies

Corrective Action Plan/Anticipated Completion Date:

Effective 8-1-96, The Division of Social Services made the necessary program modifications in the Foster Care Licensing System to ensure that federal foster care claims are not made for residential facilities and family foster homes which are under the administrative auspices of for-profit agencies. In October 1996, the Division allowed reimbursements to for-profit agencies in accordance with the federal law change. Further changes to exclude certain agencies from receiving federal foster care assistance were pending when the State Auditor made this finding. Effective 1-1-98, the family foster homes under the agency Triad Treatment, Inc. were again flagged as "for-profit" to prohibit federal foster care reimbursement. The IV-E reimbursements made in error (\$699.60) for IV-E eligible children placed with Triad Treatment, Inc. were reimbursed to the Foster Care Program. Program modification and payments made to the Division for one agency completed at this time. Letter to the federal regional office has been approved and is awaiting Division approval.

If Disagreement over Audit Finding, Explanation and Specific Reasons for Disagreement:

The Division does not agree that that the payments of \$79,602 in federal foster care assistance are unallowable. We think these payments are allowable because the foster parents under the for-profit child-placing agency are incorporated as a non-profit corporation. These family foster homes are licensed in the state Foster Care Licensing System as "non-profit". The for-profit child-placing agency places children with the non-profit foster parents, supervises these family foster homes and provides case management services to the foster parents. In order to receive foster care reimbursements for the children placed in these foster homes, county departments of social services are required to enter child specific information into the State's automated Child Placement and Payment System, including the foster home's unique Facility Identification Number where the child is residing. This Facility ID number interfaces with the Foster Care Licensing System to verify that the home's license is in effect and to determine if the home has a "non-profit" or "for-profit" status. The State Auditor's finding was based on information from the county department of social services that a single, monthly check was written and paid by the county DSS to the for-profit agency rather than the non-profit corporation. However, the for-profit agency serves only as a "pass through" for the payments to the non-profit foster homes. Due to the State Auditor's finding, the Division of Social Services has prepared a letter to the federal regional office requesting clarification. In a recent meeting with the federal representative, verbal approval was given for these reimbursements, with a written response to follow.

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For the Fiscal Year Ended June 30, 1997

FRU Name: DHHS - Division of Social Services
Finding Number: 97-SA-48
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Chuck Harris
Phone Number of Contact Person: (919)733-9467

Current Audit Finding:
Controls over Foster Care Rate Setting Process Inadequate

Corrective Action Plan/Anticipated Completion Date:

The Division has implemented procedures to enhance controls over the rate-setting process. Children's Services staff conducted all rate-setting activities without any participation by the Association. Children's Services staff compared reported costs with audited data submitted by the participating agencies and differences were investigated and reconciled. Participating agencies submitted rate-setting information packages to Children's Services staff. Two Children's Services staff entered the financial data into the database for rate-calculations. Rate computations were reviewed by the Coordinator of Financial Resources within Children's Services to ensure that appropriate agency costs were included in the rate calculations. The financial information packages are maintained by Children's Services staff for documentation. After entering the established Facility rates into the FCF Licensing system, a review of the turnaround forms will be conducted by Children's Services staff to determine that all rates are entered correctly and any errors are corrected before foster care maximization payments are made. Implementation of enhanced controls were implemented January 1998 and will continue throughout the year. Review of the turnaround forms and test report of the new rates will be conducted following receipt of these, sometime after July 8, 1998.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-49
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: James Norris
Phone Number of Contact Person: (919)715-8948

Current Audit Finding:
Federal Funds Not Drawn in Accordance With Agreement

Corrective Action Plan/Anticipated Completion Date:

See 97-SA-3 for Corrective Action Plan.

FRU Name: DHHS - Division of Social Services
Finding Number: 97-SA-50
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Chuck Harris
Phone Number of Contact Person: (919)733-9467

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For the Fiscal Year Ended June 30, 1997

Current Audit Finding:

Approvals for Contractual Service Contracts Not Obtained

Corrective Action Plan/Anticipated Completion Date:

The Division will follow established departmental internal procedures regarding subcontracting and will obtain departmental approval for such contracts in accordance with the timelines set forth in departmental policies. Anticipated completion date is immediate and on-going.

