

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Fiscal Year Ended June 30, 1997

FRU Name: Elizabeth City State University
Finding Number 1
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Establish Procedures to Identify Applicable Federal Rules and Regulations

Status/Corrective action planned/Reasons for no further action:
The necessary corrective action has been taken.

FRU Name: Office of the State Controller
Finding Number 4
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Calculation of Interest Liability to the Federal Government Should Be Corrected

Status/Corrective action planned/Reasons for no further action:
We agree that our interest calculation on warrants issued did not include a reduction in the state interest liability when federal funds were not on deposit at the time the warrants were issued. We further agree that the state's interest liability should be increased by \$98,839. This amount is the net of adjustments in our calculations and adjustments due to erroneous data submitted by state agencies. We will adjust our next Annual Report to the U.S. Treasury. Interest calculation procedures for future years will include an adjustment to the state interest liability when federal funds are not on deposit at the time the warrants are released.

FRU Name: Office of the State Controller
Finding Number 5
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
OSC Should Better Monitor Compliance With Cash Management Requirements

Status/Corrective action planned/Reasons for no further action:
The Office of the State Controller will continue to monitor state agency compliance with the Treasury - State agreement and with state cash management requirements. In an effort to ensure compliance, this office has issued a Cash Management Directive for Federal Funds, has met with each agency administering a major federal assistance program, has issued procedures for each program, and provided an initial CMIA worksheet to be used by the agency in reporting cash flow activity to this office. We have provided a copy of the Treasury - State agreement to the Chief Fiscal Officer of each agency administering a major federal assistance program each year the agreement has been signed.

We agree that agencies must provide accurate information to this office to facilitate an accurate interest calculation. We will meet with each agency to discuss the problems that have been identified and re-issue instructions for reporting cash flow data to this office. In order to insure that current agency personnel are aware of the rules, regulations, the terms of the Treasury - State agreement, and reporting requirements, this office will

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meet with each agency administering a major federal assistance program to discuss CMIA issues on an annual basis. On a monthly basis, as agency reports are reviewed, this office will contact agencies in writing when corrective action is required.

FRU Name: Department of Human Resources
Finding Number 7
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Federal Funds Should Be Drawn Down in a Timely Manner

Status/Corrective action planned/Reasons for no further action:

We concur that we were not in compliance with the Cash Management Improvement Act for August 1995. Due to changes in staff and preparation of the financial statements, funds were not drawn down in August. The CMIA directive has been discussed with staff and made fully aware they are not to use state funds for federal funds.

FRU Name: Department of Human Resources
Finding Number 10
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Process Payments in Compliance With State and Federal Regulations

Status/Corrective action planned/Reasons for no further action:

We agree four invoices were paid prior to the due date. With the consolidation of accounts payable into one operational unit within the newly centralized DHR Controller's Office as well as accounts payable personnel now having a year's experience with the new State Accounting System (NCAS) instances such as these should be at a minimum.

FRU Name: Office of the State Controller
Finding Number 11
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Internal Controls Need Strengthening Over the Preparation and Review of the Statewide Cost Allocation Plan

Status/Corrective action planned/Reasons for no further action:

Although the auditors actual findings were minimal, all findings will be analyzed for corrective action. The OSC has and will continue to improve the SWCAP process within the limitations of resources and systems available.

FRU Name: Department of Environment, Health and Natural Resources
Finding Number 12
Fiscal Year of Initial Finding 1996

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Prior Audit Finding: Indirect Cost Charges-Inadequate Accounting Records

Status/Corrective action planned/Reasons for no further action:

Depreciation amounts for the 1994/96 Indirect Cost Plan were developed by the independent CPA firm contracted to complete the plan. The contractor was given an electronic file from the mainframe-based Fixed Asset System (FAS) and performed several sorts of this file using a PC-based data base program in order to categorize equipment by useful life and cost center. The auditors were unable to duplicate the results of the contractor. It was subsequently determined that there were compatibility problems between the mainframe generated FAS file and the data base program used by the contractor. The Department is developing reports which will be generated directly from the FAS that will provide the useful life and cost center information needed for the plan. These reports will be reconciled to the Department's audited financial statements. The reconciled amounts will then be used to determine the amount of depreciation that should have been claimed. Any differences will be rolled-forward as an adjustment to the current plan.

