

North Carolina Department of Health and Human Services



Department of Health and Human Services

Follow-up Assessment of the Department's
Response to the Findings Identified in the
State of North Carolina Single Audit Report
For The Fiscal Year Ended June 30, 2009
Issued by the Office of the State Auditor

Office of the Internal Auditor



North Carolina Department of Health and Human Services

OFFICE OF THE INTERNAL AUDITOR

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September 12, 2011

Secretary Lanier Cansler
N.C. Department of Health and Human Services

We have conducted a follow-up assessment of the Department's response to the findings identified in the State of North Carolina Single Audit Report for the fiscal year ended June 30, 2009 issued by the Office of the State Auditor.

The objective of our follow-up was to monitor the implementation of the Department's response to any audit of the Department conducted by the State Auditor pursuant to law in compliance with GS 143B-216.51(g). The General Statute requires the Office of the Internal Auditor to issue a report to the Secretary on the status of corrective actions taken by the Department no later than six months after the State Auditor publishes the audit report. A copy of the report shall also be filed with the Joint Legislative Commission on Governmental Operations. The State of North Carolina Single Audit Report for the year ended June 30, 2009 was released by the State Auditor on April 8, 2010.

The purpose of our follow-up was to determine the current status of corrective actions taken by the Department in response to the findings identified by the State Auditor. In order to form an opinion on the current status of each of the findings identified by the State Auditor, we performed one or more of the following functions:

- We reviewed the State Auditor's workpapers which supported the finding in order to gain a better understanding of the finding;
- We discussed with both the State Auditors and Department management the basis for the finding and the corrective action which was to be implemented;
- We conducted subsequent tests to determine if the conditions which caused the finding continued to exist in subsequent periods. We also relied on subsequent tests which had already been performed by the State Auditors in order to eliminate duplicative audit activities; or,
- We investigated, observed and confirmed what corrective actions had been implemented by the Department in response to each finding.

Our follow-up assessment is presented in two formats.

1. A report narrative provides the following information for each of the findings:
 - Description of the finding as written by the State Auditor;
 - The State Auditor's recommendation;
 - Any questioned costs identified by the State Auditor;
 - The agency response as noted in the State Auditor's report;
 - Supplemental State Auditor's comments, if applicable; and,
 - Our follow-up assessment on the status of the corrective action taken by the Department.
2. Schedule 1 provides a recap of the description of each finding, a matrix which indicates whether the finding has been resolved, partially resolved or remains unresolved, the amount of questioned costs identified by the State Auditor and a brief explanation on the current status of any partially or unresolved issues related to the finding.

We express our appreciation to the management and staff of the Department of Health and Human Services and the Office of the State Auditor for the cooperation and assistance provided during this follow-up assessment.

Respectfully submitted,

A handwritten signature in cursive script that reads "Thomas Edward Berryman".

Thomas E. Berryman

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Financial Statements Findings

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Department of Health and Human Services	Prior Year Finding Significant Deficiency	<p>09-FS-01 <u>Deficiencies in Financial Reporting</u></p> <p>The Department incorrectly calculated the estimate of Medicaid claims payable, resulting in an understatement of the liability by \$22.7 million. There was a corresponding \$16.9 million understatement of the receivable from the federal government for its share of the liability.</p> <p>The error occurred because the Department failed to appropriately update supporting documents used to calculate and record the Medicaid claims payable estimate. The Department is responsible for the fair presentation of its financial statements; therefore, it is essential that effective internal control over financial reporting be established to provide reasonable assurance regarding the reliability of financial reporting.</p> <p>A similar finding has been reported for three consecutive years.</p> <p><i>Recommendation:</i> The Department should continue to enhance internal control over the year-end financial reporting process to ensure that financial statements are free of material misstatements.</p> <p><i>Agency Response:</i> The Department concurs with the finding. The error occurred when a programmer failed to update formulas to include the new year's information. Additional controls have been added to ensure amounts derived by the claims payment system are accurate. Specifically, a Budget Officer and a Business Officer will review and verify formulas are current prior to being added to the table used to calculate the accrual for the Medicaid claims. The Chief Business Operations Officer will provide a final review of the calculation before the data is forwarded to the Office of the Controller for inclusion in the Department's Comprehensive Annual Financial Reports. The additional controls are intended to render the financial statements free of material misstatements related to Medicaid claims.</p> <div style="border: 1px solid black; padding: 5px;"> <p><i>Follow-up:</i> The Division of Medical Assistance enhanced its review procedures of the Medicaid accrual calculation to ensure that the accrual estimates provided to the DHHS Controller's Office are accurate. Therefore, we consider this finding resolved as of October 5, 2010.</p> </div>
Department of Health and Human Services	Significant Deficiency Significant Noncompliance	<p>09-FS-02 <u>Disbursing Account Not Reconciled Timely</u></p> <p>The Department did not complete monthly reconciliations for the Division of Social Services' disbursing account in a timely manner. As a result, there was an increased risk of an accounting error or misappropriation. During our audit, we obtained the reconciliations of the disbursing account for the period May 2008 – June 2009. Our review identified:</p> <ul style="list-style-type: none"> • there was no evidence of timely review for any of the 14 reconciliations examined. • there were unreconciled differences for 13 of the 14 reconciliations, indicating that outstanding items were not identified, researched, and corrected in a timely manner. • the bank reconciliation log had not been updated for any of the 14 reconciliations. <p>North Carolina Administrative Code (Section 20 NCAC 01C.0402) requires all agencies to reconcile the monthly disbursing account statements within 15 days of the statement date. In addition, departmental policies require the</p>

reconciliation of the Department's accounts with an explanation of any identified variances.

Recommendation: The Department should establish procedures to ensure that departmental disbursing accounts are properly reconciled each month. Adequate reconciliation procedures include promptly investigating and resolving outstanding items as well as establishing the appropriate level of management review and approval.

Agency Response: The Department agrees that departmental disbursing accounts should be properly reconciled each month. DHHS Controller's Office procedure number GA058 requires that the disbursing accounts be reconciled by the fifteenth day of each month and reviewed by management. Staff did not fully reconcile accounts and research unreconciled differences. This function will be handled by a new employee in the future. The Department will meet with staff to reinforce that all procedures should be followed, including identifying, researching, and correcting reconciling items.

The Department will also reinforce to management that they should always review and approve reconciliations in order to ensure that they are being done correctly and timely.

The Department will assign additional staff to the task of bringing the bank reconciliations current. Also, additional levels of management will review the reconciliations. Reconciling items will be identified, researched, and corrected in a timely manner. The bank reconciliation log will be updated and maintained on a current basis.

Follow-up: The following corrective action has occurred:

- The Department assigned additional staff to assist with the disbursing account reconciliation, which has been reconciled through April 2011 with identification of outstanding/reconciling items.
- The Department revised the bank reconciliation log to reflect the date the bank account was reconciled, the date the reconciliation was reviewed and the reviewer's name.

The Office of Controller continues to work toward permanent staff assignment and training of the bank reconciliation process, and in addition, work toward completion of the monthly reconciliation of the DSS disbursing account within the 15 day required time frame. Therefore, we consider this finding resolved as of May 17, 2011

Federal Award Findings and Questioned Costs

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Department of Health and Human Services	Allowable Costs/Cost Principles:	09-SA-01 <u>Control Weaknesses Identified in the Calculation of WIC Rebates</u>
Special Supplemental Nutrition Program for Women, Infants, and Children	Significant Deficiency	<p>We identified deficiencies in the Department's controls over the calculation of rebates applicable to the Special Supplement Nutrition Program for Women, Infants, and Children (WIC). As a result, the Department overbilled its contracted vendor by \$900,000 and failed to draw down sufficient federal funds as reimbursement for incurred costs.</p> <p>Federal guidelines require the Department to recognize applicable credits, in this case vendor rebates, against the overall expenditures of the WIC program. In a sample of three monthly rebate calculation reports, errors were identified in the amount of \$219,000 in two of those reports that resulted in an overbilling to the vendor. We determined that the supervisory review of the rebate calculation process was not conducted in sufficient detail to detect the errors that occurred.</p> <p>The Department staff's review of the calculation errors determined the overall error amount to be \$900,000. Total rebates to the vendor during the year were \$62.2 million.</p> <p><i>Federal Award Information:</i> This finding affects Special Supplement Nutrition Program for Women, Infants, and Children (WIC) federal grant award 5NC700705 for the federal fiscal years ended September 30, 2008 and 2009.</p> <p><i>Recommendation:</i> The Department should enhance its review process over the rebate billing calculation to ensure rebate bills are accurate and complete. The Department should take action to repay its vendor and seek appropriate reimbursement of federal funds for incurred program costs.</p> <p><i>Agency Response:</i> The Department concurs with the finding. The Department agrees the audit revealed an error in the November 2008 bill resulting in an overbilling of \$80,506. Upon further review, the Department identified and self-reported an additional \$806,217 in overbilling. The Department repaid the contract vendor with the September 2009 billing. These errors occurred during a period when the Accounts Receivable Section was understaffed. The section is now fully staffed. The Department has also enhanced the review process over the rebate billing to include two quality control reviews prior to the submission of billings for payment. The Department has also made modifications, to the spreadsheet used to complete the billings, to help prevent data entry errors. The current procedure is being updated to include the new internal controls and spreadsheet improvements. This billing process is currently part of the NC Crossroads Development Project. This project will fully automate the process when implemented in 2012, thereby eliminating the need for the current procedures.</p> <div> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department has enhanced the internal controls regarding the WIC rebate billing calculation by adding additional reviews of the billings prior to submission. The billings review process has been segregated from the preparation of the billings spreadsheet. • The Accounts Receivable Section within the Controller's Office redesigned the spreadsheets used in the calculation of the WIC rebates to prevent data entry errors and formula changes. • The WIC rebate billing process is currently part of the NC Crossroads Development Project. This project will fully automate the process when implemented in 2012, thereby eliminating the need for the current procedures. • With regards to the specific billing errors (\$219,000) noted by the State Auditors, </div>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<p>the following corrective action has occurred:</p> <ul style="list-style-type: none"> a) The \$80,506.05 November 2008 overbilling has not been repaid. Per contract, billing errors must be disputed and resolved within sixty days otherwise; the funds are exempt from repayment. The vendor did not dispute the invoice and payment within the sixty-day window. b) The \$138,404.91 March 2009 overbilling was included in a total overbilling adjustment of \$886,722.92 that was credited to the vendor in the September 2009 billing on October 28, 2009. The \$886,722.92 overbilling was calculated by the Department to have occurred over a seven-month period (February 2009 through August 2009). <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p>
Department of Health and Human Services Special Supplemental Nutrition Program for Women, Infants, and Children 10.557	Allowable Costs/Cost Principles: Significant Deficiency	<p>09-SA-02 <u>Inadequate Control Over User Access to the Aid to County Reimbursement System</u></p> <p>We identified deficiencies in the Department's oversight and management of employee access to the Aid to County system used by the Division of Public Health. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.</p> <p>Aid to County is a State-maintained web-based system used for financial authorization, reporting, and reimbursement to each local health department for their authorized activities.</p> <p>Documentation was not available to support periodic reviews of user access performed at the state or local levels as required by statewide and departmental policy. This finding was also reported in the previous year. The Department has prepared draft policies and procedures strengthening controls over access to the Aid to County system as outlined in its previous corrective action plan; however, they have not been finalized and fully implemented.</p> <p><i>Federal Award Information:</i> This finding affects Special Supplement Nutrition Program for Women, Infants, and Children (WIC) federal grant award 5NC700705 for the federal fiscal years ended September 30, 2008 and 2009.</p> <p><i>Recommendation:</i> The Department should continue to enhance its procedures for documenting security access privileges for its financial reimbursement system. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.</p> <p><i>Agency Response:</i> The Department concurs with the finding. Policies and procedures have been updated regarding the addition of a new user to the Aid to County database requiring a request to delete a user, or justification made as to why a user is not being deleted as a request for a new user is submitted. Forms used to add new users have been updated to include deletion of a user. When a request is made to add a user, and a request for deletion is not also requested, follow up with the agency will occur to ensure proper security access for each user.</p> <p>Additionally, the Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights. Effective July 2007, the Department requires an Information Resource Access Authorization Form (IRAAF) be generated and maintained on file for every individual with access to State Information Systems. Prior to July 2007, access was granted based on requests from</p>

state-level and county-level Information Security Officials (ISOs) via either email or fax; those users given access during this time are grandfathered by the Department and do not require their access be documented on an IRAAF. Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted.

Effective March 2010, the Department enhanced existing access control requirements for all division/office employees with access to RACF and OLV via the generation of two new reports. The first report is now available through NCXPTR listing all employees with access to systems through RACF. A second report is now available through WIRM listing all employees with access to OLV and their respective roles. All Department division/office Information Security Officials (ISO) will be required to review and verify the accuracy of these reports on a monthly basis through a positive confirmation. The "Division/Office System Access Control" form will be used to report monthly to the Department Privacy and Security Office (PSO) with the results of the review via email. The reports have been modified for usability by the counties which are expected to adhere to the monthly review and reporting procedures by April 2010.

Follow-up: The following corrective action has occurred:

- As of September 2010, the Department has implemented appropriate policies and procedures to ensure adequate control of access to the Aid to County Reimbursement system used by the Division of Public Health.
- Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that as of September 9, 2010 security officers had only performed annual reviews of security authorization documentation.
- Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis.
- All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access.
- DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to the Aid To County Reimbursement system.
- Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<p>terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form.</p> <p>Therefore, we consider this finding only partially resolved as of January 3, 2011.</p>
Department of Health and Human Services Special Supplemental Nutrition Program for Women, Infants, and Children 10.557	<u>Eligibility:</u> Questioned Cost Finding \$758	<p>09-SA-03 <u>Documentation Lacking in County WIC Case Files</u></p> <p>Certified Public Accountants performing the county audits tested 1,256 case files for Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) recipients and found deficiencies in 11 cases. The auditors questioned a total of \$758; however, we believe that it is likely that questioned costs exceed \$10,000 in the population. These issues are described below:</p> <ul style="list-style-type: none"> • One client file was lacking the proof of residency and verification of identity. The local auditor could not verify eligibility due to the lack of supporting documentation and questioned costs in the amount of \$758. • Nine client files were missing documentation related to the proof of residency, verification of identity, or proof of income. The local auditor could not verify eligibility due to the lack of supporting documentation; however, the local auditor determined no questioned costs. • One client file was not signed by the client to certify the accuracy of the eligibility information provided. <p><i>Federal Award Information:</i> This finding affects Special Supplement Nutrition Program for Women, Infants, and Children (WIC) federal grant award 5NC700705 for the federal fiscal years ended September 30, 2008 and 2009, respectively.</p> <p><i>Recommendation:</i> The auditors recommended that the counties implement policies to ensure that documents relating to participant eligibility are maintained.</p> <p><i>Agency Response:</i> The Department concurs with the finding. The Nutrition Services Branch Head will contact each local agency involved to discuss the findings to determine appropriate follow-up action, including recoupment of identified unallowable costs. In addition, a memo will be sent to Local Agency WIC Directors and Local Health Directors reiterating program requirements regarding eligibility determination and maintenance of participant files.</p> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Division of Public Health (DPH) continues to enhance its monitoring and training activities for county intake personnel to ensure documentation of the eligibility determination process is properly maintained. • The three counties (Robeson, Madison and Guilford) with discrepancies established corrective action plans to address the weaknesses/ discrepancies identified by the local auditors. • <u>Robeson County</u> - Subsequent follow-up by DPH Regional Nutrition Consultant verified that corrective action has been taken and the finding was resolved by county and Divisional personnel as of 3-9-11. • <u>Guilford County</u> - Subsequent follow-up by DPH Regional Nutrition Consultants found that two of the eight cases with missing documentation had adjunctive eligibility (Medicaid or SNAP eligibility) during the dates in questioned. The remaining six cases were determined to be ineligible for WIC benefits by DPH staff. Therefore, DPH requested that the county repay \$2,681.70 in questioned costs on 2-24-11. Guilford County repaid the \$2,681.70 to the Department on 3-15-11.