FRU Name: DHHS - Division of Social Services
Finding Number: 97-SA-51
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Chuck Harris
Phone Number of Contact Person: (919)733-9467

Current Audit Finding:

County Eligibility Determinations for IV-E Foster Care and Adoption Assistance Not Monitored

Corrective Action Plan/Anticipated Completion Date:

If Disagreement over Audit Finding, Explanation and Specific Reasons for Disagreement:

The Department disagrees that it has not performed monitoring of activities for subrecipients (local governments and public authorities). The Compliance Supplement, Section M. Subrecipient Monitoring states:

Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determination, reviewing the subrecipient's single audit or program-specific audit results and evaluating audit findings and subrecipient's corrective action plan.

The Department uses a risk-based approach where the results of reviews of financial and programmatic reports, single audit reports, consulting visits, and interactions with county staffs are the cornerstone of the Department's monitoring function. The Department's monitoring policy is not intended to ensure that an on-site monitoring visit would be performed on each subrecipient annually. We perform on-site monitoring visits in those instances where circumstances dictate. We feel that the Department's current monitoring policy is consistent with the requirements of OMB Circular A-133.

The American Institute of Certified Public Accountants (AICPA), Statement of Position (SOP) 98-3: *Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards* states in paragraph 9.31.

Considering Risk Factors When Developing Monitoring Procedures

The preamble to the Circular A-133 states that the OMB expects pass-through entities to consider various risk factors (such as the relative size and complexity of the federal awards administered by subrecipients, the entity's prior experience with each subrecipient, and the cost-

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effectiveness of various monitoring procedures) in developing subrecipient-monitoring procedures. For example, if a pass-through entity provides a large percentage of the only federal award it expends to ten subrecipients that each expend less than \$300,000 in federal awards annually, the pass-through entity should carefully consider the most cost-effective method of monitoring these federal awards. Perhaps the majority of this federal award is provided to two subrecipients. The pass-through entity might consider conducting site visits at these two subrecipients and simply reviewing the documentation supporting requests for reimbursement from the other eight subrecipients. Conversely, if a small percentage of a federal award is provided to subrecipients that each expend less than \$300,000 in federal awards, the risk to the pass-through entity is most likely low and, therefore, the monitoring procedures could be minimal.

The auditor is correct that the Department may not perform an on-site monitoring visit for a subrecipient in which a program was not considered a "major program" as part of its single audit. This is partly because the Department relies upon the CPA's professional judgment that the program is low-risk. This judgment may be based on the dollar amount of the award or a risk assessment, and thus, the CPA considered the program to be non-major (low-risk). However, as described above, this is only one of several indicators of whether an on-site monitoring visit is appropriate.

Even in those instances where the Department determines that an on-site monitoring visit is not appropriate, significant other types of monitoring activities are performed. These include reviewing the single audit reports which are available for all of the counties and public authorities. The Department has also built edits and audits into computer systems to detect errors and supports a help-desk for its subrecipients. Also, division staff review monthly cost reports, tentative settlement reports, units of service reports, and programmatic reports as applicable to each program. In addition, the Divisions have various field staffs who work with counties and public authorities on a continuing basis. These include local support teams, local business liaisons, regional accountants and numerous program consultants. The Department also has a Program Integrity and Quality Control/Quality Improvement Section that monitors county's compliance with regulations through statewide statistical samples. While each of these activities may not affect every program, they provide the Department with a cost-effective basis for determining that an entity has complied with rules and regulations. These monitoring activities are an on-going process that involves continuous interaction between the Department and its subrecipients. For that reason, the Department feels that this process, in most instances, is more effective than an annual on-site monitoring visit.

The Department is committed to maintaining an exemplary monitoring function. Because of the unique relationship resulting from a state supervised/county administered system, the Department has developed a monitoring philosophy that is supported by its historical interaction with each of the counties and public authorities. The Department is continuously re-assessing its monitoring efforts to identify those activities that are the most efficient and effective to insure compliance with program regulations. During discussions concerning the Department's monitoring activities, the auditor made many helpful observations and recommendations. The Department will consider each of these in the context of its current monitoring philosophy. However, to conclude that the Department's current monitoring activities represent a "material" instance of non-compliance, when those efforts are so closely aligned with the current guidance provided through OMB and the AICPA, is a clear indication that the only monitoring activities which the auditor considered effective were on-site monitoring visits. The Department feels that an on-site monitoring visit is only one of many activities that should be

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considered. In some instances an on-site monitoring visit may be necessary; however, in many instances other monitoring activities may be more appropriate or cost-effective.