The amount questioned by the auditor is an estimate of the total indirect cost drawdown for all programs in the Department. The Department obviously owns fixed assets and has incurred depreciation expense in operating its programs, including federal assistance programs. The Department does not concur with the amount questioned by the auditor. The correct amount of depreciation cannot be determined until the reconciliation (cited above) has been completed.

FRU Name: Department of Human Resources
Finding Number 13
Fiscal Year of Initial Finding 1996

Prior Audit Finding: Claim Submitted For Foster Care Maximization Reimbursement Should Be Revised to Eliminate Errors

Status/Corrective action planned/Reasons for no further action:

Deloitte and Touche has taken several actions to eliminate identified errors and is preparing a revised claim:

Duplicate client IDs identified on the Day Care Reimbursement file were researched and made unique. A revised claim report has been produced which eliminates the overpayments and underpayments which had previously occurred because of cases in which several children share the same ID. Additionally, ineligible children appearing on the earlier report due to their sharing a client ID with an eligible child, have been identified, given a new ID, eliminated from the claim documentation report, and the cost of the child day care they have received will not be included in the revised claim. To assure absolute accuracy of the claim, a final step has been added to the selection methodology. In this step, prior to the production of the claim documentation report, the system does a final verification of eligibility dates including recognizing and accounting for breaks in foster care eligibility.

Deloitte and Touche asserts that all issues with regard to the claim submitted for Foster Care maximization reimbursement have been addressed and all errors have been eliminated. They contend that the methodology they have used ensures accurate eligibility selection and that no duplication occurs in the revised claim or will

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appear in future claims. The revised claim and supporting documentation report are now ready for review and acceptance by the Department of Human Resources.

FRU Name: Department of Human Resources
Finding Number 14
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
The Cost Allocation Plan Should Be Amended For Changes in the Allocation Basis

Status/Corrective action planned/Reasons for no further action:

In response to this audit finding, the charges to RCC 1148 were made due to a Legislative mandate effective January 1996. We find that there was an oversight and an amendment was not executed for the charges to RCC 1148. The Division will submit a retroactive amendment for RCC 1148. With the centralization of the DHR Accounting Sections, there will be a new section responsible for the Cost Allocation process. This will result in better monitoring of the amendments and charges to newly established RCCs.

FRU Name: Department of Human Resources
Finding Number 15
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
System Edits Should Be Implemented to Prevent Payment of Unallowable Child Caring Charges

Status/Corrective action planned/Reasons for no further action:

The Division concurs with the finding and recommendation. Edits were put in place effective 7/1/96.

FRU Name: Department of Human Resources
Finding Number 16
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Verify Credentials of New Employees Before Committing to Pay Moving Expenses

Status/Corrective action planned/Reasons for no further action:

The Division agrees with this recommendation. The Division very rarely reimburses moving expense; however, if we do so in the future, we will only reimburse after the employee's credentials have been verified. The Division has written to staff in the Attorney General's office to determine if it is possible to recover the funds paid in this instance.

FRU Name: Department of Human Resources
Finding Number 19
Fiscal Year of Initial Finding 1996

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**Prior Audit Finding:
Enhance Controls to Prevent Payment of Incorrect Claims**

Status/Corrective action planned/Reasons for no further action:

The Division of Medical Assistance and the Department of Human Resources concur with the findings and agree that cost effective enhancements should and will be implemented to minimize the potential for payment errors. The Division has worked in the past and will continue to identify any weakness in the claims processing system and implement corrective actions. Steps have been taken to modify the payment system to prevent the inadvertent bypassing of edits and audits, improve the accuracy of data input from paper claims and to assure review of payment rate files for accuracy against rate setting instruction. The Division is reviewing the possibility of utilizing optical scanning systems to reduce the potential for keying errors. Identified overpayments and underpayments have been corrected.