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<ul style="list-style-type: none"> <u>Madison County</u> – The discrepancies noted with two client files and the \$758 in questioned costs have not been appropriately resolved by county and Divisional personnel as of 8-31-11. <p>Therefore, we consider this finding only partially resolved as of August 31, 2011.</p>
Department of Health and Human Services	<u>Period of Availability of Federal Funds:</u> Significant Deficiency Questioned Cost Finding \$5,725	09-SA-04 <u>Deficiencies in Internal Control Over WIC Period of Availability Requirements</u> We identified deficiencies in the Department's oversight of the period of availability requirements for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). As a result, there is an increased risk of noncompliance with federal requirements. Federal regulations require that funds be obligated by September 30 of the appropriate federal fiscal year in which they were awarded and fully expended by December 31 of the same year. We tested a sample of 29 transactions processed subsequent to the close of the 2008 WIC grant federal fiscal year. Eight transactions, totaling \$5,725, which should have been recorded to the 2009 WIC grant federal fiscal year, were incorrectly charged to the 2008 WIC grant. We believe that total questioned costs in the population are likely to exceed \$10,000. The Department was not consistently verifying that invoices were being properly recorded to the correct WIC federal fiscal year. <i>Federal Award Information:</i> This finding affects Special Supplement Nutrition Program for Women, Infants, and Children (WIC) federal grant award 5NC700705 for the federal fiscal years ended September 30, 2008 and 2009. <i>Recommendation:</i> The Department should strengthen internal controls to ensure the proper tracking and monitoring occurs for obligations and expenditures within the appropriate period of availability. <i>Agency Response:</i> The Department concurs with the finding. The Department will review the eight transactions noted during the audit to have been coded to the wrong federal fiscal year and identify where in the process the error was made. This will enable determination as to which procedures to strengthen to ensure expenditures are obligated and liquidated within the appropriate periods of availability.
		<p>10.557</p>
		<p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> The Department continues to improve its internal controls to ensure the proper tracking and monitoring occurs for obligations and expenditures within the appropriate period of availability. As of 9-3-10 the Department had not fully resolved the \$5,725 in questioned costs identified by the State Auditors. <p>Therefore, we consider this finding only partially resolved as of September 3, 2010.</p>
Department of Health and Human Services	<u>Special Tests and Provisions:</u> Significant Deficiency	09-SA-05 <u>Deficiencies Identified With the Verification of the WIC Food Instrument Non-Reconciliation Rate</u> The Department did not always document its calculation and review of the non-reconciliation rate for redeemed food instruments for the Special Supplement Nutrition Program for Women, Infants, and Children (WIC). As a result, there is an increased risk of noncompliance with federal requirements. Federal guidelines require that the Department account for the disposition of all

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Infants, and Children 10.557		<p>food instruments. The Department prepares a monthly-unmatched redemptions reconciliation report to calculate the non-reconciliation rate for redeemed food instruments, which is then reviewed by supervisory staff to identify counties that have not followed up on questionable food instruments. Our examination of four monthly reports identified that there was no supporting evidence that the supervisory-level review occurred for two of those reports. The absence of the required signature limits the Department's ability to adequately demonstrate its oversight of this non-reconciliation function. It should be noted that the Department was in compliance with the provisions of this special test requirement even though the proper review procedures did not occur as designed.</p> <p><i>Federal Award Information:</i> This finding affects Special Supplement Nutrition Program for Women, Infants, and Children (WIC) federal grant award 5NC700705 for the federal fiscal years ended September 30, 2008 and 2009.</p> <p><i>Recommendation:</i> The Department should strengthen controls to ensure that management reviews and documents the review of the non-reconciliation rate and the corresponding reports for the Special Supplement Nutrition for Women, Infants, and Children (WIC) program.</p> <p><i>Agency Response:</i> The Department concurs with the finding. The Nutrition Branch Business Officer position was established and filled in September 2009 and is responsible for supervisory-level review which includes signature of the monthly WIC Food Instrument Reconciliation Report. Completion of this supervisory-level review will be reported to the Branch Head by the 20th of each month.</p> <div style="border: 1px solid black; padding: 5px;"> <p><i>Follow-up:</i> The Department strengthened internal controls to ensure that management review of the monthly WIC Food Instrument Reconciliation Report is adequately documented. Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p> </div>
Department of Health and Human Services Special Supplemental Nutrition Program for Women, Infants, and Children 10.557	<p>Special Tests and Provisions:</p> <p>Significant Deficiency</p>	<p>09-SA-06 <u>Deficiencies Identified With the WIC Food Instrument Review Process</u></p> <p>We identified deficiencies in the Department's processes for reviewing redeemed food instruments for applicable price limitations or questionable submissions in the Special Supplement Nutrition Program for Women, Infants, and Children (WIC). Federal requirements state that the Department must design and implement a system to review WIC food instruments submitted by vendors for redemption to ensure compliance with program guidelines.</p> <p>The required review must examine all, or a representative sample of, food instruments submitted by vendors for redemption. The Department has contracted with its fiscal agent to review the food instruments for specific errors and to provide a report that identifies the types of errors noted with the daily processing of the WIC food instruments. The Department currently conducts a cursory review of the error type "unreasonable dollar"; however, additional review procedures are not performed such that a representative sample of all food instruments submitted for processing would be examined. The Department is not sufficiently following-up on the other edit errors identified by their fiscal agent.</p> <p>Significant aspects of this finding were previously reported in the previous two fiscal years.</p> <p><i>Federal Award Information:</i> This finding affects Special Supplement Nutrition Program for Women, Infants, and Children (WIC) federal grant award 5NC700705</p>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<p>for the federal fiscal years ended September 30, 2008 and 2009.</p> <p><i>Recommendation:</i> The Department should implement effective procedures to ensure that all or a representative sample of vendor redeemed food instruments is reviewed and appropriate follow-up action takes place. This may include enhancements to the monitoring efforts of the activities performed by its fiscal agent.</p> <p><i>Agency Response:</i> The Department concurs with the finding. A monthly protocol has been developed to determine a representative sample of food instruments to be reviewed for detection of any questionable food instruments or cash-value vouchers, suspected vendor overcharges, and other errors. The Department will implement follow-up action to be taken with the Fiscal Agent within 120 days of detection of questionable food instruments or cash-value vouchers, suspected vendor overcharges, and other errors. A tracking log will be created and maintained to document all questioned food instruments and follow-up status. A monthly review of the tracking log will occur and the results will be communicated to the Nutrition Branch Operations Manager.</p> <p>The Nutrition Branch will modify the contract requirements for the fiscal agent to address the WIC Program in the SAS 70 Audit.</p> <div style="border: 1px solid black; padding: 10px;"> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department has strengthened the internal controls to enhance the review procedures regarding questionable food instruments, cash-value vouchers, suspected vendor overcharges, and other errors. • The Fiscal Agent (Solutran) generates a monthly report that provides the total number of food instruments presented for payment. The Department has developed a monthly protocol to determine a representative sample of food instruments to review using a statistical web based resource tool called RAOSOFT. After the sample size is determined, the Department randomly selects food instruments for manual review. Errors associated with questionable food instruments are addressed with Solutran within 120 days of detection. A spreadsheet listing the identified errors/questionable food instruments and corresponding resolutions is maintained on a monthly basis. <p>Therefore, we considered this finding resolved and no further action is considered necessary.</p> </div>
Department of Health and Human Services Special Supplemental Nutrition Program for Women, Infants, and Children 10.557	Special Tests and Provisions: Significant Deficiency	09-SA-07 <u>Weaknesses in the Monitoring of the Calculation of the WIC Maximum Allowable Reimbursement Rates</u> The Department is not adequately monitoring the calculation of the maximum allowable reimbursement rates applicable to redeemed food instruments in the Special Supplement Nutrition Program for Women, Infants, and Children (WIC). As a result, there is an increased risk that certain WIC vendors could be receiving a higher reimbursement rate than is allowed by the governing regulations. The Department must establish competitive price criteria and allowable reimbursement levels for its vendor food instrument redemption system. That process includes establishing the maximum allowable reimbursement rate by food instrument package types. The Department's fiscal agent calculates these rates on a monthly basis; however, we did not find evidence that the Department performed monitoring procedures of the fiscal agent's calculations to ensure the accuracy of the calculation or the agreement of the fiscal agent's data to the departmental records. It should be noted that our tests of a sample of maximum allowable

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<p>reimbursement rate calculations did not identify any errors, despite the lack of an effective control.</p> <p>A similar finding was reported in the previous year.</p> <p><i>Federal Award Information:</i> This finding affects Special Supplement Nutrition Program for Women, Infants, and Children (WIC) federal grant award 5NC700705 for the federal fiscal years ended September 30, 2008 and 2009.</p> <p><i>Recommendation:</i> The Department should establish monitoring procedures to ensure that sufficient data is obtained from its fiscal agent to verify the correct calculation of the maximum allowable reimbursement rate for redeemed food instruments.</p> <p><i>Agency Response:</i> The Department concurs with the finding. The calculations completed by the fiscal agent to establish the Maximum Allowed Reimbursement rate (MAR) will be reviewed by the Vendor Unit Supervisor. The fiscal agent will forward the file containing all calculations to the Nutrition Services Branch on the 1st of each month. The Vendor Unit Supervisor will review the calculations, select a sample of food instrument records to confirm the amounts and approve the MAR. Any required changes and updates will be transmitted to the fiscal agent. The MAR review will be completed and reported to the Nutrition Branch Operations Manager by the 5th of each month.</p> <div style="border: 1px solid black; padding: 10px;"> <p><i>Follow Up:</i> Effective January 13, 2011, the Division of Public Health (DPH) enhanced its internal controls to ensure Maximum Allowable Reimbursement (MAR) rates are calculated properly by the WIC Fiscal Agent (Solutran) as follows:</p> <ul style="list-style-type: none"> • In addition to the monthly MAR report, Solutran provides a monthly <i>Closeout – Average by Food Group with Exclusions</i> report that is used to verify the data/calculations on the monthly MAR report. • On a quarterly basis, one month of data is tested by the DPH Nutrition Services Branch – Vendor Unit section by randomly selecting five food instrument types and having the Division of Information Resource Management (DIRM) generate a report for all food instruments redeemed during the specified period. • The DIRM generated report separates predominately WIC vendor data from non-predominately WIC vendor data for each food instrument type. • Using the DIRM generated report, Vendor Unit staff manually calculate the MAR rates and compares them to the MAR calculations generated by Solutran. • The Vendor Unit Manager verifies the MAR calculations using these procedures and documents the review a minimum of one time per quarter. <p>Due to the delay in implementing the enhanced procedures, the Office of the State Auditor identified a similar finding in their 2010 Single Audit fieldwork. However, we consider this finding resolved as of January 13, 2011 and no further action is considered necessary.</p> </div>
Department of Health and Human Services Special Supplemental Nutrition Program for Women, Infants, and	Special Tests and Provisions: Significant Deficiency	09-SA-08 <u>Deficiencies Identified in the Monitoring of WIC High-Risk Vendors</u> The Department's monitoring plan does not sufficiently address high-risk vendors identified in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). As a result, there is an increased risk that the Department may not perform compliance investigations for those vendors determined to have the greatest potential for program noncompliance or loss of funds. Federal regulations require the Department to conduct compliance investigations for a minimum of five percent of authorized vendors. Additionally, the Department

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Children 10.557		<p>determined that more than five percent of its vendors were deemed “high-risk,” which requires priority consideration in the compliance investigation process. The Department did not have a monitoring plan that addressed the identification and prioritization of high-risk vendors. In addition, the supervisory review process for completed compliance investigations was not sufficient, as it targeted only those investigations that contained errors and required a violation letter.</p> <p>Federal regulations also establish mandatory sanctions for various types and levels of infractions of the grant provisions and require the Department to impose and document these sanctions. In a sample of twenty case files, we found two instances where the state did not have adequate documentation to prove that the state imposed the mandatory sanctions.</p> <p><i>Federal Award Information:</i> This finding affects Special Supplement Nutrition Program for Women, Infants, and Children (WIC) federal grant award 5NC700705 for the federal fiscal years ended September 30, 2008 and 2009.</p> <p><i>Recommendation:</i> The Department should strengthen controls to ensure that high-risk vendors are prioritized for review based on each entity’s potential for program noncompliance or loss of funds. The Department should also enhance its supervisory review process to include all investigations of high-risk vendors and reinforce its documentation of that supervisory review. The Department should impose, and document, sanctions as mandated by federal regulations.</p> <p><i>Agency Response:</i> The Department concurs with the finding. The Division of Public Health (DPH) Nutrition Services Branch, Vendor Unit utilizes two reports based on criteria developed by USDA, Food and Nutrition Service to identify potential high-risk vendors and identify vendors for investigation accordingly. Additional vendors may be identified for investigation based on complaints received.</p> <p>DPH maintains a tracking tool to log and track the vendors designated as high-risk. Internal control procedures will be enhanced to include review of the tracking tool by the Vendor Compliance Officer and the WIC Vendor Manager to ensure appropriate prioritization for investigation and assignment to the Compliance Investigator.</p> <p>In addition, the Vendor Compliance Officer will review the status of all investigations on a monthly basis to determine sanctions were imposed, correct letters mailed, and follow-up completed as appropriate. The WIC Vendor Manager will have final signoff on all case files. A monthly report of all compliance investigation activities will be reported to the Nutrition Services Branch Operations Manager and the Branch Head by the 5th of the month for the preceding month. The Department’s current monitoring review process will provide additional guidance regarding risk assessment as needed. The Department does concur that the mandatory sanction was not applied in two cases.</p> <div style="border: 1px solid black; padding: 10px;"> <p><i>Follow Up:</i> Effective January 13, 2011, the Division of Public Health (DPH) enhanced its internal controls to ensure high-risk vendors are prioritized for review based on each entity’s potential for program non-compliance or loss of funds. However, due to the timing of our follow-up fieldwork, we were unable to verify whether the enhanced controls were working properly.</p> <p>In addition, the Office of the State Auditor identified a similar finding in their 2010 Single Audit fieldwork. Therefore, we consider this finding only partially resolved as of January 13, 2011.</p> </div>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Department of Health and Human Services	Allowable Costs/Cost Principles:	09-SA-09 <u>Inadequate Control Over User Access to the North Carolina Claims and Reimbursement Entry System</u>
Child and Adult Care Food Program	Significant Deficiency	<p>We identified deficiencies in the Department's oversight and management of user access to the North Carolina Claims and Reimbursement Entry System (NC CARES). Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.</p> <p>The NC CARES system is a third-party processing system, maintained by the State, used to gather reimbursement claim data, process payments, and produce management reports related to meals provided through the Child and Adult Care Food program.</p> <p>Of our sample of 30 users at the subrecipient level, we noted that seven did not have the authorization documentation on file to support users' access to the NC CARES system. Although an authorization request is required to be completed for system access, Department staff indicated that a lack of sufficient resources affected its ability to maintain the required documentation.</p> <p>Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.</p> <p><i>Federal Award Information:</i> This finding affects Child and Adult Care Food Program federal grant award 5NC300300 for the federal fiscal year ended September 30, 2009.</p> <p><i>Recommendation:</i> The Department should continue to enhance its prescribed procedures for documenting security access privileges for the NC CARES system. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and user access to protected information is appropriate.</p> <p><i>Agency Response:</i> The Department concurs with the finding. The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights. Effective July 2007, the Department requires an Information Resource Access Authorization Form (IRAAF) be generated and maintained on file for every individual with access to State Information Systems. Prior to July 2007, access was granted based on requests from state-level and county-level Information Security Officials (ISOs) via either email or fax; those users given access during this time are grandfathered by the Department and do not require their access be documented on an IRAAF. Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted.</p> <p>For each of the individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked.</p> <div> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> As of September 2010, the Department has implemented appropriate policies and procedures to ensure adequate control of access to the North Carolina </div>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<p>Claims and Reimbursement Entry System (NC CARES).</p> <ul style="list-style-type: none"> • For each of the individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked. • Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in March 2010 and July 2010. • Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis. • All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access. • DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to the North Carolina Claims and Reimbursement Entry System. • Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form. <p>Therefore, we consider this finding only partially resolved as of January 3, 2011.</p>
Department of Health and Human Services	Allowable Costs/Cost Principles:	09-SA-10
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	Significant Deficiency	<p><u>Inadequate Control Over County User Access to the County Administration Reimbursement System</u></p> <p>We identified deficiencies in the Department's oversight and management of employee access to the County Administration Reimbursement System. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.</p> <p>The County Administration Reimbursement System is state-maintained and processes payments for administrative and service costs for various grants and tracks county expenditures by program.</p> <p>Of our sample of 30 local county users, we noted that 12 did not have authorization documentation on file to support individuals' access to the County Administration</p>
10.561		

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<p>Reimbursement System. In addition, we determined that periodic reviews of user access for these systems have not been performed as required by statewide and departmental policy.</p> <p>Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.</p> <p>A similar finding was reported for the past two years.</p> <p>Federal Award Information: This finding affects the following grants:</p> <ul style="list-style-type: none"> • CFDA 10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program • CFDA 93.558 – Temporary Assistance to Needy Families • CFDA 93.563 – Child Support Enforcement • CFDA 93.568 – Low Income Home Energy Assistance • CFDA 93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Subsidized Child Care Cluster) • CFDA 93.658 – Foster Care – Title IV-E • CFDA 93.659 – Adoption Assistance (Title IV-E) • CFDA 93.667 – Social Services Block Grant • CFDA 93.767 – Children's Health Insurance Program • CFDA 93.778 – Medical Assistance Program (Medicaid Cluster) <p><i>Recommendation:</i> The Department should continue to enhance its prescribed procedures for documenting security access privileges for its County Administration Reimbursement System. Periodic security reviews should be conducted to ensure that access is restricted to authorized users, and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.</p> <p><i>Agency Response:</i> The Department concurs with the finding. The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights. Effective July 2007, the Department requires an Information Resource Access Authorization Form (IRAAF) be generated and maintained on file for every individual with access to State Information Systems. Prior to July 2007, access was granted based on requests from state-level and county-level Information Security Officials (ISOs) via either email or fax; those users given access during this time are grandfathered by the Department and do not require their access be documented on an IRAAF. Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted.</p> <p>Effective March 2010, the Department enhanced existing access control requirements for all division/office employees with access to RACF and OLV via the generation of two new reports. The first report is now available through NCXPTR listing all employees with access to systems through RACF. A second report is now available through WIRM listing all employees with access to OLV and their respective roles. All Department division/office Information Security Officials (ISO) will be required to review and verify the accuracy of these reports on a monthly basis through a positive confirmation. The "Division/Office System Access</p>

Control” form will be used to report monthly to the Department Privacy and Security Office (PSO) with the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures by April 2010.

For each of the individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual’s access has been revoked.

Follow-up: The following corrective action has occurred:

- The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users’ access rights.
- For each of the 12 individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual’s access has been revoked as of September 2010.
- Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in September 2009 and March 2010.
- Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees’ mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The “Division/Office System Access Control” form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the “Division/Office System Access Control” form to the PSO on a monthly basis.
- All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access.
- DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual’s access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems.
- Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form.

Therefore, we consider this finding only partially resolved as of January 3, 2011.