The Division will implement a statewide monitoring system to ensure that subrecipients administer federal awards in compliance with federal requirements. The Division of Social Services will assign primary responsibility for on-going monitoring of Foster Care and Adoption Assistance eligibility determinations by Division field staff. Monitoring tasks and activities will include: 1.) county specific training in IV-E eligibility regulations and instructions for using fiscal reports to ensure payments are made accurately and for eligible children only on an on-going basis. Fiscal reports will include: PQA-020:Final Foster Care Payment Report, PQA-022-1:IV-Max. Report, PQA-025: CPITS Adjustment Register-Regular Foster Care Payment, PQA-225: CPITS Foster Care Adjustment Register-IV-E Max. Payment and the PQA-029 Warrant Calculation Worksheet. In addition, 2.) field staff will monitor child specific case records on a regular on-going basis by selecting both a representative random sample of cases receiving IV-E payments to determine that IV-E eligibility determinations are made correctly and cases not receiving IV-E payments to determine that IV-E eligibility determination was appropriately denied. The anticipated completion date is on-going.

FRU Name: DHHS - Division of Social Services
Finding Number: 97-SA-52
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Chuck Harris
Phone Number of Contact Person: (919)733-9467

Current Audit Finding:
Approvals for Contractual Service Contracts Not Obtained

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-50 for Corrective Action Plan.

FRU Name: DHHS - Division of Social Services
Finding Number: 97-SA-53
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Chuck Harris
Phone Number of Contact Person: (919)733-9467

Current Audit Finding:
County Eligibility Determinations for IV-E Foster Care and Adoption Assistance Not Monitored

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-51 for Corrective Action Plan.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-54
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: James Norris

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Phone Number of Contact Person: (919)715-8948

Current Audit Finding:
Federal Funds Not Drawn in Accordance With Agreement

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-3 for Corrective Action Plan.

FRU Name: DHHS - Division of Social Services
Finding Number: 97-SA-55
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Quentin Uppercue
Phone Number of Contact Person: (919)733-4530

Current Audit Finding:
Documentation Inadequate or Does Not Support the Social Services Block Grant (SSBG) Report

Corrective Action Plan/Anticipated Completion Date:

If Disagreement over Audit Finding, Explanation and Specific Reasons for Disagreement:

The finding reflects a misunderstanding of what is being done in preparing the SSBG Annual Report. Rather than transferring information to the Federal government that comes entirely from our accounting system, we are transferring data that is developed by using a statistical system as a basis for making detailed estimates based on total figures that come from the official accounting system. Given that this is an estimating procedure, one will never be able to trace report data to the accounting system except at the overall, "bottom line" level. It can, nevertheless, be made more traceable by keeping a more complete set of working papers that show how statistical data is combined with accounting data to produce the results reported to the Federal government. This is what we propose to do by the end of SFY 98-99 (June 30, 1999).

FRU Name: Division of Child Development
Finding Number: 97-SA-56
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Ron Penney
Phone Number of Contact Person: (919)662-4535

Current Audit Finding:
Procedures Insufficient to Monitor Subrecipient Compliance

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-45 for Corrective Action Plan.

FRU Name: DHHS - Central Administration

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Finding Number: 97-SA-57
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Gary Fuquay
Phone Number of Contact Person: (919)733-0169

Current Audit Finding:
Some Subrecipient Audit Reports Not Received

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-24 for Corrective Action Plan.

FRU Name: DHHS - Division of Medical Assistance
Finding Number: 97-SA-58
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Linda Connelly
Phone Number of Contact Person: (919)857-4013

Current Audit Finding:
Enhance Controls to Prevent Payment of Incorrect Claims

Corrective Action Plan/Anticipated Completion Date:
System Audit 9940 "Suspend high payment for review" was installed 9/26/96. This audit suspends claims whose paid amounts exceed statistically derived payment maximums related to provider type and specialty, and claim type. This audit also functions to effectively limit payment amounts; in accomplishing this, the audit also serves to limit the number of service units paid. Payment is a function of service units times rate of payment. Payment is limited by Audit 9940; therefore excessive units are also limited.

DMA is currently planning to implement some additional up-front editing through the purchase of a commercial software package. This cannot reasonably be implemented before we finish the project we have underway to implement code modifiers. This project is expected to be completed by July 1999. It will take us 3-4 months after that to implement the commercial software package. This software package further will enhance claims payment controls. In the absence of major findings, it is not prudent to commit additional resources to develop controls that may be subsumed by this commercial software package.