**FRU Name: Department of Human Resources
Finding Number 20
Fiscal Year of Initial Finding 1996**

**Prior Audit Finding:
Controls Over the Receipt and Delivery of Goods Need Improvement**

Status/Corrective action planned/Reasons for no further action:

The Division of Medical Assistance and the Department of Human Resources concur with the finding and agree with the recommendations. To strengthen the oversight and compliance with policy, the Mail Room which includes the receiving area has been transferred to the Assistant Director of Financial Operation, effective July 1, 1997. As an assignment of responsibility the policies and practices will be reviewed and action taken to assure compliance with policy.

**FRU Name: Department of Human Resources
Finding Number 21
Fiscal Year of Initial Finding 1996**

**Prior Audit Finding:
Monitor Reimbursements to Institutions More Closely**

Status/Corrective action planned/Reasons for no further action:

We agree with this finding and the related questioned cost of \$600. As recommended by the State Auditor, the Division has implemented a procedure through which census and utilization data will be submitted along with billing to document the charges which were reported.

**FRU Name: Department of Human Resources
Finding Number 22
Fiscal Year of Initial Finding 1996**

Prior Audit Finding:

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Verify Accuracy of Documentation in Support of Payments

Status/Corrective action planned/Reasons for no further action:

The Division agrees with the recommendation. If the EA program continues, we will have the EA specialist supervisors check the accuracy of the monthly sheets. The log sheets will be checked again upon receipt in the State's EA coordinator's office in Raleigh.

FRU Name: Employment Security Commission

Finding Number 26

Fiscal Year of Initial Finding 1996

Prior Audit Finding:

Include SWCAP Allocations in Indirect Cost Plans

Status/Corrective action planned/Reasons for no further action:

As indicated in the finding, this situation is similar to previous findings during which some years were costs and others credits. Cumulative data, beginning with the initial finding and including the \$1,182,403 finding in this audit, reflect that the Agency has a credit. In response to our inquiry as to how credits should be treated, the State Controller replied in a letter dated October 30, 1995, that "With the knowledge of ESC's usage volume and the associated costs of necessary upgrades, the USDOL approved the SIPS rates for ESC and the rates were paid as a direct cost to the ESC grants. There is no compensation due to ESC or the federal government and your records should not include any such debt."

The State Controller further states that "The federal government and ESC are being compensated by adjustments in the SIPS (State Information Processing Services) billing rates." In adherence to this State policy on the method of reimbursing the federal government, we do not believe that the \$1,182,403 credit should be included in our Indirect Cost Plan. It is our understanding that in the future such adjustments will be within the SIPS billing system and not the SWCAP.

While the Agency has a credit as of the end of the audit year, we recognize that SWCAP allocations in the future may be costs. We were notified verbally on February 27, 1997, that the Office of State Budget and Management (OSBM) is in the process of making a determination as to whether ESC can continue to operate as an exception to the indirect cost provisions of the State Budget Manual.

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FRU Name: Department of Agriculture
Finding Number 27
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Procedures Over Damaged Food Commodities Should Be Performed

Status/Corrective action planned/Reasons for no further action:
We have established procedures to implement this recommendation.

FRU Name: Department of Environment, Health and Natural Resources
Finding Number 42
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Accountability of the State Revolving Loan Fund

Status/Corrective action planned/Reasons for no further action:
The new accounting system for the SRLF is scheduled to be in operation by mid-January 1997. The core functions of the system have been developed and tested, and historical data is being entered. Reporting requirements and the interface with the North Carolina Accounting System (NCAS) are currently being developed. The new system will accurately track receipts and expenditures at the budgetary reporting fund level.

FRU Name: Department of Environment, Health and Natural Resources
Finding Number 43
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Disbursing Account Not Reconciled Timely and Uncashed Warrants Not Reported

Status/Corrective action planned/Reasons for no further action:
Delays in reconciling the disbursing account have been due to inadequate staff and problems within implementing the new accounting system. We have created and filled new positions and are in the process of bringing the reconciliation up to date. We will meet the North Carolina Administrative Code requirements by January 1997.

FRU Name: Department of Human Resources
Finding Number 46
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Strengthen Controls Over Electronic Data Processing

Status/Corrective action planned/Reasons for no further action:

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The Division concurs with the finding and recommendation. Terminated employees have been removed from the system. Since the Controller's Office has been consolidated, it is now necessary for employees to have a wider span of security and access among NCAS Companies.