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Department of Health and Human Services State Administrative Matching Grants for the Supplemental Nutrition Assistance Program 10.561	Special Tests and Provisions: Material Weakness Material Noncompliance	<p>09-SA-11 Failure to Timely Communicate ARRA Federal Award Information to Subrecipients</p> <p>The Department failed to timely communicate American Recovery and Reinvestment Act (ARRA) federal award information to its subrecipients. As a result, there is an increased risk that a subrecipient may not separately account for and report on its ARRA federal awards or comply with additional compliance requirements specific to these funds.</p> <p>Recipients of ARRA funding are required to separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, appropriate federal award number information and the amount of ARRA funds. In addition, expenditures for ARRA federal awards must be identified separately on the Schedule of Expenditures of Federal Awards (SEFA), including using the prefix "ARRA" in identifying the name of the federal program. Recipients are required to inform their subrecipients of these requirements.</p> <p>The Department was unable to provide evidence that the required ARRA federal award information was communicated to its subrecipients. The Department provides or will provide significant ARRA funding through grants to counties. Counties accept funds granted by the State without a written contract agreeing to comply with the imposed grant conditions. As such, there is no consistent mechanism in place for the Department to communicate this information at the time of the subaward or disbursement of funds.</p> <p>Although the Department failed to timely communicate the SEFA reporting requirements to its county subrecipients, it should be noted that this information was communicated to local government financial officials and their independent auditors by the Department of State Treasurer, State and Local Government Finance Division; in its Memorandum #2010-16 dated October 9, 2009.</p> <p><i>Federal Award Information:</i> This finding affects the following grants:</p> <ul style="list-style-type: none"> • CFDA 10.561 – ARRA – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program – Grant #5NC440406 • CFDA 93.563 – ARRA – Child Support Enforcement – Grant #094NC4002 • CFDA 93.658 – ARRA – Foster Care – Title IV-E – Grant #0901NC1402 • CFDA 93.659 – ARRA - Adoption Assistance (Title IV-E) – Grant #0901NC1403 <p><i>Recommendation:</i> The Department should implement procedures to ensure that it timely informs all subrecipients of the ARRA federal award information and reporting requirements to meet transparency and accountability requirements over expenditures of ARRA awards.</p> <p><i>Agency Response:</i> The Department concurs with the finding. A letter dated October 16, 2009 was sent to all 100 North Carolina counties providing the required American Recovery and Reinvestment Act (ARRA) federal award information and notifying them of the Schedule of Federal Awards (SEFA) reporting requirements. We will implement procedures to notify subrecipients of the required information on ARRA funds in a timely manner for any future ARRA awards.</p> <div style="border: 1px solid black; padding: 5px;"> <p><i>Follow-up:</i> The Department has appropriately notified the county subrecipients, as well as each Division Director, of the ARRA award information and reporting</p> </div>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		requirements. As of 10-20-09, the Department has incorporated Federal Award information with EFT payments, which is now communicated to counties with each disbursement. Therefore, we consider this finding resolved and no further corrective action is considered necessary.
Department of Health and Human Services Rehabilitation Services - Vocational Rehabilitation Grants to States 84.126	Equipment and Real Property <u>Management:</u> Significant Deficiency	<p>09-SA-83 <u>Control Weaknesses Over Fixed Asset Inventory</u></p> <p>The Department of Health and Human Services does not have adequate internal control in place to ensure compliance with federal equipment maintenance requirements for the Rehabilitation Services – Vocational Rehabilitation Grants to States. As a result, we found the equipment records were not being properly maintained, which increases the risk that assets will not be properly safeguarded.</p> <p>The Department’s controller’s office does not review the reconciliation between the divisions’ annual inventory listings and the equipment records to ensure discrepancies identified during the annual inventory are resolved. The Division of Vocational Rehabilitation has procedures to follow-up with the Department’s controller’s office to ensure discrepancies found during the year-end inventory have been resolved and equipment records are accurate, but the Division of Services for the Blind does not. We noted the following deficiencies related to inventory of equipment acquired with federal funds:</p> <ul style="list-style-type: none"> As a result of the annual equipment inventory count and other procedures, the Division of Vocational Rehabilitation submitted a significant number of change requests to the Department’s controller’s office to update the equipment records. After receiving a revised equipment report, the Division identified 69 equipment items that had not been properly updated by the controller’s office. At the time of our audit, 10 of these 69 change requests still had not been properly entered in the equipment records. We also noted that one of these change requests originated in 2007. As a result of the annual equipment inventory count, the Division of Services for the Blind submitted 21 change requests to the Department’s controller’s office to update the equipment records. We tested five of these change requests and noted two that had not been properly entered in the equipment records. <p>The <i>OMB Circular A-133 Compliance Supplement</i> requires the Department to have an appropriate internal control system that will adequately safeguard and track equipment acquired with federal funds. It specifically includes requirements to maintain proper records, perform a physical inventory of equipment, and reconcile the inventory count to the equipment records.</p> <p>Similar deficiencies in internal control over equipment acquired with federal funds have been reported since our audit for the year ended June 30, 2004.</p> <p><i>Federal Award Information:</i> The finding affects Rehabilitation Services – Vocational Rehabilitation Grants to States grant awards H126A070049, H126A080049, and H126A090049 at the Division of Vocational Rehabilitation and H126A070050, H126A080050, and H126A090050 at the Division of Services for the Blind for the federal fiscal years ending September 30, 2008 and 2009, respectively.</p> <p><i>Recommendation:</i> The Department should enhance its accounting and inventory procedures to ensure proper equipment records are maintained and assets are safeguarded.</p>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<p><i>Agency Response:</i> The Department concurs with the finding. Procedures for internal controls over fixed asset recording were enhanced to include receipt of an updated mid-cycle inventory report. The Division staff will conduct a review of the mid-cycle report to confirm all requested changes have been incorporated into the fixed asset listing. Discrepancies noted during the review are to be submitted to the Controller's Office within 60 days of receipt of the report for corrective action. As of December 31, 2009, the Division of Services for the Blind determined the current status of the two items referenced above. These items have since been removed from the inventory asset listing accordingly.</p> <div> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department has enhanced the internal controls governing the maintenance of fixed asset records to ensure assets are safeguarded. • The Controller's Office is able to generate a mid-cycle inventory report, which Divisional staffs use to verify that all requested changes/updates have been incorporated into the fixed asset records. Discrepancies noted during the review of the mid-cycle inventory report are submitted to the Controller's Office within 60 days of receipt of the report for corrective action. • All of the DSB and DVR discrepancies noted by the State Auditors have been appropriately resolved as of February 18, 2010. <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p> </div>
Department of Health and Human Services Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers 93.044	<u>Reporting:</u> Significant Deficiency	09-SA-111 <u>Deficiencies in Federal Reporting Procedures</u> <p>The Department did not have controls in place to ensure the accuracy of the preparation of the Aging Cluster program financial report in accordance with federal requirements. As a result, there is an increased risk of errors or incorrect calculations in reporting the financial activities of the grant.</p> <p>Errors were identified in the Department's filed SF-269 Financial Status Reports by the federal oversight agency that required the submission of revised reports, as well as extensions to the reporting deadlines. The independent review of the financial status reports prior to their submission was not occurring, as the supervisor was also involved in the calculation and preparation of the reports.</p> <p><i>Federal Award Information:</i> This finding affects Aging Cluster Programs federal grant awards 08AANCT3SP, 09AANCT3SP, 08AANCNSIP, and 09AANCNSIP for the federal fiscal years ended September 30, 2008 and 2009.</p> <p><i>Recommendation:</i> The Department should strengthen internal controls to ensure adequate review and verification of amounts reported on the SF-269 Financial Status Report for the Aging Cluster programs. In addition to the review of supporting documentation, the amounts reported should be reviewed for reasonableness based on program management expectations.</p> <p><i>Agency Response:</i> The Department concurs with the finding. An independent review of the SF-269 reports will be conducted on future reports.</p> <div> <p><i>Follow-up:</i> The Department strengthened internal controls by implementing an independent review process for the Aging Cluster SF-269 Financial Status Report effective May 1, 2010. Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p> </div>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Department of Health and Human Services Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers 93.044	Subrecipient Monitoring: Significant Deficiency	<p>09-SA-112 <u>Failure to Timely Communicate Federal Award Information to Subrecipients</u></p> <p>The Department failed to timely communicate federal award information to its Aging Cluster program subrecipients. As a result, there is an increased risk that a subrecipient may not properly account for and report on its federal awards or comply with compliance requirements specific to those funds.</p> <p>Federal regulations require the Department to identify to subrecipients, at the time of the award, federal award information such as the CFDA title and number, award name and number, name of the federal awarding agency, and applicable compliance requirements.</p> <p>We examined two notifications of grant awards from the 17 subrecipients of Aging Cluster funds and found that subrecipients were not being made aware of all of the above-required information at the time of the award.</p> <p><i>Federal Award Information:</i> This finding affects Aging Cluster Programs federal grant awards 08AANCT3SP and 08AANCNSIP for the federal fiscal year ended September 30, 2008.</p> <p><i>Recommendation:</i> The Department should implement procedures to ensure that it timely informs all subrecipients of the federal award information and reporting requirements to meet subrecipient monitoring requirements.</p> <p><i>Agency Response:</i> The Department concurs with the finding. The Division of Aging and Adult Services will ensure subrecipients are informed of all federal award information and reporting requirements (i.e. CFDA title and number, award name and number, name of the federal awarding agency, award amount and applicable compliance requirements). All future Notice of Grant Awards (NGAs) sent to subrecipients will include this information.</p> <div style="border: 1px solid black; padding: 5px;"> <p><i>Follow-up:</i> The Division of Aging and Adult Services has incorporated the required award information in the NGA document. Revised NGA documents were sent out in September 2010 to the Aging Cluster program subrecipients that reflected the appropriate federal award information and reporting requirements. Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p> </div>
Department of Health and Human Services Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers 93.044	Subrecipient Monitoring: Significant Deficiency	<p>09-SA-113 <u>Subrecipient Monitoring Documentation Needs Improvement</u></p> <p>We identified deficiencies in the documentation of monitoring procedures for the Aging Cluster program. As a result, there is an increased risk that noncompliance could occur at the subrecipient level and not be detected in a timely manner.</p> <p>We examined two subrecipient monitoring files from the 17 subrecipients of Aging Cluster funds and noted that completed monitoring tools were missing from one of the files related to the nutrition program. Other documentation was available to support that monitoring activities took place; however, staff could not locate the completed monitoring tools.</p> <p>Departmental policy requires that programmatic and fiscal monitoring activities address all relevant compliance requirements, documented through monitoring tools, and documentation maintained as evidence that monitoring activities occurred as planned.</p>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<p><i>Federal Award Information:</i> This finding affects Aging Cluster Programs federal grant awards 08AANCT3SP and 08AANCNSIP for the federal fiscal year ended September 30, 2008.</p> <p><i>Recommendation:</i> The Department should implement procedures to ensure that documentation to evidence its monitoring activities for the Aging Cluster program subrecipients is maintained.</p> <p><i>Agency Response:</i> The Department concurs with the finding. Effective March 1, 2010, the Division of Aging and Adult Services (DAAS) developed a checklist for use by all DAAS monitoring staff at the completion of each monitoring visit. The checklist should ensure all subrecipient files contain required documentation, (i.e. completed monitoring tool, working papers, documentation obtained from the subrecipient, and a completed monitoring report). Files will be reviewed for completeness prior to the monitoring report being sent to the subrecipient. A completed checklist, including the date and monitor's signature, will be maintained in each subrecipient's file.</p> <p>The Department is currently in the process of an agency-wide review of the monitoring function for all applicable divisions and programs. This review will include the existing policy and procedures, division and program specific monitoring plans, tools, reporting forms and applicable state and federal guidelines. All monitoring plans are subject to review, evaluation, identification of weaknesses and recommendations for improvement. A needs assessment for training of division monitoring staff will occur and training will be developed and provided. The Department aims to generate a more standardized format for monitoring activities, tools and reporting methods throughout the agency. Such steps should ensure adequate documentation to evidence monitoring efforts is maintained by all divisions. Anticipated completion for the Department review process is June 30, 2010.</p> <div style="border: 1px solid black; padding: 10px;"> <p><i>Follow-up:</i> The Division of Aging and Adult Services (DAAS) developed a checklist that is utilized by DAAS monitoring staff at the completion of monitoring visits to ensure that subrecipient files contain all the required documentation. Files are reviewed for completeness prior to the submission of the monitoring report to the subrecipient. A completed checklist, including the date and monitor's signature, is maintained in each subrecipient's file.</p> <p>Therefore, we consider this finding resolved as of March 1, 2010 and no further corrective action is considered necessary.</p> </div>
Department of Health and Human Services Special Programs for the Aging-Title III, Part C-Nutrition Services 93.045	Reporting: Significant Deficiency	09-SA-114 <u>Deficiencies in Federal Reporting Procedures</u> <p>The Department did not have controls in place to ensure the accuracy of the preparation of the Aging Cluster program financial report in accordance with federal requirements. As a result, there is an increased risk of errors or incorrect calculations in reporting the financial activities of the grant. See finding 09-SA-111 for a description.</p> <p><i>Agency Response:</i> See agency response to 09-SA-111.</p> <div style="border: 1px solid black; padding: 10px;"> <p><i>Follow-up:</i> The Department strengthened internal controls by implementing an independent review process for the Aging Cluster SF-269 Financial Status Report effective May 1, 2010. Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p> </div>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Department of Health and Human Services Special Programs for the Aging-Title III, Part C-Nutrition Services 93.045	Subrecipient Monitoring: Significant Deficiency	<p>09-SA-115 <u>Failure to Timely Communicate Federal Award Information to Subrecipients</u></p> <p>The Department failed to timely communicate federal award information to its Aging Cluster program subrecipients. As a result, there is an increased risk that a subrecipient may not properly account for and report on its federal awards or comply with compliance requirements specific to those funds. See finding 09-SA-112 for a description.</p> <p><i>Agency Response:</i> See agency response to 09-SA-112.</p> <div> <p><i>Follow-up:</i> The Division of Aging and Adult Services has incorporated the required award information in the NGA document. Revised NGA documents were sent out in September 2010 to the Aging Cluster program subrecipients that reflected the appropriate federal award information and reporting requirements. Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p> </div>
Department of Health and Human Services Special Programs for the Aging-Title III, Part C-Nutrition Services 93.045	Subrecipient Monitoring: Significant Deficiency	<p>09-SA-116 <u>Subrecipient Monitoring Documentation Needs Improvement</u></p> <p>We identified deficiencies in the documentation of monitoring procedures for the Aging Cluster program. As a result, there is an increased risk that noncompliance could occur at the subrecipient level and not be detected in a timely manner. See finding 09-SA-113 for a description.</p> <p><i>Agency Response:</i> See agency response to 09-SA-113.</p> <div> <p><i>Follow-up:</i> The Division of Aging and Adult Services (DAAS) developed a checklist that is utilized by DAAS monitoring staff at the completion of monitoring visits to ensure that subrecipient files contain all the required documentation. Files are reviewed for completeness prior to the submission of the monitoring report to the subrecipient. A completed checklist, including the date and monitor's signature, is maintained in each subrecipient's file.</p> <p>Therefore, we considered this finding resolved as of March 1, 2010 and no further corrective action is considered necessary.</p> </div>
Department of Health and Human Services Nutrition Services Incentive Program 93.053	Reporting: Significant Deficiency	<p>09-SA-117 <u>Deficiencies in Federal Reporting Procedures</u></p> <p>The Department did not have controls in place to ensure the accuracy of the preparation of the Aging Cluster program financial report in accordance with federal requirements. As a result, there is an increased risk of errors or incorrect calculations in reporting the financial activities of the grant. See finding 09-SA-111 for a description.</p> <p><i>Agency Response:</i> See agency response to 09-SA-111.</p> <div> <p><i>Follow-up:</i> The Department strengthened internal controls by implementing an independent review process for the Aging Cluster SF-269 Financial Status Report effective May 1, 2010. Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p> </div>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Department of Health and Human Services Nutrition Services Incentive Program 93.053	Subrecipient Monitoring: Significant Deficiency	<p>09-SA-118 <u>Failure to Timely Communicate Federal Award Information to Subrecipients</u></p> <p>The Department failed to timely communicate federal award information to its Aging Cluster program subrecipients. As a result, there is an increased risk that a subrecipient may not properly account for and report on its federal awards or comply with compliance requirements specific to those funds. See finding 09-SA-112 for a description.</p> <p><i>Agency Response:</i> See agency response to 09-SA-112.</p> <div> <p><i>Follow-up:</i> The Division of Aging and Adult Services has incorporated the required award information in the NGA document. Revised NGA documents were sent out in September 2010 to the Aging Cluster program subrecipients that reflected the appropriate federal award information and reporting requirements. The Division also stated that the NSIP grant was entitlement funding and should not be included on the NGA. Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p> </div>
Department of Health and Human Services Nutrition Services Incentive Program 93.053	Subrecipient Monitoring: Significant Deficiency	<p>09-SA-119 <u>Subrecipient Monitoring Documentation Needs Improvement</u></p> <p>We identified deficiencies in the documentation of monitoring procedures for the Aging Cluster program. As a result, there is an increased risk that noncompliance could occur at the subrecipient level and not be detected in a timely manner. See finding 09-SA-113 for a description.</p> <p><i>Agency Response:</i> See agency response to 09-SA-113.</p> <div> <p><i>Follow-up:</i> The Division of Aging and Adult Services (DAAS) developed a checklist that is utilized by DAAS monitoring staff at the completion of monitoring visits to ensure that subrecipient files contain all the required documentation. Files are reviewed for completeness prior to the submission of the monitoring report to the subrecipient. A completed checklist, including the date and monitor's signature, is maintained in each subrecipient's file.</p> <p>Therefore, we considered this finding resolved as of March 1, 2010 and no further corrective action is considered necessary.</p> </div>
Department of Health and Human Services Temporary Assistance for Needy Families 93.558	Allowable Costs/Cost Principles: Significant Deficiency	<p>09-SA-120 <u>Inadequate Control Over County User Access to the County Administration Reimbursement System</u></p> <p>We identified deficiencies in the Department's oversight and management of employee access to the County Administration Reimbursement System. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk. See finding 09-SA-10 for a description.</p> <p><i>Agency Response:</i> See agency response to 09-SA-10.</p> <div> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights. • For each of the 12 individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked as of September 2010. </div>

- Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in September 2009 and March 2010.
- Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis.
- All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access.
- DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems.
- Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form.

Therefore, we consider this finding only partially resolved as of January 3, 2011.

Department of
Health and
Human Services

Eligibility:

09-SA-121

Documentation Lacking in County Case Files for Temporary Assistance for Needy Families Program

Questioned
Cost

Temporary
Assistance for
Needy Families

Finding

\$1,629

Certified Public Accountants performing the county audits tested 823 case files for the Temporary Assistance for Needy Families (TANF) program and found deficiencies in two cases. These auditors questioned costs totaling \$1,629; however, we believe that it is likely that questioned costs exceed \$10,000 in the population. The deficiencies included:

- One client file could not be located. The local auditor could not verify eligibility due to the lack of supporting documentation and questioned costs in the amount of \$1,629.
- One client file was determined to be incomplete because the caseworker did not properly sign the mutual responsibility agreement.

Federal Award Information: This finding affects Temporary Assistance for Needy Families (TANF) federal grant awards G0702NCTANF and G0802NCTANF for the federal fiscal years ended September 30, 2007 and 2008, respectively.