The problem associated with the deduction of credit amounts was repaired in February 1998. The problem was limited to electronic claims; key data entry (paper) would not permit a negative value. Processing rules now deny claims with negative values in any dollar amount field and an appropriate EOB is reported to the provider. The extent of the problem was found to be only about 200 claim details per year. We intend to run old claims against this edit to determine the extent to which recoupments may be necessary.

If Disagreement over Audit Finding, Explanation and Specific Reasons for Disagreement:
We disagree with one part of the audit finding. We do not believe that the volume of keying errors warrants a corrective action because the solution would be too expensive to be justified. A typical batch control method does not comport with Medicaid because the payment totals are changed significantly via processing and would

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never match with the keyed totals, thus, only a duplicate keying process would be effective, and that would be very costly.

FRU Name: DHHS - Division of Medical Assistance
Finding Number: 97-SA-59
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Bo Nowell
Phone Number of Contact Person: (919)733-6681

Current Audit Finding:
Some Services Rendered Not Consistent With Medical Records

Corrective Action Plan/Anticipated Completion Date:

We agree with findings involving 3 cases and are recouping \$533.40. Four cases require further investigation or action by other investigative agencies before we can determine if recoupment is appropriate. Those cases represent \$88,264.

If Disagreement over Audit Finding, Explanation and Specific Reasons for Disagreement:

In one case we disagree with the conclusion that \$14,011 was paid in error.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-60
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: James Norris
Phone Number of Contact Person: (919)715-8948

Current Audit Finding:
Federal Funds Not Drawn in Accordance With Agreement

Corrective Action Plan/Anticipated Completion Date:

See 97-SA-3 for Corrective Action Plan.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-61
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: John Midyette
Phone Number of Contact Person: (919)715-9586

Current Audit Finding:
Federal Financial Reports Not Prepared Properly

Corrective Action Plan/Anticipated Completion Date:

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The HCFA 64 Quarterly Expenditure Report, the basis for the determination of Federal participation earned, is prepared from the Medicaid Cost Calculation (MCC). However the MCC is not reconciled to the North Carolina Accounting System (NCAS), the State's official accounting record.

Differences between the MCC and the NCAS have been identified to the account level for all quarters of SFY 1997. We are currently in the process of researching and identifying the causes behind each of these variances. For SFY 1998 the process of identifying variances between the NCAS and the MCC monthly has been implemented.

FRU Name: DHHS - Division of Epidemiology
Finding Number: 97-SA-62
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: J. Steven Cline
Phone Number of Contact Person: (919)715-6471

Current Audit Finding:
The Division of Epidemiology Failed To Adequately Monitor and Continued To Fund a Subrecipient Even After Becoming Aware of Serious Fiscal Concerns.

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-7 for Corrective Action Plan.

FRU Name: DHHS - Division of Epidemiology
Finding Number: 97-SA-63
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: J. Steven Cline
Phone Number of Contact Person: (919)715-6471

Current Audit Finding:
The Division of Epidemiology Failed To Adequately Monitor and Continued To Fund a Subrecipient Even After Becoming Aware of Serious Fiscal Concerns.

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-7 for Corrective Action Plan.

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FRU Name: DHHS - Central Administration
Finding Number: 97-SA-64
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: Jack Chappell
Phone Number of Contact Person: (919)715-8985

Current Audit Finding:
Untimely Disbursing Account Reconciliations

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-35 for Corrective Action Plan.

FRU Name: DHHS - Central Administration
Finding Number: 97-SA-65
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: James Norris
Phone Number of Contact Person: (919)715-8948

Current Audit Finding:
Federal Funds Not Drawn in Accordance With Agreement

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-3 for Corrective Action Plan.

FRU Name: DHHS - Division of Epidemiology
Finding Number: 97-SA-66
Fiscal Year: 1997
Contact Person Responsible for Corrective Action: J. Steven Cline
Phone Number of Contact Person: (919)715-6471

Current Audit Finding:
The Division of Epidemiology Failed To Adequately Monitor and Continued To Fund a Subrecipient Even After Becoming Aware of Serious Fiscal Concerns.

Corrective Action Plan/Anticipated Completion Date:
See 97-SA-7 for Corrective Action Plan.