FRU Name: Department of Human Resources
Finding Number 47
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Disbursing Account Statements Should Be Reconciled Promptly

Status/Corrective action planned/Reasons for no further action:

The Division concurs with the finding and recommendation. The bank reconciliation reports from ACTS had reported problems soon after implementation in Wilson and Duplin counties (pilot counties) during August 1996. Due to contract issues with the vendor, the problems could not be addressed until after March 1996. The inability to immediately resolve the reporting issues caused a delay in getting the required data to DSS/CSE Accounting until June 1996 for these two counties. This information is now being provided monthly to accounting and the Division is in the process of bringing the reconciled statements up-to-date.

FRU Name: Department of Human Resources
Finding Number 48
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Prepare the Schedule of Federal Financial Assistance in Accordance with Guidelines

Status/Corrective action planned/Reasons for no further action:

With the consolidation of the DHR Controller's Office, the Division no longer has a Federal Fund Budget Code; therefore, this should not represent a problem in the future.

FRU Name: Department of Human Resources
Finding Number 49
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Rehabilitation Equipment Should Be Properly Controlled

Status/Corrective action planned/Reasons for no further action:

The Division will work with the Division of Information Resource Management (DIRM) to develop a standard and more centralized system which will aid in tracking equipment purchased by the Division for blind consumers. Currently documentation of purchase of equipment is maintained in each client's case file rather than in a single database. The centralized system should track equipment from time of purchase until it is released to the consumer. To the extent possible, the system will build upon the Division's existing client database versus

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development of a new system. The Division does wish to avoid development of a costly system or one which is highly labor intensive to maintain. The Division recognizes the potential benefit of the development of a system which is user friendly and reliable.

FRU Name: Department of Human Resources
Finding Number 50
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Disbursing Account Statements Should Be Properly Reconciled

Status/Corrective action planned/Reasons for no further action:

The DHR Controller's Office concurs with this finding. During SFY 1994, the bank reconciliations for the Division were not kept current. Two temporaries were brought in to complete the reconciliation. Due to lack of all necessary information, the amount which they could not reconcile was \$22,824.81. The Division currently reconciles back to this amount on a monthly basis. Since we were unable to determine the reason for the \$22,824.81, we asked the auditors what to do; however, no response has been received. We are again asking for assistance in what to do. Also, we have contacted the Office of the State Controller for any assistance they may be able to provide.

FRU Name: Department of Human Resources
Finding Number 51
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Invoices Should Be Canceled at the Time They Are Entered Into the Accounting System

Status/Corrective action planned/Reasons for no further action:

The DHR Controller's Office does not concur with this issue. The period covered by this audit is July 1995 through June 1996 which is the first year of NCAS. Under the new account system, invoices are paid based on the payment terms of the vendor. Therefore, when the invoice is keyed into NCAS, it may not be paid for up to 30 days. Canceling the invoice paid does not mean that the invoice was paid when keyed in. There is no feasible way of determining payment except on an invoice by invoice basis which is very time consuming. There are safeguards built into NCAS which deter duplicate payments. NCAS will not allow the same invoice number for a vendor to be keyed in/paid twice and therefore a duplicate payment cannot be made. However, since NCAS was implemented by the Division the Office of the State Controller has issued Memorandum No. NCAS 97-0039 which gives instructions on how to cancel invoices. The DHR Controller's Accounts Payable Unit will implement the necessary action to comply with this Memorandum.

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FRU Name: Department of Commerce
Finding Number 52
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Improve Security Access Controls to Computer Systems

Status/Corrective action planned/Reasons for no further action:

On September 5, 1996, the Department issued a memorandum on computer access policy along with a Computer Access Action Form which documents the system access action requested, security access provided and employee acceptance. This policy and form was effective October 1, 1996.

FRU Name: Employment Security Commission
Finding Number 53
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Reconcile Benefit Overpayment Receivable Amount

Status/Corrective action planned/Reasons for no further action:

On August 19, 1996, the Commission reconciled the detail overpayment information to the general ledger.