93.558

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<p><i>Recommendation:</i> The auditors recommended that the county implement policies to ensure that documents relating to participant eligibility are maintained.</p> <p><i>Agency Response:</i> As noted, these were local county audit findings. The Department concurs with the findings. The appropriate Work First Program Consultant (WFPC) will contact the two identified county DSS agencies to determine the current status of the missing documentation. A WFPC will also work with county DSS staff to develop a program improvement plan to ensure county staff are aware of the requirements for all eligibility records to be complete and available for review at all times. The WFPC will reiterate the significance that all documents have the proper signatures. Program consultants will conduct follow-up monitoring and a review of cases to ensure all documentation is completed and located in the case file.</p> <div style="border: 1px solid black; padding: 10px;"> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Division of Social Services (DSS) continues to enhance its monitoring and training activities for county intake personnel to ensure documentation of the eligibility determination process is properly maintained. • All of the counties with discrepancies established corrective action plans to address the weaknesses/discrepancies identified by the State Auditors. Subsequent follow-up by the Division's Work First Representatives (WFR) verified that corrective action was taken in regards to the audit findings. • All of the discrepancies noted by the State Auditors in the 2 case files have been appropriately investigated and resolved by county and Divisional personnel as of 7-29-10. With regards to the \$1,629 in questioned costs, the missing file was located and reviewed by the local auditor who subsequently determined that the client was eligible for the services. <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p> </div>
Department of Health and Human Services Temporary Assistance for Needy Families 93.558	<u>Eligibility:</u> Significant Deficiency	09-SA-122 <u>Inadequate Control Over County-Level User Access to the Eligibility Information System</u> <p>We identified deficiencies in the Department's oversight and management of user access to the eligibility computer system. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.</p> <p>The Eligibility Information System is a state-maintained system that collects and maintains eligibility information on various benefit programs and assists counties with case management for those programs.</p> <p>We found access control deficiencies for the county-level users of the Eligibility Information System. In our test of a sample of 60 county-level users, we determined that adequate documentation of the authorization level was not on file for 25 users. The requests and/or authorization signatures were subsequent to our June 30, 2009 audit period. In addition, it was determined that periodic reviews of user access have not been performed as required by statewide and departmental policy.</p> <p>Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.</p>

A similar finding was reported for the past four years.

Federal Award Information: This finding affects the following grants:

- CFDA 93.558 – Temporary Assistance to Needy Families
- CFDA 93.767 – Children’s Health Insurance Program
- CFDA 93.778 – Medical Assistance Program (Medicaid Cluster)

Recommendation: The Department should continue to enhance its prescribed procedures for documenting security access privileges for its eligibility computer systems. Periodic security reviews should be conducted to ensure that access is restricted to authorized users, and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Agency Response: The Department concurs with the finding. The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users’ access rights. Effective July 2007, the Department requires an Information Resource Access Authorization Form (IRAAF) be generated and maintained on file for every individual with access to State Information Systems. Prior to July 2007, access was granted based on requests from state-level and county-level Information Security Officials (ISOs) via either email or fax; those users given access during this time are grandfathered by the Department and do not require their access be documented on an IRAAF. Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted.

Effective March 2010, the Department enhanced existing access control requirements for all division/office employees with access to RACF and OLV via the generation of two new reports. The first report is now available through NCXPTR listing all employees with access to systems through RACF. A second report is now available through WIRM listing all employees with access to OLV and their respective roles. All Department division/office Information Security Officials (ISO) will be required to review and verify the accuracy of these reports on a monthly basis through a positive confirmation. The “Division/Office System Access Control” form will be used to report monthly to the Department Privacy and Security Office (PSO) with the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures by April 2010.

For each of the individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual’s access has been revoked.

Follow-up: The following corrective action has occurred:

- The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users’ access rights.
- For each of the 25 individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual’s access has been revoked as of September 2010.
- Per policy, security officers must complete security reviews twice a year to

ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in September 2009 and March 2010.

- Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis.
- All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access.
- DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems.
- Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form.

Therefore, we consider this finding only partially resolved as of January 3, 2011.

Department of Health and Human Services	<u>Eligibility:</u>	09-SA-123	<u>Inadequate Control Over County User Access to the TANF Data Collection System</u>
Temporary Assistance for Needy Families	Significant Deficiency		We identified deficiencies in the Department's oversight and management of employee access to the Temporary Assistance for Needy Families (TANF) Data Collection System. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.
93.558			The TANF Data Collection System is an internet-based tool that is used by local counties to collect data used to calculate the work participation rate for the State. The State's TANF funding is tied to the collection process and the information is required by TANF regulations.
			There was no authorization documentation on file to support individuals' access to the TANF Data Collection System for any of our sample of seven users authorized during the current state fiscal year. Subsequent to our request, documentation was located for six of the seven users at their local county locations. In addition, it was determined that periodic reviews of user access for this system had not been performed as required by statewide and departmental policy.

Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.

Federal Award Information: This finding affects Temporary Assistance for Needy Families (TANF) federal grant awards G0702NCTANF and G0802NCTANF for the federal fiscal years ended September 30, 2007 and 2008, respectively.

Recommendation: The Department should continue to enhance its prescribed procedures for documenting security access privileges for its data collection computer systems. Periodic security reviews should be conducted to ensure that access is restricted to authorized users, and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Agency Response: The Department concurs with the finding. Previously, requests to the Temporary Assistance for Needy Families (TANF) Data Collection System were submitted to the Division of Social Services (DSS) and not to the Division of Information Resource Management (DIRM) Customer Support Center. Effective January 22, 2010, all system access requests for TANF-TDC must be submitted directly to the DIRM Customer Support Center. Following review and authorization, DIRM Customer Support will notify DSS which will grant access.

The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights. Effective July 2007, the Department requires an Information Resource Access Authorization Form (IRAAF) be generated and maintained on file for every individual with access to State Information Systems. Prior to July 2007, access was granted based on requests from state-level and county-level Information Security Officials (ISOs) via either email or fax; those users given access during this time are grandfathered by the Department and do not require their access be documented on an IRAAF. Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted.

For each of the individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked.

Follow-up: The following corrective action has occurred:

- The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights.
- For each of the 7 individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked as of September 2010.
- Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in June 2010 and September 2010.
- Effective March 2010, DHHS requires all Division/Office Information Security

Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis.

- All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access.
- DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems.
- Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form.

Therefore, we consider this finding only partially resolved as of January 3, 2011.

Department of
Health and
Human Services

Allowable
Costs/Cost
Principles:

09-SA-124

Inadequate Control Over County User Access to the County Administration Reimbursement System

Child Support
Enforcement

Significant
Deficiency

93.563

We identified deficiencies in the Department's oversight and management of employee access to the County Administration Reimbursement System. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk. See finding 09-SA-10 for a description.

Agency Response: See agency response to 09-SA-10.

Follow-up: The following corrective action has occurred:

- The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights.
- For each of the 12 individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked as of September 2010.
- Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in September 2009 and March 2010.

- Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis.
- All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access.
- DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems.
- Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form.

Therefore, we consider this finding only partially resolved as of January 3, 2011.

Department of
Health and
Human Services

Special Tests
and Provisions:

09-SA-125

Appropriate Action Not Taken in Child Support Cases

Child Support
Enforcement

Material
Weakness

The Department did not take appropriate action in the established time periods for its child support cases. These failures exceeded the 25% error rate used by the federal government to determine substantial compliance with child support requirements.

93.563

Material
Noncompliance

Federal regulations require child support agencies to maintain an effective system of monitoring compliance with support obligations. Regulations require that within 90 days of locating an absent parent, the Department must establish an order for support, establish paternity, or document unsuccessful attempts to achieve the same. We found that 43% of open cases were not in compliance with this requirement.

Federal Award Information: This finding affects Child Support Enforcement federal grant award 0904NC4004 for the federal fiscal year ended September 30, 2009.

Recommendation: The Department performs self-assessments to review its compliance with applicable federal guidelines. Management should continue to evaluate and enhance its internal control procedures to ensure compliance with federal child support processing requirements.

Agency Response: The Department concurs with the finding. As a result of corrective actions, North Carolina has met compliance standards in all other

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<p>program areas; however, compliance in Establishment has not yet been achieved. The statewide compliance score in Establishment has risen from 35% in 2002 to 57% in 2009. Establishment is a very difficult area in which to achieve compliance because the federal timeframes are very stringent. Regulations require both paternity and support be established or the non-custodial parent (NCP) be served with court action within 90 days of location. Often situations occur causing the timeframe to expire: NCPs often schedule an appointment to discuss paternity and support and fail to show up or reschedule, genetic testing may be necessary which causes a delay while the lab completes the testing, court action is often filed but the NCP cannot be located for service at his/her last known address, etc. In many counties, child support agents carry large caseloads of over 400 cases. It is very difficult for an agent with a large caseload to handle each case with strict timeframes, even when no delays occur. Field staff work with local office supervisors to develop Corrective Action Plans (CAPs) annually in those offices out of compliance. Every quarter, field staff monitor the local office CAPs and submit monitoring reports to the Assistant Chief for Local Operations. Additionally, Establishment Self-Assessment reports are generated on a monthly basis in the data warehouse and made available to local office supervisors and workers. Workers are instructed to use the reports to identify and work on cases that require action in order to meet compliance standards. Many counties cannot afford to add additional staff to reduce establishment caseloads. Compliance in the area of Establishment is tied to caseload size and may not be achievable until most counties are able to reduce agent caseloads to a more manageable size.</p> <div> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department continues to generate Self-Assessment reports monthly to identify cases that have not met compliance timeframe. • The Department continues to develop and implement Corrective Action Plans (CAPs) to improve compliance rates in the local CSE offices. Regional Representatives monitor the CAPs on a quarterly basis and reports are submitted to Child Support Enforcement (CSE) management. <p>Self-Assessment scores demonstrate that local offices with large ratios of cases to caseworkers are much less likely to meet compliance with Establishment timeframes. It is unlikely that the statewide score will reach the compliance rate of 75% unless caseload size can be reduced in those offices with large establishment caseloads. Therefore, we consider this finding only partially resolved as of September 17, 2010.</p> </div>
Department of Health and Human Services	Special Tests and Provisions:	09-SA-126
Child Support Enforcement	Material Weakness	<p><u>Failure to Timely Communicate ARRA Federal Award Information to Subrecipients</u></p> <p>The Department failed to timely communicate American Recovery and Reinvestment Act (ARRA) federal award information to its subrecipients. As a result, there is an increased risk that a subrecipient may not separately account for and report on its ARRA federal awards or comply with additional compliance requirements specific to these funds. See finding 09-SA-11 for a description.</p> <p><i>Agency Response:</i> See agency response to 09-SA-11.</p> <div> <p><i>Follow-up:</i> The Department has appropriately notified the county subrecipients, as well as each Division Director, of the ARRA award information and reporting requirements. As of 10-20-09, the Department has also incorporated Federal Award information with EFT payments, which is now communicated to counties with each disbursement. Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p> </div>
93.563	Material Noncompliance	

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Department of Health and Human Services	Allowable Costs/Cost Principles:	09-SA-127 <u>Inadequate Control Over County User Access to the County Administration Reimbursement System</u>
Low-Income Home Energy Assistance	Significant Deficiency	<p>We identified deficiencies in the Department's oversight and management of employee access to the County Administration Reimbursement System. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk. See finding 09-SA-10 for a description.</p> <p><i>Agency Response:</i> See agency response to 09-SA-10.</p>
93.568		<p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights. • For each of the 12 individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked as of September 2010. • Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in September 2009 and March 2010. • Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis. • All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access. • DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems. • Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form. <p>Therefore, we consider this finding only partially resolved as of January 3, 2011.</p>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Department of Health and Human Services Low-Income Home Energy Assistance 93.568	Cash <u>Management:</u> Significant Deficiency	<p>09-SA-128 <u>Deficiencies in Cash Management Procedures</u></p> <p>The Department does not have adequate controls in place to ensure that drawdowns for the Low-Income Home Energy Assistance Program were processed in accordance with federal requirements. As a result, there is an increased risk of the drawdown of excessive federal funds.</p> <p>Our review of deposit and disbursement activity for the year identified seven instances where deposited funds were not disbursed in a timely manner. The excessive federal cash-on-hand was a combination of unsupported drawdowns of federal funds; funds not disbursed in a timely manner; and differences in the percentages used to calculate cost allocation drawdowns for the grant.</p> <p>In addition, we identified two drawdowns that were not supported by adequate documentation.</p> <p>The Cash Management Improvement Act requires that the State minimize the time between the drawdown of federal funds and the actual disbursement of those funds for program costs. A similar finding was reported in the previous year.</p> <p><i>Federal Award Information:</i> This finding affects the Low-Income Home Energy Assistance Program (LIHEAP) federal grant award G08B1NCLIEA and G09B1NCLIEA for federal fiscal years ended September 30, 2008 and 2009.</p> <p><i>Recommendation:</i> The Department should strengthen internal controls to ensure that its federal drawdowns and disbursements are made in compliance with the Cash Management Improvement Act and are documented in sufficient detail to monitor compliance with this requirement.</p> <p><i>Agency Response:</i> The Department concurs with the finding. However, due to cash management restrictions and federal drawdown systems; the Department cannot return federal funds without a positive request to offset the negative amount. The Department will continue to monitor the cash on hand balances and return funds timely while also taking into consideration the limitations of the existing systems.</p> <div style="border: 1px solid black; padding: 5px;"> <p><i>Follow-up:</i> The Controller's Office reviewed drawdown procedures with staff on March 12, 2010, stressing the importance of monitoring cash on hand, supervisory review, and maintenance of backup documentation. In addition, the Department increased report retention for LIHEAP system documentation effective January 6, 2010. Therefore, we consider this finding resolved.</p> </div>
Department of Health and Human Services Low-Income Home Energy Assistance 93.568	<u>Eligibility:</u> Questioned Cost Finding \$527	<p>09-SA-129 <u>Documentation Lacking in County LIHEAP Case Files</u></p> <p>Certified Public Accountants performing the county audits tested 529 case files for Low-Income Home Energy Assistance Program (LIHEAP) recipients and found deficiencies in three cases. These auditors questioned a total of \$527; however, we believe that it is likely that questioned costs exceed \$10,000 in the population. The deficiencies included:</p> <ul style="list-style-type: none"> One client file indicated that the individual had reportable income; however, that amount was not recorded in the system when verifying the eligibility for benefits. The local auditor identified the client as ineligible and questioned costs in the amount of \$321. Two client files were missing required application information and the local

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<p>auditors could not verify eligibility. One auditor did not question any costs due to the missing information; however, another auditor questioned costs in the amount of \$206.</p> <p><i>Federal Award Information:</i> This finding affects the Low-Income Home Energy Assistance Program (LIHEAP) federal grant award G08B1NCLIEA and G09B1NCLIEA for federal fiscal years ended September 30, 2008 and 2009.</p> <p><i>Recommendation:</i> The auditors recommended that the counties implement policies to ensure that documents relating to participant eligibility are complete and support the eligibility verification process.</p> <p><i>Agency Response:</i> The Department concurs with the finding. Division of Social Services (DSS) staff will assist county DSS offices in developing appropriate internal controls to ensure correct data entry for eligibility verification and maintenance of case files. DSS will instruct county staff to include an internal second party review of a sample of case files each day as an enhanced internal control. The State Program Consultant will contact the appropriate county DSS agencies to determine the current status of the missing documentation. The Department is currently working with county staff to facilitate the recoupment of any identified unallowable costs. The anticipated completion date for these efforts is March 31, 2010.</p> <div style="border: 1px solid black; padding: 10px;"> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Division of Social Services (DSS) continues to enhance its monitoring and training activities for county intake personnel to ensure documentation of the eligibility determination process is properly maintained. • All of the counties with discrepancies established corrective action plans to address the weaknesses/discrepancies identified by the State Auditors. Subsequent follow-up by the Division's County LIHEAP Consultants verified that corrective action was taken in regards to the audit findings. • All of the discrepancies noted by the State Auditors in the 3 client files have been appropriately investigated and resolved by county and Divisional personnel as of 5-24-10. With regards to the \$527 in questioned costs, the \$321 has been recouped as of 5-21-10 and the missing documentation (\$206 questioned cost) was located and reviewed by the Division's County LIHEAP Consultant who subsequently determined that the client was eligible for the services. The \$206 should no longer be considered a questioned cost. <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p> </div>
Department of Health and Human Services	Subrecipient Monitoring:	09-SA-130 <u>Failure to Follow Subrecipient Monitoring Plan For LIHEAP Crisis Intervention Program</u>
Low-Income Home Energy Assistance	Significant Deficiency	<p>The Department did not adhere to its established subrecipient monitoring plan for the Crisis Intervention Program for state fiscal year 2009. As a result, there is an increased risk of noncompliance that all subrecipients may not be monitored and may not administer the program in accordance with federal guidelines.</p> <p>The Department's subrecipient monitoring plan provides that all 100 counties will be reviewed over a three-year cycle. We noted that the plan was last updated for state fiscal year 2006 and did not identify the specific counties that needed to be monitored in successive years to comply with the planned three-year monitoring cycle. We were provided an updated list dated December 2008 identifying 40</p>

planned monitoring visits for our audit period. We selected a sample of four counties from the updated listing to review the subrecipient monitoring documentation, but none of those four was monitored during the year. Further review identified that the Department had performed monitoring activities during the year; however, the number reviewed and the selection criteria did not correspond with its planned monitoring activities. The failure to follow or update the monitoring plan increases the risk that all necessary monitoring activities will not take place.

Federal regulations require that the Department monitor the subrecipients' use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipients administer the program in accordance with federal guidelines.

Federal Award Information: This finding affects the Low-Income Home Energy Assistance Program (LIHEAP) federal grant award G08B1NCLIEA and G09B1NCLIEA for federal fiscal years ended September 30, 2008 and 2009.

Recommendation: The Department should ensure that procedures are in place to ensure compliance with the monitoring plan established for the Low-Income Home Energy Assistance Program.

Agency Response: The Department concurs with the finding. Effective January 2010, a new monitoring plan for the Energy Program was created to include the LIHEAP Crisis Intervention Program. The monitoring plan and the schedule of counties to be monitored will be updated each year and posted on the Division of Social Services website. The counties identified during the audit have since been monitored.

The Department is currently in the process of an agency-wide review of the monitoring function for all applicable divisions and programs. This review will include the existing policy and procedures, division and program specific monitoring plans, tools, reporting forms and applicable state and federal guidelines. All monitoring plans are subject to review, evaluation, identification of weaknesses and recommendations for improvement. A needs assessment for training of division monitoring staff will occur and training will be developed and provided. The Department aims to generate a more standardized format for monitoring activities, tools and reporting methods throughout the agency. Such steps should ensure adequate documentation to evidence monitoring efforts is maintained by all divisions. Anticipated completion date for the Department review is June 30, 2010.

Follow-up: The following corrective action has occurred:

- The Division of Social Services (DSS) continues to enhance its monitoring and training activities for county intake personnel to ensure documentation of the eligibility determination process is properly maintained.
- Effective September 16, 2010, the monitoring plan for the Energy Programs was updated to include the LIHEAP Crisis Intervention Program. The monitoring plan and the schedule of counties to be monitored are updated each year and posted on the DSS website.