FRU Name: The University of North Carolina at Charlotte
Finding Number 54
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Protection of Computer Resources

Status/Corrective action planned/Reasons for no further action:

The University is working diligently to correct all weaknesses in IBM RACF security controls. We have corrected 19 of the 25 items identified by the auditor, and we expect to correct the remaining items by May 15, 1997. The corrections primarily involve eliminating unauthorized access to system resources. Further, Computing Services staff members are participating in continuing education programs to strengthen their knowledge in IBM RACF security software. We have also documented the level of protection required for system resources and the user's level of access to the resources.

We will continue to implement corrective actions for weaknesses in RACF security controls to ensure that system resources are adequately safeguarded.

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For the Fiscal Year Ended June 30, 1997

FRU Name: Elizabeth City State University
Finding Number 55
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Develop and Implement a Complete Security Framework for EDP Operations

Status/Corrective action planned/Reasons for no further action:

The necessary corrective action has been taken.

FRU Name: Department of Commerce
Finding Number 56
Fiscal Year of Initial Finding 1996

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

Status/Corrective action planned/Reasons for no further action:

The Division of Community Assistance has developed procedures to ensure timely receipt of subrecipient audit reports. Grants Management mailed a memo on January 15, 1997 to all grantees with outstanding FY 1996 audits, reminding them that if they have drawn funds from DCA totaling at least \$25,000 in the fiscal year, an audit is due. Any audit not received by April 30, 1997, will result in the grantee's funds being frozen until the audit is received.

The following will be developed and incorporated into the interagency agreement with the Commerce Finance Center:

- A system for tracking audits required, received and findings resolved; and
- Monitoring policies and procedures for ensuring timely receipt and review of subrecipient audit reports.

FRU Name: Department of Commerce
Finding Number 57
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Inadequate Monitoring Procedures and Documentation

Status/Corrective action planned/Reasons for no further action:

The Division of Community Assistance has implemented the following procedures in the Grants Management Section:

Every activity including Section 504, Fair Housing, and Environmental will be monitored prior to a grant being closed. The grant representative will complete the monitoring checklist in which all items on the checklist will be appropriately addressed.

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If there is a section of the checklist that does not apply to the monitoring in progress, the grant representative will note "NA." The Grants Management Section Chief will review at least one (1) completed grant monitoring package per grant representative per month. He will check to ensure that all items on the checklist have been completely and appropriately addressed, and that documented results of monitoring procedures are consistent with conclusions and other information included in the monitoring report.

The Division of Community Assistance shall provide:

- Technical assistance and training to the Commerce Finance Center staff in the use of the "Conformity With The Application Checklist" and the "Financial Management Checklist."
- Support to the Commerce Finance Center staff by incorporating a tracking system with DCA's existing system.

FRU Name: Department of Environment, Health and Natural Resources

Finding Number 59

Fiscal Year of Initial Finding 1996

Prior Audit Finding:

Tracking Subrecipients That Receive Federal and State Financial Assistance

Status/Corrective action planned/Reasons for no further action:

The Department has consulted with the U.S. Department of Health and Human Services (HHS) regarding the 1985 through 1992 subrecipient audit reports on several occasions during the past year. Each time we were told that HHS considered this finding closed. The Department will continue to work with HHS to officially close this finding.

FRU Name: The University of North Carolina at Charlotte

Finding Number 60

Fiscal Year of Initial Finding 1996

Prior Audit Finding:

Financial Aid Transcripts

Status/Corrective action planned/Reasons for no further action:

In regards to the three Financial Aid recipient files that did not have the required financial aid transcript, in each of these cases the automated financial aid tracking system used to administer the requirement correctly identified needed transcripts at the time of each student's application for financial aid. In two of the cases, the automated record indicates that required transcripts were received at the proper time; however, paper transcripts were not located in each student's file. Duplicate transcripts were requested and received for each student, and no student received an incorrect Title IV financial aid award amount.

In regards to the three financial aid transcripts not properly signed, in each case the financial aid transcript was returned to the previous school with a request that it be signed. Each signed transcript was received and placed in the student's file. Based on the information on the transcripts, no student received an incorrect Title IV financial aid award amount.

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Our Financial Aid Office is strengthening its automation in an effort to meet the financial aid transcript requirement. This automation includes the new federal national student loan database, which we began using July 1, 1996. In addition, we will improve our efforts to obtain paper copies of financial aid transcripts when required by the federal government.

FRU Name: Guilford Technical Community College
Finding Number 61
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Federal Family Education Loan Programs (FFELP)

Status/Corrective action planned/Reasons for no further action:

The College recently hired a new staff member who is responsible to administer the FFELP and corrective action has been taken to ensure that entrance and exit interviews are conducted according to federal regulations. The College also now participates in the National Student Loan Clearinghouse as recommended by the North Carolina Community College System to provide enrollment status information to guaranty agencies and lenders.

FRU Name: The University of North Carolina at Charlotte
Finding Number 62
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Financial Aid Transcripts

Status/Corrective action planned/Reasons for no further action:

In regards to the three Financial Aid recipient files that did not have the required financial aid transcript, in each of these cases the automated financial aid tracking system used to administer the requirement correctly identified needed transcripts at the time of each student's application for financial aid. In two of the cases, the automated record indicates that required transcripts were received at the proper time; however, paper transcripts were not located in each student's file. Duplicate transcripts were requested and received for each student, and no student received an incorrect Title IV financial aid award amount.

In regards to the three financial aid transcripts not properly signed, in each case the financial aid transcript was returned to the previous school with a request that it be signed. Each signed transcript was received and placed in the student's file. Based on the information on the transcripts, no student received an incorrect Title IV financial aid award amount.

Our Financial Aid Office is strengthening its automation in an effort to meet the financial aid transcript requirement. This automation includes the new federal national student loan database, which we began using July 1, 1996. In addition, we will improve our efforts to obtain paper copies of financial aid transcripts when required by the federal government.

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FRU Name: The University of North Carolina at Greensboro
Finding Number 63
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Student Financial Aid

Status/Corrective action planned/Reasons for no further action:

Error corrected prior to conclusion of audit. Procedures have been implemented to prevent the situation from recurring.

FRU Name: The University of North Carolina at Charlotte
Finding Number 64
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Financial Aid Transcripts

Status/Corrective action planned/Reasons for no further action:

In regards to the three Financial Aid recipient files that did not have the required financial aid transcript, in each of these cases the automated financial aid tracking system used to administer the requirement correctly identified needed transcripts at the time of each student's application for financial aid. In two of the cases, the automated record indicates that required transcripts were received at the proper time; however, paper transcripts were not located in each student's file. Duplicate transcripts were requested and received for each student, and no student received an incorrect Title IV financial aid award amount.

In regards to the three financial aid transcripts not properly signed, in each case the financial aid transcript was returned to the previous school with a request that it be signed. Each signed transcript was received and placed in the student's file. Based on the information on the transcripts, no student received an incorrect Title IV financial aid award amount.

Our Financial Aid Office is strengthening its automation in an effort to meet the financial aid transcript requirement. This automation includes the new federal national student loan database, which we began using July 1, 1996. In addition, we will improve our efforts to obtain paper copies of financial aid transcripts when required by the federal government.

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FRU Name: Guilford Technical Community College
Finding Number 67
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Federal Pell Grant Overpayments/Underpayments

Status/Corrective action planned/Reasons for no further action:

The College agrees to reimburse the Pell account for overpayments and to adjust the awards for the three students who received underpayments. The College also agrees to review all 1995-96 Pell awards for compliance with federal regulations. The College has taken steps to strengthen procedures for monitoring awards and to assure compliance with current federal regulations.

FRU Name: Department of Human Resources
Finding Number 68
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Claim Federal Financial Participation on Only Eligible AFDC - EA Costs

Status/Corrective action planned/Reasons for no further action:

As stated above, the findings by the Office of the State Auditor are consistent with the reasons given by the Region IV Office of the Department of Health and Human Services, Agency for Children and Families, as the basis for their denying payment of AFDC-EA claims submitted by the division of Social Services on behalf of the Division of Youth Services and the Division of Mental Health/Developmental Disabilities/Substance Abuse Services. These Divisions, the Department of Human Resources, and Deloitte and Touche, the firm with which the Department has a contract to maximize federal funds and who prepared some of these claims, strongly disagree with the Region IV interpretations of applicable federal law, regulations and policies. Based upon knowledge of how the AFDC-Emergency Assistance Program operated in other states and other federal regions during the period of time in question, and on the advice of outside legal counsel, the Department has appealed the ACF decision. The appeal is now scheduled to go before the federal Grant Appeals Board in May 1997.