Due to the timing of our follow-up fieldwork, we were unable to verify whether the DSS monitors were monitoring the counties in accordance with the updated monitoring plan. Therefore, we considered this finding only partially resolved as of September 16, 2010.

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Department of Health and Human Services	Cash <u>Management:</u>	09-SA-131 <u>Deficiencies in Cash Management Procedures for the Community Services Block Grant Program</u>
Community Services Block Grant	Significant Deficiency	The Department did not have controls in place to ensure the accuracy of the drawdown of Community Services Block Grant funds in accordance with federal requirements. As a result, there is an increased risk of the drawdown of excessive federal funds.
93.569		<p>Processing errors were identified for the Community Services Block Grant drawdown requests for the 2009 fiscal year that resulted in both overstatement and understatement of the amounts eligible for drawdown. Errors occurred because incorrect amounts were recorded on the drawdown request without an independent review of their agreement with supporting documentation.</p> <p><i>Federal Award Information:</i> This finding affects Community Services Block Grant federal grant awards G-08B1NCCOSR and G-09B1NCCOSR for the federal fiscal years ended September 30, 2008 and 2009, respectively.</p> <p><i>Recommendation:</i> The Department should strengthen internal controls to ensure adequate review and verification of proper drawdowns of federal funds.</p> <p><i>Agency Response:</i> The Department concurs with the finding. Unit Supervisors are now reviewing Payroll and Revenue Clearing drawdowns processed by staff in the Federal Funds/Financial Reporting Branch. This process became effective October 1, 2009.</p> <div style="border: 1px solid black; padding: 5px;"> <p><i>Follow-up:</i> The Department enhanced procedures to include a supervisory review and approval of payroll and revenue clearing draws effective October 1, 2009 in order to ensure the accuracy of draw requests for Community Services Block Grant funds. In addition, the Department continues to review drawdown procedures with staff stressing the importance of monitoring cash on hand, supervisory review, and maintenance of backup documentation. Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p> </div>
Department of Health and Human Services	Matching Level of Effort, <u>Earmarking:</u>	09-SA-132 <u>Deficiencies in Internal Control Over Earmarking Requirements</u>
Community Services Block Grant	Material Weakness	We identified deficiencies in the Department's oversight of the earmarking requirements for the Community Services Block Grant funds. As a result, there is an increased risk of noncompliance related to the distribution, expenditure, and reporting of grant funds at the subrecipient level.
93.569	Material Noncompliance	<p>States must use at least 90% of allotted Community Services Block Grant funds for subgrants to eligible entities. The Department does not have sufficient controls in place to ensure that required expenditure amounts occur at the subrecipient level. Our review of the most recently closed 2007 federal grant year identified that the Department's subgrants to eligible entities totaled \$13.9 million, only 85% of the total federal funds allocated for that grant year. Further review noted:</p> <ul style="list-style-type: none"> Funds in excess of \$900,000 were allocated for one community action agency and one limited purpose agency that were operationally unable to expend the funds. Six community action agencies and two limited purpose agencies failed to expend their allocated amounts, resulting in unexpended allocations. The Department's tracking systems were not adequately monitored to ensure that unobligated or unexpended funds at the subgrant level were sufficiently

redistributed.

The failure to adequately track and monitor obligations and expenditures at the subrecipient level increases the risk that the required expenditure percentages will not be met for the Community Services Block Grant program.

Federal Award Information: This finding affects Community Services Block Grant federal grant award G-07B1NCCOSR for the federal fiscal year ended September 30, 2007, which closed during our audit period.

Recommendation: The Department should strengthen internal controls to ensure the proper tracking and monitoring occurs for obligations and expenditures at the subrecipient level. Reallocations of funding should occur to ensure appropriate earmarking percentages are met.

Agency Response: The Department concurs with the finding. The Office of Economic Opportunity (OEO) utilizes a tracking system to monitor obligations and expenditures at the subrecipient level on a monthly basis.

Previous OEO management was unaware funds allocated for a specific county/entity should be redistributed to existing agencies when an agency is no longer in existence or eligible to receive Community Service Block Grant (CSBG) funds. OEO management was not aware monies from one particular county could be redistributed throughout the other existing community action agencies in the State. As a result, money designated for a particular community action agency within a specified county was not drawn down during the period of time covered by the audit. An agency has since been designated for this county as of September 2009, with a contract effective February 2010. OEO has begun the implementation process for redistributing the unexpended funds.

With regards to the limited purpose agency referenced above as having not drawdown or expended allocated funds, the funds were maintained in a discretionary line item as there was no designated entity. OEO is researching options for additional allowable uses of this CSBG discretionary funding. If redistribution requires designation of new entities, this process could take a minimum of 18 months.

Further, OEO will strengthen follow-up procedures with agencies having unacceptable expenditure rates to ensure adequate spending levels are achieved and/or facilitate the redistribution process. OEO will reinforce the expectation that agencies should expend 100% of their allocation during the contract period.

Follow-up: The following corrective action has occurred:

- The Office of Economic Opportunity (OEO) hired two Fiscal Analysts and a CSBG Program Manager in April, 2010. These positions are responsible for monitoring subgrantee expenditures.
- OEO enhanced its monitoring procedures to include a quarterly review of each contract including written feedback to the agency.
- OEO has strengthened its follow-up procedures with agencies having unacceptable expenditure rates to ensure adequate spending levels are achieved.
- OEO is currently working with the Controller's Office to determine the amount of available discretionary funds for re-distribution.

The Office of the State Auditor did not identify a similar finding in their 2010 Single Audit fieldwork; therefore, we consider this finding resolved as of January 18, 2011.

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Department of Health and Human Services	Period of Availability of Federal Funds:	09-SA-133 <u>Deficiencies in Internal Control Over Period of Availability Requirements</u>
Community Services Block Grant	Significant Deficiency	<p>We identified deficiencies in the Department's oversight of the period of availability requirements for the Community Services Block Grant funds. As a result, there is an increased risk of noncompliance with the Department's ability to distribute, expend, and if necessary, reallocate grant funds within the timeframe established by the period of availability requirements.</p> <p>Community Services Block Grant funds remain available for expenditure for a two-year period. We noted that the Department's current funding methodologies delay the allocation of funds to the subrecipient level until the fourth quarter of the federal fiscal year, essentially limiting the period of availability to 15 months. In addition, guidelines provide that if more than 20% of funds granted by the State to a subrecipient remain unobligated, the State may redistribute those funds to achieve the grant objectives. The Department's processes for monitoring the allocation and expenditure activity for its subrecipients were not sufficient. As such, allocations for subrecipients remained unobligated and unexpended. Our review of the most recently closed 2007 federal grant year identified that the Department failed to drawdown \$1.5 million in federal funding available for Community Services Block Grant activities.</p> <p>The failure to adequately track and monitor obligations and expenditures at the subrecipient level increases the risk that federal funds will not be drawn and expended within the period of availability for the Community Services Block Grant program.</p> <p><i>Federal Award Information:</i> This finding affects Community Services Block Grant federal grant awards G-07B1NCCOSR for the federal fiscal year ended September 30, 2007, which closed during our audit period.</p> <p><i>Recommendation:</i> The Department should strengthen internal controls to ensure the proper tracking and monitoring occurs for obligations and expenditures at the subrecipient level. Reallocations of funding should occur to ensure maximization of available resources and the expenditure within the appropriate period of availability.</p> <p><i>Agency Response:</i> The Department concurs with the finding. OEO will work more closely with the Division of Budget and Analysis to strengthen internal controls related to monitoring and tracking expenditures on the state level as compared to the information received from the subrecipient level. Further, OEO will evaluate the need to modify the period of availability of grant funds and adjust appropriately with the guidance of the Division of Purchasing and Contracts.</p> <div style="border: 1px solid black; padding: 10px;"> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Office of Economic Opportunity (OEO) has strengthened its internal controls to ensure the proper tracking and monitoring of subrecipient expenditures and obligations occurs on a timely basis. • OEO hired two Fiscal Analysts in April 2010 to assist with monitoring expenditure rates at the subrecipient level. • OEO has enhanced its subrecipient monitoring and communication efforts to ensure the maximization of available resources occurs within the appropriate period of availability. <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p> </div>
93.569		

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Department of Health and Human Services Community Services Block Grant 93.569	<u>Reporting:</u> Significant Deficiency	<p>09-SA-134 <u>Deficiencies in Federal Reporting Procedures for the Community Services Block Grant Program</u></p> <p>The Department did not have controls in place to ensure the accuracy of the preparation of the Community Services Block Grant financial report in accordance with federal requirements. As a result, there is an increased risk of errors or incorrect calculations in reporting the financial activities of the grant.</p> <p>The interim SF-269 Financial Status Report for the 2008 federal fiscal year incorrectly reported the total amount of future payments due but not paid (unliquidated obligations) as \$4.8 million rather than \$14.8 million. The incorrect amount was reported because the columns on the supporting documentation were truncated such that the \$10 million did not appear. The error also led to incorrect calculations on the remainder of the report. The independent review of the financial status report prior to its submission failed to detect the error.</p> <p><i>Federal Award Information:</i> This finding affects Community Services Block Grant federal grant award G-08B1NCCOSR for the federal fiscal year ended September 30, 2008.</p> <p><i>Recommendation:</i> The Department should strengthen internal controls to ensure adequate review and verification of amounts reported on the SF-269 Financial Status Report for the Community Services Block Grant. In addition to the review of supporting documentation, the amounts reported should be reviewed for reasonableness based on program management expectations.</p> <p><i>Agency Response:</i> The Department concurs with the finding. This federal grant has a 2-year liquidation period. At the time the report was filed, the \$4.8M reported as obligated did not cause a loss in funds to the State. The Department will discuss the truncation problem with the NCAS reports with the Office of State Controller. Estimated completion date is September 2010.</p> <div style="border: 1px solid black; padding: 10px;"> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Federal SF-269 report was revised and submitted to the Office of Grants Management on March 4, 2010 to reflect the correct encumbrance amount. • The Department strengthened internal controls by implementing an independent review process for the SF-269 Financial Status Report effective May 1, 2010. • The truncation problem with the NCAS reports was corrected when the Department expanded the Special Purpose Expenditures Report parameters to accommodate additional digits. The change was implemented July 22, 2010. <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p> </div>
Department of Health and Human Services Community Services Block Grant 93.569	<u>Subrecipient Monitoring:</u> Significant Deficiency	<p>09-SA-135 <u>Subrecipient Monitoring for the Community Services Block Grant Needs Improvement</u></p> <p>We identified deficiencies in the monitoring procedures for the Community Services Block Grant. As a result, there is an increased risk that noncompliance could occur at the subrecipient level and not be detected in a timely manner.</p> <p>Federal requirements and the Department's monitoring plan specify that full on-site reviews for each eligible subgrantee will be conducted once every three years to monitor performance, administrative, and financial management standards. However, our review of the 35 funded subrecipients identified that:</p>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<ul style="list-style-type: none"> • Five subrecipients did not receive an on-site programmatic monitoring visit during the established three-year cycle. • Fiscal monitoring had not occurred for 25 subrecipients for the same period. <p>In addition, the Department could not provide evidence for the most recently completed plan period that a tracking system was in place to ensure that monitoring activities occurred as planned, corrective action plans were developed, or that appropriate follow-up took place.</p> <p><i>Federal Award Information:</i> This finding affects Community Services Block Grant federal grant awards G-08B1NCCOSR and G-09B1NCCOSR for the federal fiscal years ended September 30, 2008 and 2009, respectively.</p> <p><i>Recommendation:</i> The Department should strengthen its monitoring plan by establishing a tracking system to ensure monitoring activities, corrective action plans, and appropriate follow-up occur in compliance with the established plan.</p> <p><i>Agency Response:</i> The Department concurs with the finding. Since the time the finding was noted, the five on-site programmatic visits have been conducted; however, only one included a comprehensive fiscal review. The Office of Economic Opportunity (OEO) developed and utilizes an internal tracking method to schedule required monitoring activities, inclusive of follow-up on any required corrective actions. OEO is in the process of filling two vacant business officer positions, which will have primary responsibility for fiscal monitoring. Implementation of the fiscal review process will begin once these positions are filled.</p> <p>The Department is currently in the process of an agency-wide review of the monitoring function for all applicable divisions and programs. This review will include the existing policy and procedures, division and program specific monitoring plans, tools, reporting forms and applicable state and federal guidelines. All monitoring plans are subject to review, evaluation, identification of weaknesses and recommendations for improvement. A needs assessment for training of division monitoring staff will occur and training will be developed and provided. The Department aims to generate a more standardized format for monitoring activities, tools and reporting methods throughout the agency. Such steps should ensure adequate documentation to evidence monitoring efforts is maintained by all divisions. Anticipated completion of the Department-wide review of the monitoring process is June 30, 2010.</p> <div style="border: 1px solid black; padding: 10px;"> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Office of Economic Opportunity (OEO) has strengthened its internal controls and monitoring plan to ensure the proper tracking and on-site monitoring of the subrecipients' activities occurs in a timely manner.. • OEO hired two Fiscal Analysts in April 2010 to assist with monitoring the subrecipients' fiscal activities. <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary as of January 18, 2011.</p> </div>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Department of Health and Human Services Child Care and Development Block Grant 93.575	<u>Eligibility:</u> Significant Deficiency	<p>09-SA-136 <u>Inadequate Control Over County User Access to the Subsidized Child Care Reimbursement System</u></p> <p>We identified deficiencies in the Department's oversight and management of user access to the Subsidized Child Care Reimbursement System. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.</p> <p>The Subsidized Child Care Reimbursement System is an on-line transaction processing system, maintained by the State, which allows users to view, add, update, and correct payment data for the provision of subsidized child care services by vendors.</p> <p>The Department utilizes Resource Access Control Facility, or RACF, to limit users' access to information to only what is appropriate for them. We determined that the Department does not perform security review procedures for county-level users to ensure only authorized users are permitted access to protected information, particularly subsidized payment data.</p> <p>Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights.</p> <p>Federal Award Information: This finding affects Child Care Development Fund Cluster federal grant award G0901NCCCDF for the federal fiscal year ended September 30, 2009.</p> <p><i>Recommendation:</i> The Department should enhance its prescribed procedures for documenting security access privileges for the Subsidized Child Care Reimbursement System. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and user access to protected information is appropriate.</p> <p><i>Agency Response:</i> The Department concurs with the finding. The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights. Effective July 2007, the Department requires an Information Resource Access Authorization Form (IRAAF) be generated and maintained on file for every individual with access to State Information Systems. Prior to July 2007, access was granted based on requests from state-level and county-level Information Security Officials (ISOs) via either email or fax; those users given access during this time are grandfathered by the Department and do not require their access be documented on an IRAAF. Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted.</p> <p>Effective March 2010, the Department enhanced existing access control requirements for all division/office employees with access to RACF and OLV via the generation of two new reports. The first report is now available through NCXPTR listing all employees with access to systems through RACF. A second report is now available through WIRM listing all employees with access to OLV and their respective roles. All Department division/office Information Security Officials (ISO) will be required to review and verify the accuracy of these reports on a</p>

monthly basis through a positive confirmation. The "Division/Office System Access Control" form will be used to report monthly to the Department Privacy and Security Office (PSO) with the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures by April 2010.

Follow-up: The following corrective action has occurred:

- The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights.
- Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in February 2010 and July 2010.
- Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis.
- All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access.
- DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems.
- Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form.

Therefore, we consider this finding only partially resolved as of January 3, 2011.

Department of
Health and
Human Services

Eligibility:

09-SA-137

Inadequate Control Over County User Access to the Subsidized Child Care Reimbursement System

Significant
Deficiency

Child Care
Mandatory and
Matching
Funds of the
Child Care and

We identified deficiencies in the Department's oversight and management of user access to the Subsidized Child Care Reimbursement System. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk. See finding 09-SA-136 for a description.

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Development Fund		<i>Agency Response:</i> See agency response to 09-SA-136.
93.596		<p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights. • Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in February 2010 and July 2010. • Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis. • All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access. • DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems. • Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form. <p>Therefore, we consider this finding only partially resolved as of January 3, 2011.</p>
Department of Health and Human Services	Allowable Costs/Cost Principles:	09-SA-138 <u>Inadequate Control Over County User Access to the County Administration Reimbursement System</u>
Child Care Mandatory and Matching Funds of the Child Care Development Fund	Significant Deficiency	<p>We identified deficiencies in the Department's oversight and management of employee access to the County Administration Reimbursement System. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk. See finding 09-SA-10 for a description.</p> <p><i>Agency Response:</i> See agency response to 09-SA-10.</p>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
93.596		<p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights. • For each of the 12 individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked as of September 2010. • Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in September 2009 and March 2010. • Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis. • All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access. • DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems. • Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form. <p>Therefore, we consider this finding only partially resolved as of January 3, 2011.</p>
Department of Health and Human Services	Allowable Costs/Cost Principles:	09-SA-139 <u>Inadequate Control Over County User Access to the County Administration Reimbursement System</u>
Foster Care – Title IV-E	Significant Deficiency	We identified deficiencies in the Department's oversight and management of employee access to the County Administration Reimbursement System. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk. See finding 09-SA-10 for a description.
93.658		<i>Agency Response:</i> See agency response to 09-SA-10.

Follow-up: The following corrective action has occurred:

- The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights.
- For each of the 12 individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked as of September 2010.
- Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in September 2009 and March 2010.
- Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis.
- All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access.
- DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems.
- Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form.

Therefore, we consider this finding only partially resolved as of January 3, 2011.