FRU Name: Department of Human Resources
Finding Number 69
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Determine Eligibility Before Paying Benefits

Status/Corrective action planned/Reasons for no further action:

We disagree with this finding and the questioned cost of \$16,065. All eligibility information has been completed on the two EA applications that were noted to be incomplete. All of the relevant eligibility information utilized to complete the two EA applications was contained and had previously been documented in the client service record. The Operations Manager in the Child and Family Services Section has consulted with the directors of

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Wright and Whitaker Schools to ensure that all applications will be fully completed. The directors will personally review each application to ensure completeness.

In addition, the audit referenced two children for whom no applications were made. It was appropriate that no applications were completed, as it was intended that no claims be filed on their behalf. These cases were not related to the questioned amount of \$16,065. Further, procedures have been established which fully integrate EA eligibility determination into the admission process.

FRU Name: Department of Human Resources
Finding Number 70
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Eligibility Should Be Adequately Documented

Status/Corrective action planned/Reasons for no further action:

The Division concurs that errors were made in the completion of the applications in 3 of the cases cited. The errors were failure to correctly document eligibility. In all of these 3 cases the clients were correctly determined eligible during the application process, but the workers failed to document the clients' eligibility by correctly and completely answering all questions in the records.

In the fourth case, the worker states that she checked the automated EA Eligibility system to determine if the client had been determined eligible by another agency or by another worker within the agency. She found that the client had been determined eligible and was within the 12 months period of eligibility. However, she failed to note that the client had been determined eligible for cash only and had not been determined eligible for services. The error was not an incorrect or duplicate determination of eligibility within a 12 month period, but rather the provision of a benefit for which the client had not been determined eligible during the 30 day prescribed period of eligibility determination.

If the EA program continues, we will have supervisors of our EA specialists at the facilities monitor for accuracy, in addition to a regular monitoring once the application reaches the EA coordinator in the Central Office.

FRU Name: Department of Human Resources
Finding Number 71
Fiscal Year of Initial Finding 1996

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

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For the Fiscal Year Ended June 30, 1997

Status/Corrective action planned/Reasons for no further action:

The Division does not dispute the audit finding; however, it should be noted that the State's only standard for audits is 100% compliance. Further, it should be noted that the federal government's standard for all Child Support Enforcement audit issues is a finding of 75% compliance. An audit score of 80% by the federal government is considered substantial compliance and the enforcement finding in the State's audit is in fact a score of 80%.

FRU Name: Department of Human Resources

Finding Number 72

Fiscal Year of Initial Finding 1996

Prior Audit Finding:

Tracking System for Subrecipient Audit Reports Should Be Utilized

Status/Corrective action planned/Reasons for no further action:

The Division concurs with the finding and recommendation. In the future, we will ensure that we are in compliance with applicable OMB Circulars as well as DHR Directives. Also, two of the five audits cited have been received and the remaining three are in process and should be received soon.

FRU Name: Department of Human Resources

Finding Number 73

Fiscal Year of Initial Finding 1996

Prior Audit Finding:

Conflict of Interest and Violation of Secondary Employment Regulations

Status/Corrective action planned/Reasons for no further action:

The Division concurs with the recommendation. As Secretary Bruton's response to the special review indicated, the Division has taken several steps to address this issue: revised guidelines have been issued to all employees regarding secondary and dual employment; training material is being developed to give to all contract administrators which outlines the situations which could constitute a real or potential conflict of interest; and, in the specific instance which prompted the special review, the individual in question no longer serves as the contract administrator for the contract in question.