Department of Health and Human Services	<u>Eligibility:</u>	09-SA-140	<u>Ineligible Benefit Payments for the Foster Care Program</u>
Foster Care – Title IV-E	Significant Deficiency		The Department made payments on behalf of children who were ineligible to receive those benefits under guidelines established for the Foster Care – Title IV-E program. The erroneous payments resulted in actual questioned costs of \$14,343 and an increased risk that additional ineligible payments occurred.
93.658	Questioned Cost Finding		The Department's Child Welfare Funding manual states that eligibility for Title IV-E funding ends at the end of the month in which a child reaches the age of 18. We tested a sample of Foster Care payments for the months of December 2008 and June 2009 to determine if any children were receiving payments after their eligibility
	\$14,343		

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<p>period. We identified 24 payments in our sample months that were to children over the age of 18, resulting in the questioned costs identified above. The edit checks within the Foster Care payment system are not functioning as designed to prevent this noncompliance.</p> <p><i>Federal Award Information:</i> This finding affects Foster Care – Title IV-E federal grant award 0901NC1401 for the federal fiscal year ended September 30, 2009.</p> <p><i>Recommendation:</i> The Department should take appropriate action to ensure that automated system edit checks or other control processes are implemented to ensure payments are only made to eligible recipients of the Foster Care – Title IV-E program. An analysis should be performed of all children within the system to determine the extent of the problem and to adjust for other identified errors.</p> <p><i>Agency Response:</i> The Department concurs with the finding. The Division of Social Services (DSS) will amend its Contractual Agreement for Residential Support (CARS) policy to ensure that it provides clear guidance to the local county departments of social services for termination of IV-E Foster Care payments when the recipient turns 18 years of age.</p> <p>DSS will seek reimbursement from the appropriate counties to ensure the questioned costs of \$14,343.00 have been resolved by June 30, 2010.</p> <div style="border: 1px solid black; padding: 10px;"> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Division of Social services (DSS) recovered the \$22,410 (federal share = \$14,343) in questioned costs identified by the State Auditors in April 2010 from the respective counties. DSS identified an additional \$9,479 in ineligible payments that has also been recovered from the counties as of April 2010. • As of 1-12-11, the DSS Data Reporting and Performance Management Team in partnership with the Division of Information Resource Management (DIRM) are developing a system edit to prevent IV-E payments from being issued for youth over the age of 18. This system edit is expected to be completed by July 2011. • Until the system edit is fully implemented, DSS is using a monthly report (<i>Youth 18 and older in Foster Care and Receiving Title IV-E Payments</i>) to monitor ineligible IV-E payments for youth over the age of 18. <p>Therefore, we consider this finding only partially resolved as of January 12, 2011.</p> </div>
Department of Health and Human Services Foster Care – Title IV-E 93.658	<u>Eligibility:</u> Questioned Cost Finding	<p>09-SA-141 <u>Documentation Errors in County Foster Care Title IV-E Program</u></p> <p>Certified Public Accountants performing the county audits tested 811 case files and noted one deficiency with a county’s eligibility documentation. The foster care re-determination document could not be located in one client file. The auditor could not verify eligibility due to the lack of supporting documentation. The local auditor identified no questioned costs; however, we believe that it is likely that questioned costs exceed \$10,000 in the population.</p> <p><i>Federal Award Information:</i> This finding affects Foster Care – Title IV-E federal grant award 0901NC1401 for the federal fiscal year ended September 30, 2009.</p> <p><i>Recommendation:</i> The local government auditors recommended that adequate documentation be maintained in client files to support the eligibility re-certification process.</p> <p><i>Agency Response:</i> As noted above, these are state-wide county audit findings and</p>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<p>we are pleased with the extremely low error rate (1 error out of 811 case files reviewed) identified in the county departments of social services audits. The Department concurs with the finding. The Division of Social Services (DSS) continues to provide ongoing IV-E training statewide for local county department of social services staff. Title IV-E Foster Care training, which includes specific guidance on the completion of The Redetermination of Eligibility Tool (the 5120a), was provided in 2009. DSS will continue to provide IV-E Foster Care training in 2010 as part of an ongoing effort to reinforce eligibility documentation. The Department's appropriate local county liaison will contact the appropriate county agency to determine the current status of the error identified by the local auditor.</p> <div> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Division of Social Services (DSS) continues to enhance its monitoring and training activities for county personnel to ensure documentation of the eligibility re-determination process is properly maintained. • A corrective action plan to address the discrepancy identified by the local auditor was submitted by the county. Subsequent follow-up by a DSS Children's Program Representative (CFR) verified that corrective action was taken in regards to the audit finding. • The case file was reviewed and the child was subsequently determined to be eligible for the IV-E services except for one month. The Department processed an adjustment for the one-month overpayment in September 2009. • The discrepancy noted by the local auditor in the one case file has been appropriately investigated and resolved by county and Divisional personnel as of 8-27-10. <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p> </div>
Department of Health and Human Services	Special Tests and Provisions:	09-SA-142 <u>Failure to Timely Communicate ARRA Federal Award Information to Subrecipients</u>
Foster Care – Title IV-E	Material Weakness	The Department failed to timely communicate American Recovery and Reinvestment Act (ARRA) federal award information to its subrecipients. As a result, there is an increased risk that a subrecipient may not separately account for and report on its ARRA federal awards or comply with additional compliance requirements specific to these funds. See finding 09-SA-11 for a description.
93.658	Material Noncompliance	<i>Agency Response:</i> See agency response to 09-SA-11.
		<div> <p><i>Follow-up:</i> The Department has appropriately notified the county subrecipients, as well as each Division Director, of the ARRA award information and reporting requirements. As of 10-20-09, the Department has also incorporated Federal Award information with EFT payments, which is now communicated to counties with each disbursement. Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p> </div>
Department of Health and Human Services	Allowable Costs/Cost Principles:	09-SA-143 <u>Inadequate Control Over County User Access to the County Administration Reimbursement System</u>
Adoption Assistance	Significant Deficiency	We identified deficiencies in the Department's oversight and management of employee access to the County Administration Reimbursement System. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk. See finding 09-SA-10 for a description.
93.659		

Agency Response: See agency response to 09-SA-10.

Follow-up: The following corrective action has occurred:

- The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights.
- For each of the 12 individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked as of September 2010.
- Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in September 2009 and March 2010.
- Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis.
- All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access.
- DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems.
- Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form.

Therefore, we consider this finding only partially resolved as of January 3, 2011.

Department of
Health and
Human Services

Special Tests
and Provisions:

09-SA-144

Failure to Timely Communicate ARRA Federal Award Information to Subrecipients

Adoption
Assistance

Material
Weakness

93.659

Material
Noncompliance

The Department failed to timely communicate American Recovery and Reinvestment Act (ARRA) federal award information to its subrecipients. As a result, there is an increased risk that a subrecipient may not separately account for and report on its ARRA federal awards or comply with additional compliance requirements specific to these funds. See finding 09-SA-11 for a description.

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<p><i>Agency Response:</i> See agency response to 09-SA-11.</p> <div> <p><i>Follow-up:</i> The Department has appropriately notified the county subrecipients, as well as each Division Director, of the ARRA award information and reporting requirements. As of 10-20-09, the Department has also incorporated Federal Award information with EFT payments, which is now communicated to counties with each disbursement. Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p> </div>
Department of Health and Human Services	Allowable Costs/Cost Principles:	09-SA-145 <u>Inadequate Control Over County User Access to the County Administration Reimbursement System</u>
Social Services Block Grant	Significant Deficiency	<p>We identified deficiencies in the Department's oversight and management of employee access to the County Administration Reimbursement System. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk. See finding 09-SA-10 for a description.</p> <p><i>Agency Response:</i> See agency response to 09-SA-10.</p> <div> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights. • For each of the 12 individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked as of September 2010. • Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in September 2009 and March 2010. • Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis. • All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access. • DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems. </div>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<ul style="list-style-type: none"> Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form. <p>Therefore, we consider this finding only partially resolved as of January 3, 2011.</p>
Department of Health and Human Services	Allowable Costs/Cost Principles:	09-SA-146 <u>Inadequate Control Over County User Access to the County Administration Reimbursement System</u>
State Children's Insurance Program	Significant Deficiency	<p>We identified deficiencies in the Department's oversight and management of employee access to the County Administration Reimbursement System. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk. See finding 09-SA-10 for a description.</p> <p><i>Agency Response:</i> See agency response to 09-SA-10.</p>
93.767		<p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights. For each of the 12 individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked as of September 2010. Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in September 2009 and March 2010. Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis. All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access. DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems.

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<ul style="list-style-type: none"> Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form. <p>Therefore, we consider this finding only partially resolved as of January 3, 2011.</p>
Department of Health and Human Services State Children's Insurance Program 93.767	<u>Eligibility:</u> Questioned Cost Finding	<p>09-SA-147 <u>Documentation Lacking in County Children's Health Insurance Program Case Files</u></p> <p>Local county departments of social services offices process applications related to the Children's Health Insurance Program. Certified Public Accountants performing the county audits tested 455 case files and found deficiencies in four cases. There were no questioned costs identified by the local auditors; however, we believe that it is likely that questioned costs exceed \$10,000 in the population. The findings are summarized below:</p> <ul style="list-style-type: none"> Two client files could not be located by the county. The auditor could not verify eligibility due to a lack of supporting documentation. One client file did not have evidence of the verification of appropriate health insurance coverage. One client file was processed without proper client signature on the application. <p><i>Federal Award Information:</i> This finding affects Children's Health Insurance Program federal grant awards 05-0805NC5021, 05-0905NC5021, and 05-0805NCMSEA for the federal fiscal years ended September 30, 2008 and 2009.</p> <p><i>Recommendation:</i> The local government auditors recommended that procedures should be in place to ensure that all client files are complete, including supporting documentation, and that county staff accounted for all client files.</p> <p><i>Agency Response:</i> We are pleased that only four cases were noted statewide in the 100 county audit reports. The Department concurs with the finding. Division of Medical Assistance (DMA) Field Representatives for the appropriate counties will implement follow-up procedures to determine the current status of the case files identified as having inadequate or missing documentation. The anticipated completion date for follow-up to these findings is December 31, 2010.</p> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> The Division of Medical Assistance (DMA) continues to enhance its monitoring and training activities for county intake personnel to ensure documentation of the eligibility determination process is properly maintained. The two counties with discrepancies established corrective action plans to address the weaknesses/discrepancies identified by the State Auditors. Subsequent follow-up by the DMA Medicaid Program Representatives (MPR) verified that corrective action was taken in regards to the audit findings. All of the discrepancies noted by the State Auditors in the four client files have been appropriately investigated and resolved by county and Divisional personnel as of 8-25-10. <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Department of Health and Human Services State Children's Insurance Program 93.767	<u>Eligibility:</u> Significant Deficiency	<p>09-SA-148 <u>Inadequate Control Over County-Level User Access to the Eligibility Information System</u></p> <p>We identified deficiencies in the Department's oversight and management of user access to the eligibility computer system. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk. See finding 09-SA-122 for a description.</p> <p><i>Agency Response:</i> See agency response to 09-SA-122.</p> <div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights. • For each of the 25 individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked as of September 2010. • Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in September 2009 and March 2010. • Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis. • All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access. • DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems. • Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form. <p>Therefore, we consider this finding only partially resolved as of January 3, 2011.</p> </div>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Department of Health and Human Services	Allowable Costs/Cost <u>Principles:</u>	09-SA-150 <u>Deficiencies in Medicaid Provider Billing and Payment Process</u>
Medical Assistance Program	Questioned Cost Finding	<p>We examined a sample of 270 Medicaid claims and identified 22 claims that were paid in error or not sufficiently documented. The erroneous claims resulted in net overpayments of \$40,597 and questioned costs of \$30,535, which represents the federal share of the overpayments.</p> <p>Examples of the deficiencies noted included insufficient or missing documentation in support of the services rendered, improper coding based on the medical records, the failure to bill third party insurance prior to submitting the claim to Medicaid for payment, or the failure to timely recoup charges subject to retroactive rate adjustments. The majority of the errors related to the medical record documentation to support services provided and the charges incurred.</p> <p>OMB Circular A-87 requires allowable costs to be adequately documented and program costs to be necessary and reasonable for proper and efficient administration of the grant program. Federal regulations require that medical records disclose the extent of services provided to Medicaid recipients.</p> <p>Similar aspects of this finding have been reported in previous years.</p> <p><i>Federal Award Information:</i> This finding affects Medical Assistance Payments federal grant awards 05-0805NC5028, 05-0905NC5028, and 05-0905NCARRA for the federal fiscal years ended September 30, 2008 and 2009.</p> <p><i>Recommendation:</i> The Department should continue to enhance its control procedures to improve the accuracy of the claims payment process. Management should ensure the proper implementation of system changes, including effective payment edits and/or audits. Emphasis should be placed on educating providers as to proper coding and documentation standards necessary to support the medical services being provided. Identified over or underpaid claims should be followed up for timely and appropriate collection or payment.</p> <p><i>Agency Response:</i> The Department concurs with the finding and will continue to enhance control procedures to improve the accuracy of the claims payment process. Management will continue to be involved in the proper implementation of system changes, including effective payment edits and/or audits. Emphasis will continue to be placed on educating providers as to proper coding and maintaining adequate documentation. Of the 22 claims that were identified as payment errors or not sufficiently documented, corrective action has occurred on all but one claim. The anticipated completion date for the remaining claim is March 16, 2010.</p>
93.778	\$30,535	<p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Division of Medical Assistance (DMA) continues to improve its provider communications and training. Education letters were sent to providers notifying them of the minimum elements required to comply with Medicaid documentation guidelines. Additional emphasis on proper coding and documentation requirements has been incorporated into the DMA training offered to providers. • With regards to the 22 claims totaling \$40,597 (federal share = \$30,535) that were questioned by the State Auditors, the following corrective actions have occurred: <ul style="list-style-type: none"> a) 14 claims totaling \$59,397.14 (federal share = \$42,581.44) have been appropriately resolved and/or recouped as of 9/8/10. b) 7 claims totaling \$253.95 (federal share = \$167.38) that represented

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<p>underpayments to the providers have been appropriately resolved through the provider's cost settlement process as of 2-23-11.</p> <p>c) The final claim in the amount of \$18,546.03 (federal share \$11,878.73) represented an underpayment to the provider as a result of an error in the DRG calculation. The provider was notified by certified letter on April 14, 2010 of the error along with instructions to file a corrected claim for adjustment. As of 2-23-11, the provider has not requested an adjustment for the \$18,546.03 underpayment..</p> <p>Therefore, we consider this finding only partially resolved as of February 23, 2011.</p>
Department of Health and Human Services	Allowable Costs/Cost Principles:	09-SA-151 <u>Inadequate Reconciliations of Medical Assistance Payments</u>
Medical Assistance Program	Significant Deficiency	<p>The Department did not reconcile the medical assistance claims paid by its third-party contractor to the claims expenditure amounts recorded in the accounting records for part of the year. As a result, there is an increased risk of error in the reporting of federal expenditures.</p> <p>The Department contracts with an outside vendor to process its medical assistance claims through the Medicaid Management Information System. System-generated information is used to record the claims payment expenditure amounts in the North Carolina Accounting System. A reconciliation is not being performed between the two systems to ensure that all expenditure information is complete, accurate, and properly recorded.</p> <p><i>Federal Award Information:</i> This finding affects Medical Assistance Payments federal grant awards 05-0805NC5028, 05-0905NC5028, and 05-0905NCARRA for the federal fiscal years ended September 30, 2008 and 2009.</p> <p><i>Recommendation:</i> The Department should perform monthly reconciliations of the paid medical assistance claims as reported in the Medicaid Management Information System to the claims payment expenditure amounts in the North Carolina Accounting System.</p> <p><i>Agency Response:</i> The Department concurs with the finding. The Department completed the remaining monthly reconciliations of the paid medical assistance claims as reported in the Medical Management Information System (MMIS) to the claims payment expenditure amounts in the North Carolina Accounting System (NCAS) through the month of January 2010. The Department will continue to perform monthly reconciliations of the two systems.</p>
93.778		<p><i>Follow-up:</i> Monthly reconciliations of the paid medical assistance claims as reported in the Medicaid Management Information System (MMIS) to the claims payment expenditure amounts in the North Carolina Accounting System (NCAS) are being performed on a timely basis. Therefore, we consider this finding resolved as of September 24, 2010.</p>
Department of Health and Human Services	Allowable Costs/Cost Principles:	09-SA-152 <u>Deficiencies Noted with Tracking of Program Change Controls for Medicaid Management Information System</u>
Medical Assistance Program	Significant Deficiency	<p>The Department has not implemented effective controls to track program changes made by its fiscal agent to the Medicaid Management Information System. As a result, there is an increased risk of the fiscal agent implementing unintended or unauthorized changes or failing to make changes in a controlled and timely manner.</p>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
93.778		<p>The Medicaid Management Information System provides for operational support of the Medicaid program, including claims processing, coordination of benefits, surveillance and utilization review, federal and management reporting, and case management.</p> <p>Program change, maintenance, and development issues are communicated to the fiscal agent through memoranda generated by multiple sections within the Division of Medical Assistance. These memoranda are logged by the Division's Medicaid Management Information System Services Section and reconciled with a cumulative log of all memos received by the fiscal agent. Memos specifically requiring system changes are monitored until completion. Discrepancies have been identified in reconciling completed system changes as reported by the fiscal agent and the Division of Medical Assistance.</p> <p>In addition, there are memoranda for file maintenance that do not require a system change that are not tracked by the Medicaid Management Information System Services Section or reconciled to completion status per the fiscal agent. These items include changes to table-driven edits and audits, provider service changes, financial report changes, and medical policy changes that could have a significant impact on the proper payment of claims.</p> <p>Program change controls ensure that all authorized changes are made, each change is made according to user requirements, changes are subject to independent management review and conform to policy, and only authorized personnel can request, access, perform, test, approve, and implement the changes to occur. An audit trail should exist to document the completed process.</p> <p>This finding has been reported for the last two years.</p> <p><i>Federal Award Information:</i> This finding affects Medical Assistance Payments federal grant awards 05-0805NC5028, 05-0905NC5028, and 05-0905NCARRA for the federal fiscal years ended September 30, 2008 and 2009.</p> <p><i>Recommendation:</i> The Department should take appropriate steps to ensure effective tracking and monitoring of program changes to final user acceptance and fiscal agent implementation to prevent unintended or unauthorized system changes. In December 2008, the Department awarded a contract to a private vendor to develop and implement a replacement Medicaid Management Information System. Effective management of program change controls should be addressed in the implementation of the replacement system.</p> <p><i>Agency Response:</i> The Department concurs with the finding and recommendation. The Department will continue to enhance its procedures for tracking program change controls in Medicaid Management Information System (MMIS) by automating the workflow and lifecycle management of system and program changes. The Division of Medical Assistance (DMA) has a manual Customer Service Request (CSR) tracking procedure to document the general change requests in MMIS. This system includes historical data in hard files on past system changes in MMIS. The Department will continue to strengthen internal procedures to ensure effective management of program change controls are addressed in the implementation of the replacement system.</p> <div style="border: 1px solid black; padding: 5px;"> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department continues to enhance its program change controls for tracking program change and file maintenance requests in MMIS. </div>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<ul style="list-style-type: none"> The Department continues to strengthen internal procedures to ensure effective management of program change controls are addressed in the implementation of the replacement MMIS system. <p>The Office of the State Auditor did not identify a similar finding in their 2010 Single Audit fieldwork; therefore, we consider this finding resolved as of January 19, 2011.</p>
Department of Health and Human Services	Allowable Costs/Cost Principles:	09-SA-153 <u>Failure to Terminate User Access for the Medicaid Management Information System and Department Network</u>
Medical Assistance Program	Significant Deficiency	<p>We identified deficiencies in the Department's oversight and management of employee access to the Medicaid Management Information System. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk.</p> <p>The Medicaid Management Information System provides for operational support of the Medicaid program, including claims processing, coordination of benefits, surveillance and utilization review, federal and management reporting, and case management.</p> <p>We identified 44 separated employees for the Division of Medical Assistance during the 2009 state fiscal year, one employee continued to have access to the Medicaid Management Information System despite separation from the Division. In addition, this separated employee continued to have an active network user account within the Division of Medical Assistance. Departmental policies were not followed regarding quarterly reviews of user access and immediate termination of separated employees' user access rights.</p> <p>Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide information technology standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights and immediate termination of user access upon leaving employment.</p> <p><i>Federal Award Information:</i> This finding affects Medical Assistance Payments federal grant awards 05-0805NC5028, 05-0905NC5028, and 05-0905NCARRA for the federal fiscal years ended September 30, 2008 and 2009.</p> <p><i>Recommendation:</i> The Department should ensure that information technology security standards are followed. Separated employees' access rights should be immediately revoked to prevent improper access to Medicaid program data systems and periodic reviews should be performed as to user access.</p> <p><i>Agency Response:</i> The Department concurs with the finding. The Department will continue to enhance its procedures for termination of user access rights when changes in employment status occur. Additionally, the Department implemented policies and procedures to ensure adequate control of access to all system applications and conduct periodic, documented reviews of its users' access rights. Effective July 2007, the Department requires an Information Resource Access Authorization Form (IRAAF) be generated and maintained on file for every individual with access to State Information Systems. Prior to July 2007, access was granted based on requests from state-level and county-level Information Security Officials (ISOs) via either email or fax; those users given access during this time are grandfathered by the Department and do not require their access be documented on</p>
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an IRAAF. Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted.

Effective March 2010, the Department enhanced existing access control requirements for all division/office employees with access to RACF and OLV via the generation of two new reports. The first report is now available through NCXPTR listing all employees with access to systems through RACF. A second report is now available through WIRM listing all employees with access to OLV and their respective roles. All Department division/office Information Security Officials (ISO) will be required to review and verify the accuracy of these reports on a monthly basis through a positive confirmation. The "Division/Office System Access Control" form will be used to report monthly to the Department Privacy and Security Office (PSO) with the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures by April 2010.

Follow-up: The following corrective action has occurred:

- As of September 2010, the Department has implemented appropriate policies and procedures to ensure adequate control of access to the Medicaid Management Information System (MMIS) and the Department's network.
- The MMIS and network access for the former DHHS employee identified in the audit has been revoked as of August 19, 2010.
- Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We were informed during our follow-up assessment that the DMA Security Office staff had not performed security reviews of MMIS access until August 2011.
- Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis.
- All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access.
- DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems.
- Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have

not been revised/updated to mandate the use of the e-IRAAF form.

- The Division of Medical Assistance (DMA) Information Technology (IT) & The Health Insurance Portability and Accountability Act (HIPAA) Section is also currently working on developing a new Intranet website which will host a link to the Automated Access and Resource Management System (AARMS) now in development. The new intranet website is being completed in phases. It is anticipated that the first phase will be completed by December 31, 2011. Due to the non-availability of resources, delays have occurred. This AARMS system will be a Structured Query Language (SQL) database using Hyper Text Markup Language (HTML), front end forms and automated workflow processes. It will have auditable, password validated authorization, steps built in that will ensure these notifications are accomplished and accesses are revoked in the specified time frame allotted for each system, application or network. The data used to populate personnel records in AARMS will directly feed the information to security officials in DMA's Recipient and Provider Services section who will use The Division of Information Resources Management's (DIRM's) electronic Information Resource Access Authorization Form (e-IRAAF), (Eligibility Information System (EIS), Online Verification (OLV), IEVS, etc). Currently the Division is using e-IRAAF system that is mandated by Department of Health Human Services (DHHS) Privacy and Security Office (PSO) to track all system access.
- The policies and procedures for granting and terminating MMIS access for non-DMA workforce personnel have also been updated. This process is formally documented in the DMA Information Systems User Authorization and Access Policy, dated August 1, 2010 and the Internal DMA MMIS Access Control Procedures, dated April 1, 2010.

Therefore, we consider this finding only partially resolved as of July 31, 2011.

Department of
Health and
Human Services

Allowable
Costs/Cost
Principles:

09-SA-154 Inadequate Control Over County User Access to the County Administration Reimbursement System

Medical
Assistance
Program

Significant
Deficiency

We identified deficiencies in the Department's oversight and management of employee access to the County Administration Reimbursement System. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk. See finding 09-SA-10 for a description.

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Agency Response: See agency response to 09-SA-10.

Follow-up: The following corrective action has occurred:

- The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights.
- For each of the 12 individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked as of September 2010.
- Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in September 2009 and March 2010.
- Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees'

mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis.

- All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access.
- DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems.
- Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form.

Therefore, we consider this finding only partially resolved as of January 3, 2011.

Department of
Health and
Human Services

Cash
Management:

09-SA-155 Deficiencies in Cash Management Procedures for the Medicaid Program

Material
Weakness

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

Medical
Assistance
Program

Material
Noncompliance

The Department does not have formal procedures for the establishment and review of federal reimbursement codes, an accounting mechanism for tracking the appropriate level of federal participation for program activities. An error in the establishment of federal participation percentages in the Department's cost database resulted in the incorrect drawdown of \$321 million related to the qualified public hospitals claims paid during the 2009 fiscal year. In addition, reconciliation procedures performed were not sufficient to ensure federal revenues were in agreement with federal expenditures.

93.778

Our review of the Department's Cash Management Improvement Act spreadsheets identified significant positive federal cash balances between January 2009 and the end of the fiscal year. Funds were not disbursed in a timely manner, resulting in noncompliance with the Treasury-State agreement requirement that the State request funds such that they are deposited in a state account not more than three days prior to the actual disbursement of those funds. The \$321 million incorrect drawdown of federal funds discussed above was a significant contributor to the error. However, we also noted that the majority of the drawdown requests were based on estimates or claims disbursement amounts that were not reduced by their non-federal share of costs.

Federal Award Information: This finding affects Medical Assistance Payments federal grant awards 05-0805NC5028, 05-0905NC5028, and 05-0905NCARRA, and Medicaid Administrative Payments federal grant awards 05-0805NC5048 and 05-0905NC5048 for the federal fiscal years ended September 30, 2008 and 2009.

Recommendation: The Department should strengthen internal controls to ensure proper establishment and review of federal reimbursement codes, the verification of proper drawdowns by reconciling federal revenues and expenditures, and improved cash management procedures such that drawdowns are made in compliance with the Treasury-State Agreement.

Agency Response: The Department concurs with the finding. There are processes in place to establish and review federal reimbursement codes. These processes have been enhanced to include an additional level of review and quarterly verification. Existing procedures for reconciliation of federal expenditures to federal revenues has also been expanded to include reconciliation of non-federal revenues.

In addition, the DHHS Office of the Controller now processes federal fund drawdowns based on actual figures instead of estimates. The Department worked with the Office of State Controller and the Department of State Treasurer to modify this procedure. This change occurred in June 2009.

Follow-up: The following corrective action has occurred:

- The Department implemented additional control procedures for the creation of and changes to FRC's. Effective 5-25-10, a new form was implemented for the creation, revision and approval of FRC's.
- The Department implemented a new procedure in SFY 2010 requiring a monthly comparison of earned revenue and expenditures which includes all FRC's. In addition, the procedure also enhances the supervisory review and approval process.
- The Department worked with the Office of State Controller and the State Treasurer to modify the federal funds drawdown procedures for Medicaid funds. Effective June 8, 2009, the DHHS Office of the Controller now processes the Medicaid cash drawdown based on actual expenditures.
- The DHHS Office of Controller worked with the claims administrator to develop a report to provide the Department with the necessary information based upon actual claim payments to enhance the Medicaid cash draw calculation. The report was developed and incorporated into the drawdown calculation process in November 2010.

Therefore, we consider this finding resolved as of November 2010.

Department of Health and Human Services	<u>Eligibility:</u>	09-SA-156	<u>Documentation Lacking in County Medicaid Case Files</u>
Medical Assistance Program	Questioned Cost Finding		Certified Public Accountants performing the county audits tested 2,994 case files for Medicaid recipients and found deficiencies in 40 cases. These auditors questioned a total of \$105; however, we believe that it is likely that questioned costs exceed \$10,000 in the population. These issues are described below:
93.778	\$105		<p>a. One client file indicated that the client had not met certain eligibility criteria and was ineligible to receive benefits. Questioned costs were \$105.</p> <p>b. Sixteen client files did not contain all the required eligibility documentation. These case files had erroneous information or were missing items such as financial budget information, citizenship documentation, or residency</p>

documentation used to substantiate eligibility.

- c. Five client files were identified as incomplete, missing at least part of the required eligibility documentation. The auditor could not verify eligibility due to a lack of supporting documentation; however, the local auditor determined no questioned costs.
- d. Six client files did not contain evidence that automated processes were performed for the independent verification of family income and resources.
- e. Ten client files did not contain documentation that the "Notice of Rights to Transportation Form" was sent to the applicant.
- f. One client file was recertified without reviewing the eligibility criteria with the client.
- g. The information in one client file could not be examined, as the file had not been transferred from another county.

Federal Award Information: This finding affects Medical Assistance Payments federal grant awards 05-0805NC5028, 05-0905NC5028, and 05-0905NCARRA for the federal fiscal years ended September 30, 2008 and 2009.

Recommendation: The local government auditors recommended that procedures should be in place to ensure that all required information is in the files and the information is complete and accurate. Additional training was recommended along with additional file monitoring to determine that the required documentation is included in the files.

Agency Response: While the combined counties error rate identified was extremely low (.01336), the Department's goal is no errors. The Department concurs with the finding. The individual findings will be referred to the Medicaid Program Representatives for those counties for follow up, corrective action and training as needed in the counties audited. Verification and documentation is addressed in all training provided by the Medicaid Program Representatives and continues to be stressed statewide. The anticipated completion date for follow-up to these findings is December 31, 2010.

Follow-up: The following corrective action has occurred:

- The Division of Medical Assistance (DMA) continues to enhance its monitoring and training activities for county intake personnel to ensure documentation of the eligibility determination process is properly maintained.
- The eleven counties with discrepancies established corrective action plans to address the weaknesses/discrepancies identified by the State Auditors. Subsequent follow-up by the DMA Medicaid Program Representatives (MPR) verified that corrective action was taken in regards to the audit findings.
- All of the discrepancies noted by the State Auditors in the forty client files have been appropriately investigated and resolved by county and Divisional personnel as of 9-16-10. With regards to the \$105 in questioned costs, the \$105 was recouped from the county on 8-31-10.

Therefore, we consider this finding resolved and no further corrective action is considered necessary.

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Department of Health and Human Services Medical Assistance Program 93.778	<u>Eligibility:</u> Significant Deficiency	09-SA-157 <u>Inadequate Control Over County-Level User Access to the Eligibility Information System</u> We identified deficiencies in the Department's oversight and management of user access to the eligibility computer system. Improper access to computer systems can result in both intentional and unintentional security breaches that place the confidentiality and integrity of information at risk. See finding 09-SA-122 for a description. <i>Agency Response:</i> See agency response to 09-SA-122.

Follow-up: The following corrective action has occurred:

- The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights.
- For each of the 25 individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked as of September 2010.
- Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in September 2009 and March 2010.
- Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis.
- All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access.
- DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems.
- Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form.

Therefore, we consider this finding only partially resolved as of January 3, 2011.

State Agency/ CFDA	Type of Finding	Findings and Recommendations
Department of Health and Human Services Medical Assistance Program 93.778	Allowable Costs/Cost Principles: Significant Deficiency	<p>09-SA-158 <u>Deficiencies in Medicaid Reporting Processes</u></p> <p>We identified deficiencies in the Department's Medicaid financial reporting process. As a result, there is an increased risk of error in the reporting of federal expenditures.</p> <p>Our review of the CMS-64 quarterly report identified that the primary reviewer of the report was not consistently independent of the preparation process, did not consistently maintain evidence that the report was properly reviewed, and did not ensure that all discrepancies between the federal reports and the accounting records were reconciled. In addition, certification dates for three of the four quarterly reports reviewed were subsequent to the required deadline.</p> <p>The lack of an independent review and approval of the quarterly federal reports increases the risk of errors in the federal reports. Federal regulations require the submission of the CMS-64 report within 30 days after the end of each quarter.</p> <p><i>Federal Award Information:</i> This finding affects Medical Assistance Payments federal grant awards 05-0805NC5028, 05-0905NC5028, and 05-0905NCARRA, and Medicaid Administrative Payments federal grant awards 05-0805NC5048 and 05-0905NC5048 for the federal fiscal years ended September 30, 2008 and 2009.</p> <p><i>Recommendation:</i> The Department should strengthen internal controls to ensure the proper preparation, review, and timely submission of the CMS-64 Medicaid quarterly report.</p> <p><i>Agency Response:</i> The Department concurs with the finding. CMS-64 preparation is now segregated properly from the primary reviewer. A cause of late report submissions is that divisions within the Department have had difficulty in meeting monthly closeout deadlines due to delays such as outstanding budget revisions, reclassifications, allotments, etc. The Medicaid program impacts 13 divisions within the Department. Failure to meet closeout deadlines due to budget revisions, allotments, and reclassifications of expenditures prevents staff from preparing the CMS-64 in a timely manner. The DHHS Office of the Controller sent a memo dated December 30, 2009 to division directors and budget officers to address more stringent month end deadlines that will ensure more timely month-end certification.</p> <div style="border: 1px solid black; padding: 10px;"> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department strengthened internal controls by properly segregating the CMS-64 preparation process from the primary reviewer. • The Department continues to enhance its procedures to ensure the timely submission of the CMS-64 report. <p>The Office of the State Auditor did not identify a similar finding in their 2010 Single Audit fieldwork; therefore, we consider this finding resolved as of December 10, 2010.</p> </div>
Department of Health and Human Services Medical Assistance Program	Special Tests and Provisions: Significant Deficiency	<p>09-SA-159 <u>Deficiencies In Controls Over the Provider Eligibility Enrollment Process</u></p> <p>The Department failed to acquire and maintain all required information necessary to document the eligibility determination process for provider-applicants. This increases the risk that ineligible providers may have been enrolled in the Medicaid program.</p> <p>We examined a sample of 14 newly enrolled out-of-state providers and identified</p>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
93.778		<p>eight providers' files that were either not located, not inclusive of all required enrollment documentation, or not properly end-dated in the Medicaid Management Information System.</p> <p>In addition, prior to April 2009:</p> <ul style="list-style-type: none"> Existing providers were not required to periodically re-enroll. Other than for physicians and practitioners, criminal background checks were not conducted for providers prior to enrollment. <p>Therefore, the Department did not have a re-enrollment requirement in place to detect possible changes in provider eligibility status. This increases the risk that improper payments will be made to ineligible providers or that appropriate action may not be taken by the Division of Medical Assistance to recoup payments made in error.</p> <p>Similar deficiencies have been reported in prior year audits. As part of the development of the new Medicaid Management Information System, the Department contracted with a private vendor to assume the responsibilities for enrollment, credentialing, and verification activities for provider participation in the Medicaid program. The vendor is developing a process to verify provider enrollment information and conduct credentialing activities for currently enrolled Medicaid providers.</p> <p><i>Federal Award Information:</i> This finding affects Medical Assistance Payments federal grant awards 05-0805NC5028, 05-0905NC5028, and 05-0905NCARRA for the federal fiscal years ended September 30, 2008 and 2009.</p> <p><i>Recommendation:</i> The Department should continue with its efforts to improve and implement adequate internal controls over the provider enrollment process to ensure that only eligible medical providers are allowed participation in the Medicaid program. As these activities, previously carried out by the Division of Medical Assistance Provider Services section, are operationally transitioned to a private vendor, the Department will need to ensure adequate monitoring procedures are in place to ensure compliance with applicable laws and regulations.</p> <p><i>Agency Response:</i> The Department concurs with the finding. The Department has now awarded a contract to Computer Sciences Corporation (CSC) to develop and implement a Replacement Medicaid Management Information System (MMIS) in support of healthcare administration for multiple DHHS agencies. Early implementation of provider Enrollment, Verification and Credentialing (EVC) and related activities were assumed by CSC in late April 2009. The EVC process requires the fiscal agent perform imaging of all provider documents, contracts, agreements and attachments in order to be retrievable by State and fiscal agent staff. The fiscal agent will verify and credential all existing providers within the first year and thereafter complete re-credentialing procedures on all providers whose data indicates expiration of any license, accreditation, certification, or other authorizing agencies. This re-credentialing will occur every three years. CSC utilizes a background screening service to meet required criminal background checks, source verification of professional boards and licenses, etc, as required by federal regulations and North Carolina Administrative Code. The fiscal agent will comply with all established Medicaid provider enrollment procedures and rules to decrease the risk of ineligible provider enrollment and improper Medicaid payment. The fiscal agent will implement suspension or termination action for providers whose licenses, endorsements, permits, certifications and accreditations have been revoked or suspended by licensing and accrediting bodies.</p>

Division of Medical Assistance Provider Services monitors the provider Enrollment, Verification and Credentialing (EVC) operations assumed by CSC in late April 2009 to ensure CSC's compliance with the Replacement Medicaid Management Information System (MMIS) Contract, which includes provider enrollments, changes and terminations processed and entered in the EVC System and Legacy MMIS+ System. Random samples of enrollments, changes and terminations are audited and notifications from accrediting bodies regarding licensure, endorsement and certification suspensions and withdrawals are monitored by reviewing data entered in the EVC System, Legacy MMIS+ System and CSC's Electronic Data Management System (EDMS) to ensure correct enrollment, change and termination actions are taken. These auditing and monitoring procedures should ensure CSC excludes ineligible providers from participating in the Medicaid program.

Follow-up: The following corrective action has occurred:

1. Effective April 2009 DMA contracted with Computer Sciences Corporation (CSC) to develop and implement a replacement MMIS system. CSC also assumed the responsibility for provider Enrollment, Verification and Credentialing (EVC) activities in late April 2009.
2. DMA developed procedures to monitor CSC's EVC activities on a random basis in 2009 to ensure ineligible providers no longer participate in the Medicaid program.
3. With regards to the 8 provider files that were either missing, not inclusive of all required enrollment documentation or not properly end-dated in MMIS: the following corrective action has occurred as of 8-19-10:
 - Two provider files have been properly end-dated.
 - The missing documentation identified by OSA in two provider files has not been located. by DMA
 - The four provider files that were identified as missing by OSA still have not been located by DMA.