However, we strongly disagree with the questioned cost contained in the finding. Though we understand the federal regulations concerning conflict of interest (45 CFR 74.42) that are the basis for the questioned cost, we do not believe that federal funds were used inappropriately. During the special review, the Director of the Division of Social Services, Kevin M. FitzGerald, specifically requested information from the audit team regarding any concerns about the contract or the contractor. The auditors indicated that they had not learned anything in the course of the audit that would cause them to believe that the contract was inappropriate. It is clear through independent verification that the contractor was qualified in all respects to deliver the services covered by the contract. All of the deliverables required of the contractor were met in a timely, satisfactory manner at a competitive price. Federal Title IV-E Foster Care and Adoption Assistance programs were benefited by the contract and should participate in the cost.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Fiscal Year Ended June 30, 1997

FRU Name: Department of Human Resources
Finding Number 74
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Maintain Supporting Documentation for the Social Services Block Grant (SSBG) Report

Status/Corrective action planned/Reasons for no further action:

The Division agrees with this recommendation. The staff responsible for preparing the reports have been instructed to maintain all documentation to substantiate the report and to ensure that the reports agree to the official financial records maintained by the Controller's Office.

FRU Name: Department of Human Resources
Finding Number 75
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Tracking System for Subrecipient Audit Reports Should Be Utilized

Status/Corrective action planned/Reasons for no further action:

The Division concurs with the finding and recommendation. In the future, we will ensure that we are in compliance with applicable OMB Circulars as well as DHR Directives.

FRU Name: Department of Human Resources
Finding Number 76
Fiscal Year of Initial Finding 1996

Prior Audit Finding:
Tracking System for Subrecipient Audit Reports Should Be Utilized

Status/Corrective action planned/Reasons for no further action:

The Division concurs with the finding and recommendation. In the future, we will ensure that we are in compliance with applicable OMB Circulars as well as DHR Directives.

FRU Name: Department of Human Resources
Finding Number 77
Fiscal Year of Initial Finding 1996

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Fiscal Year Ended June 30, 1997

Prior Audit Finding:

Conflict of Interest and Violation of Secondary Employment Regulations

Status/Corrective action planned/Reasons for no further action:

The Division concurs with the recommendation. As Secretary Bruton's response to the special review indicated, the Division has taken several steps to address this issue: revised guidelines have been issued to all employees regarding secondary and dual employment; training material is being developed to give to all contract administrators which outlines the situations which could constitute a real or potential conflict of interest; and, in the specific instance which prompted the special review, the individual in question no longer serves as the contract administrator for the contract in question.

However, we strongly disagree with the questioned cost contained in the finding. Though we understand the federal regulations concerning conflict of interest (45 CFR 74.42) that are the basis for the questioned cost, we do not believe that federal funds were used inappropriately. During the special review, the Director of the Division of Social Services, Kevin M. FitzGerald, specifically requested information from the audit team regarding any concerns about the contract or the contractor. The auditors indicated that they had not learned anything in the course of the audit that would cause them to believe that the contract was inappropriate. It is clear through independent verification that the contractor was qualified in all respects to deliver the services covered by the contract. All of the deliverables required of the contractor were met in a timely, satisfactory manner at a competitive price. Federal Title IV-E Foster Care and Adoption Assistance programs were benefited by the contract and should participate in the cost.

FRU Name: Department of Human Resources

Finding Number 78

Fiscal Year of Initial Finding 1996

Prior Audit Finding:

Tracking System for Subrecipient Audit Reports Should Be Utilized

Status/Corrective action planned/Reasons for no further action:

The Division concurs with the finding and recommendation. In the future, we will ensure that we are in compliance with applicable OMB Circulars as well as DHR Directives.

FRU Name: Department of Human Resources

Finding Number 79

Fiscal Year of Initial Finding 1996

Prior Audit Finding:

Tracking System for Subrecipient Audit Reports Should Be Utilized

Status/Corrective action planned/Reasons for no further action:

The Division concurs with the finding and recommendation. In the future, we will ensure that we are in compliance with applicable OMB Circulars as well as DHR Directives.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Fiscal Year Ended June 30, 1997

FRU Name: Department of Environment, Health and Natural Resources

Finding Number 82

Fiscal Year of Initial Finding 1996

Prior Audit Finding:

Tracking Subrecipients That Receive Federal and State Financial Assistance

Status/Corrective action planned/Reasons for no further action:

The Department has consulted with the U.S. Department of Health and Human Services (HHS) regarding the 1985 through 1992 subrecipient audit reports on several occasions during the past year. Each time we were told that HHS considered this finding closed. The Department will continue to work with HHS to officially close this finding.