The Office of the State Auditor identified a similar finding in their 2010 Single Audit fieldwork; therefore, we consider this finding only partially resolved as of August 19, 2010.

Department of
Health and
Human Services

Matching
Level of
Effort,
Earmarking:

09-SA-160

Deficiencies in Internal Control Over Earmarking Requirements

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

HIV Care
Formula
Grants

Significant
Deficiency

93.917

Federal requirements state that not less than 75% of grant funds, after reserving amounts for state administration and a clinical quality management program, shall be used to provide core medical services to eligible individuals with HIV/AIDS. The Department has not established adequate tracking mechanisms in its accounting system to sufficiently demonstrate compliance with this earmarking requirement. Administrative costs, planning and evaluation costs, and clinical quality management costs were not separately maintained in the accounting records. At year-end, the Department separated the expenditures for these cost categories based on its estimate of those costs rather than on actual disbursements recorded in the accounting records. The accounting records also do not separate core medical services from support services, making it difficult to measure the Department's compliance with this earmarking requirement.

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<p>This finding was reported in the prior year. The Department is planning to establish responsibility cost centers for HIV CARE Formula Grant expenditures to enable the financial management systems to better account for earmarking requirements.</p> <p><i>Federal Award Information:</i> This finding affects HIV CARE Formula Grant award X07HA00051 for federal fiscal years ended March 31, 2009.</p> <p><i>Recommendation:</i> The Department should ensure its accounting system accurately accounts for the applicable cost categories for the HIV CARE Formula Grant to meet earmarking requirements.</p> <p><i>Agency Response:</i> The Department concurs with the finding. The Department will develop corrective actions to ensure its accounting system accurately accounts for the applicable cost categories for the HIV CARE Formula to meet earmarking requirements. Corrective actions will be developed by June 30, 2010 and implemented in conjunction with the FFY 2011 Ryan White grant award.</p> <div style="border: 1px solid black; padding: 10px;"> <p><i>Follow-up:</i> The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Division of Public Health enhanced the spreadsheets that it uses to track compliance with various earmarking requirements. However; OSA noted errors in the spreadsheets and that program expenditures were still not being adequately tracked in the accounting system to sufficiently demonstrate compliance with the various earmarking requirements during their 2010 Single Audit fieldwork. • The Division met with the DHHS Controller's Office on September 16, 2010 to address the accounting coding structure requirements for the HIV Care grant. • The Division met with OSA in September 2010 to discuss acceptable corrective actions for better internal controls over earmarking requirements. An agreement was reached and the appropriate corrective actions will be fully implemented by April 1, 2011. <p>Therefore, we consider this finding only partially resolved as of January 12, 2011.</p> </div>
Department of Health and Human Services	<u>Matching</u> <u>Level of Effort,</u> <u>Earmarking:</u> Significant Deficiency Questioned Cost Finding \$10,000	09-SA-163 <u>Deficiencies in Internal Control Over Earmarking Requirements</u> <p>We identified deficiencies in the Department's oversight of the earmarking requirements for the Block Grants for Prevention and Treatment of Substance Abuse funds. As a result, there is an increased risk of noncompliance related to the expenditure and reporting of grant funds for designated purposes.</p> <p>States must use not less than 20% of allotted grant funds for prevention activities that address individuals who do not require treatment for substance abuse. Although the Department reported that it met the primary prevention set-aside, our review of the supporting schedules and underlying accounting records indicated that this earmarking requirement was not met by approximately \$490,000.</p> <p>As a designated State, defined as a State whose rate of AIDS is 10 percent or more per 100,000 individuals, the Department must expend 5% of allotted grant funds for HIV early intervention services at the sites where individuals are undergoing substance abuse treatment. The Department has reported its noncompliance with this HIV set-aside to its funding agency. The Department failed to meet this earmarking requirement by approximately \$360,000.</p> <p>In addition, there is a 5% cap on allotted grant funds for the administration of the grant. While the Department did not exceed this earmarking requirement, our</p>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<p>review of the administrative cost expenditures identified that the Department had paid a \$10,000 sponsorship fee for a national association meeting. As the Department did not have sufficient attendees that would require this level of financial commitment, this cost is considered a contribution rendered and would be considered an unallowable cost. As we could not match specific individuals with the attendance at this event, the total expenditure of \$10,000 is considered a questioned cost.</p> <p>The failure to adequately track, evaluate, and monitor expenditures for the specified earmarking purposes has resulted in noncompliance and increases the risk that the required expenditure percentages will not be met in the future for the Block Grants for Prevention and Treatment of Substance Abuse program.</p> <p><i>Federal Award Information:</i> This finding affects Block Grants for Prevention and Treatment of Substance Abuse federal grant award 07BINCSAPT for the federal fiscal year ended September 30, 2007, which closed out during our period of review.</p> <p><i>Recommendation:</i> The Department should strengthen internal controls to ensure the proper tracking, evaluation, and monitoring occurs for obligations and expenditures for specified earmarking purposes. Reallocations of funding should occur to ensure appropriate earmarking percentages are met. The Department should seek guidance from its federal oversight agency for the resolution of the above questioned cost item.</p> <p><i>Agency Response:</i> The Department concurs with the finding and has initiated corrective measures to properly track the allocation of funds and the reporting of expenses for the Prevention and Treatment of Substance Abuse and HIV set aside requirement. The Department's procedures for the earmarking of not less than 20% of the statewide SAPTBG funds for prevention and not less than 5% for HIV will be accomplished through the coding structure for each grant year within the North Carolina Accounting System (NCAS).</p> <div style="border: 1px solid black; padding: 10px;"> <p><i>Follow-up:</i> The following corrective action has occurred.</p> <ul style="list-style-type: none"> • The Controller's Office enhanced the coding structure in NCAS effective July 1, 2009 by establishing Federal Reimbursement Codes (FRCs) in order to track the SAPT set aside requirement. • The Division has refunded the HIV and Primary Prevention set-aside shortfalls to SAMHSA grants management in the amounts of \$363,020 and \$ 491,350 respectively as of 3/5/10. • The Division of Mental Health contacted the National Association of State Alcohol and Drug Abuse Directors for input and clarification of State sponsorships regarding the \$10,000 questioned cost. The costs were subsequently deemed unallowable and the \$10,000 was refunded to the federal funding agency (SAMHSA) on June 23, 2011. <p>Therefore, we consider this finding fully resolved as of June 23, 2011.</p> </div>
Department of Health and Human Services	Subrecipient <u>Monitoring:</u> Significant Deficiency	<p>09-SA-164 <u>Monitoring Procedures Need Improvement</u></p> <p>We identified deficiencies in the monitoring procedures for the Block Grants for Prevention and Treatment of Substance Abuse program. As a result, there is an increased risk of noncompliance with federal requirements by subrecipients.</p> <p>The Department is responsible for monitoring the Local Management Entities</p>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
of Substance Abuse		(LMEs) and non-governmental units providing program services. Our review of the monitoring efforts identified the following deficiencies:
93.959		<ul style="list-style-type: none"> No fiscal monitoring reviews were performed for the LMEs during the 2009 fiscal year. Although annual compliance reviews were performed in May 2009, the requests for corrective action plans were not communicated timely to the LMEs, as this did not occur until October 2009. The Department performed fiscal monitoring reviews for eight of the 12 non-governmental units contracted to provide substance abuse services. Our review of those monitoring results noted that the Department identified deficiencies in the reviewed supporting documentation as well as instances of potential questioned costs. However, the Department failed to conduct appropriate follow-up procedures, such as requests for additional documentation, questioning or disallowing costs, communicating their results, or requiring corrective action plans. <p>Federal and departmental guidelines require the monitoring of subrecipient activities to provide reasonable assurance that subrecipients are complying with applicable laws and regulations.</p> <p>A finding related to the enhancement of the subrecipient monitoring activities was also reported in the prior year.</p> <p><i>Federal Award Information:</i> This finding affects Block Grants for Prevention and Treatment of Substance Abuse federal grant award 07B1NCSAPT and 08B1NCSAPT for the federal fiscal year ended September 30, 2008 and 2009, respectively.</p> <p><i>Recommendation:</i> The Department should continue to enhance its monitoring plans for the Block Grants for Prevention and Treatment of Substance Abuse program. Comprehensive policies should address all aspects of the monitoring efforts, including the plan for programmatic and fiscal monitoring activities, documentation of the monitoring procedures performed, the finalization process of reporting, and corrective action plans.</p> <p><i>Agency Response:</i> The Department concurs with the finding. The Department has developed procedures to facilitate monitoring activities. The Division has initiated a fiscal monitoring plan for the Local Management Entities (LME) during State fiscal year 2009-2010. Additionally, the timely response of monitoring performed by Division staff will occur with an exit conference performed prior to the staff leaving the LME and within 45 days after completion of the monitoring event, issuance of a formal report outlining the results of the review and a request for a plan of correction for specific non-compliance issues. Division staff will conduct follow up efforts for items found during the course of the program and fiscal monitoring event.</p> <div> <p><i>Follow-up:</i> The following correction action has occurred.</p> <ul style="list-style-type: none"> Effective September 2010, the Division of Mental Health, Disability Determination, and Substance Abuse Services (DMH) developed procedures to facilitate monitoring activities, including the development and implementation of a fiscal monitoring plan for the Local Management Entities (LME) during State 2009-2010 fiscal year. DMH developed written procedures entitled "DMH/DD/SAS Budget & Finance Team Settlement and Sub-recipient Monitoring Procedures for Local Management Entities" to ensure fiscal operations related to the LME services </div>

State Agency/ CFDA	Type of Finding	Findings and Recommendations
		<p>delivery and systems management are being documented and reported accurately.</p> <ul style="list-style-type: none"> • During SFY 2010, DMH completed a compliance review of the SAPTBG funds that were awarded to the LMEs. Identified deficiencies were timely communicated to the LMEs and corrective action plans were completed by the LMEs. • As of September 23, 2010, DMH had not completed the fiscal reviews of the 2008 and 2009 LME settlement documentation. <p>Therefore, we consider this finding only partially resolved as of September 23, 2010.</p>

Supplemental Schedule

**North Carolina Department of Health and Human Services
Status of 2009 Single Audit Report Findings**

**Schedule 1
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Finding No.	Description of Finding	Division	Date Resolved	Finding				Comments
				Resolved	Partially Resolved	Unresolved	Questioned Costs	
<u>Financial Statement Findings</u>								
09-FS-01	Deficiencies in Financial Reporting Process	Controller	10/05/10	X				The Division of Medical Assistance enhanced its review procedures of the Medicaid accrual calculation to ensure that the accrual estimates provided to the DHHS Controller's Office are accurate. Therefore, we consider this finding resolved as of October 5, 2010.
09-FS-02	Disbursing Account Not Reconciled Timely	Controller	05/17/11	X				<p>The following corrective action has occurred:</p> <ul style="list-style-type: none">• The Department assigned additional staff to assist with the disbursing account reconciliation, which has been reconciled through April 2011 with identification of outstanding/reconciling items.• The Department revised the bank reconciliation log to reflect the date the bank account was reconciled, the date the reconciliation was reviewed and the reviewer's name. <p>The Office of Controller continues to work toward permanent staff assignment and training of the bank reconciliation process, and in addition, work toward completion of the monthly reconciliation of the DSS disbursing account within the 15 day required time frame. Therefore, we consider this finding resolved as of May 17, 2011</p>
<u>Federal Award Findings and Questioned Costs</u>								
09-SA-01	Control Weaknesses Identified in the Calculation of WIC Rebates	Controller / DPH	08/31/10	X				<p>The following corrective action has occurred:</p> <ul style="list-style-type: none">• The Department has enhanced the internal controls regarding the WIC rebate billing calculation by adding additional reviews of the billings prior to submission. The billings review process has been segregated from the preparation of the billings spreadsheet.• The Accounts Receivable Section within the Controller's Office redesigned the spreadsheets used in the calculation of the WIC rebates to prevent data entry errors and formula changes.• The WIC rebate billing process is currently part of the NC Crossroads Development Project. This project will fully automate the process when implemented in 2012, thereby eliminating the need for the current procedures.• With regards to the specific billing errors (\$219,000) noted by the State Auditors, the following corrective action has occurred:<ul style="list-style-type: none">a) The \$80,506.05 November 2008 overbilling has not been repaid. Per contract, billing errors must be disputed and resolved within sixty days otherwise; the funds are exempt from repayment. The vendor did not dispute the invoice and payment within the sixty-day window.b) The \$138,404.91 March 2009 overbilling was included in a total overbilling adjustment of \$886,722.92 that was credited to the vendor in the September 2009 billing on October 28, 2009. The \$886,722.92 overbilling was calculated by the Department to have occurred over a seven-month period (February 2009 through August 2009). <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p>
09-SA-02	Inadequate Control Over User Access to the Aid to County Reimbursement System	DHHS	01/03/11		X			<p>The following corrective action has occurred:</p> <ul style="list-style-type: none">• As of September 2010, the Department has implemented appropriate policies and procedures to ensure adequate control of access to the Aid to County Reimbursement system used by the Division of Public Health.• Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that as of September 9, 2010 security officers had only performed annual reviews of security authorization documentation.• Effective March 2010, the Department enhanced existing access control requirements for all Division/Office employees with access to RACF and OLV via the generation of two new reports. The first report is now available through NCXPTR listing all employees with access to systems through RACF. A second report is now available through WIRM listing all employees with access to OLV and their respective roles. All Department Division/Office Information Security Officials (ISO) are required to review and verify the accuracy of these reports on a monthly basis through a positive confirmation. The "Division/Office System Access Control" form will be used to report monthly to the Department Privacy and Security Office (PSO) with the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis.

**North Carolina Department of Health and Human Services
Status of 2009 Single Audit Report Findings**

**Schedule 1
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Finding No.	Description of Finding	Division	Date Resolved	Finding				Comments
				Resolved	Partially Resolved	Unresolved	Questioned Costs	
09-SA-02 (continued)								<ul style="list-style-type: none"> • All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access. • DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to the Aid To County Reimbursement system. • Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/ modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form. <p>Therefore, we consider this finding only partially resolved as of January 3, 2011.</p>
09-SA-03	Documentation Lacking in County WIC Case Files	Controller / DPH	08/31/11		X		\$758	<p>Follow-up: The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Division of Public Health (DPH) continues to enhance its monitoring and training activities for county intake personnel to ensure documentation of the eligibility determination process is properly maintained. • The three counties (Robeson, Madison and Guilford) with discrepancies established corrective action plans to address the weaknesses/ discrepancies identified by the local auditors. • Robeson County - Subsequent follow-up by DPH Regional Nutrition Consultant verified that corrective action has been taken and the finding was resolved by county and Divisional personnel as of 3-9-11. • Guilford County - Subsequent follow-up by DPH Regional Nutrition Consultants found that two of the eight cases with missing documentation had adjunctive eligibility (Medicaid or SNAP eligibility) during the dates in questioned. The remaining six cases were determined to be ineligible for WIC benefits by DPH staff. Therefore, DPH requested that the county repay \$2,681.70 in questioned costs on 2-24-11. Guilford County repaid the \$2,681.70 to the Department on 3-15-11. • Madison County – The discrepancies noted with two client files and the \$758 in questioned costs have not been appropriately resolved by county and Divisional personnel as of 8-31-11. <p>Therefore, we consider this finding only partially resolved as of August 31, 2011.</p>
09-SA-04	Deficiencies in Internal Control Over WIC Period of Availability Requirements	Controller / DPH	09/03/10		X		\$5,725	<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department continues to improve its internal controls to ensure the proper tracking and monitoring occurs for obligations and expenditures within the appropriate period of availability. • As of 9-3-10 the Department had not fully resolved the \$5,725 in questioned costs identified by the State Auditors. <p>Therefore, we consider this finding only partially resolved as of September 3, 2010.</p>
09-SA-05	Deficiencies Identified With the Verification of the WIC Food Instrument Non-Reconciliation Rate	DPH	10/01/09	X				The Department strengthened internal controls to ensure that management review of the monthly WIC Food Instrument Reconciliation Report is adequately documented. Therefore, we consider this finding resolved and no further corrective action is considered necessary.
09-SA-06	Deficiencies Identified with the WIC Food Instrument Review Process	DPH	08/09/10	X				<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department has strengthened the internal controls to enhance the review procedures regarding questionable food instruments, cash-value vouchers, suspected vendor overcharges, and other errors. • The Fiscal Agent (Solutran) generates a monthly report that provides the total number of food instruments presented for payment. The Department has developed a monthly protocol to determine a representative sample of food instruments to review using a statistical web based resource tool called RAOSOFT. After the sample size is determined, the Department randomly selects food instruments for manual review. Errors associated with questionable food instruments are addressed with Solutran within 120 days of detection. A spreadsheet listing the identified errors/questionable food instruments and corresponding resolutions is maintained on a monthly basis. <p>Therefore, we considered this finding resolved and no further action is considered necessary.</p>

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09-SA-07	Weaknesses in the Monitoring of the Calculation of the WIC Maximum Allowable Reimbursement Rates	DPH	01/13/11	X				<p>Effective January 13, 2011, the Division of Public Health (DPH) enhanced its internal controls to ensure Maximum Allowable Reimbursement (MAR) rates are calculated properly by the WIC Fiscal Agent (Solutran) as follows:</p> <ul style="list-style-type: none"> • In addition to the monthly MAR report, Solutran provides a monthly Closeout – Average by Food Group with Exclusions report that is used to verify the data/calculations on the monthly MAR report. • On a quarterly basis, one month of data is tested by the DPH Nutrition Services Branch – Vendor Unit section by randomly selecting five food instrument types and having the Division of Information Resource Management (DIRM) generate a report for all food instruments redeemed during the specified period. • The DIRM generated report separates predominately WIC vendor data from non predominately WIC vendor data for each food instrument type. • Using the DIRM generated report, Vendor Unit staff manually calculate the MAR rates and compares them to the MAR calculations generated by Solutran. • The Vendor Unit Manager verifies the MAR calculations using these procedures and documents the review a minimum of one time per quarter. <p>Due to the delay in implementing the enhanced procedures, the Office of the State Auditor identified a similar finding in their 2010 Single Audit fieldwork. However, we consider this finding resolved as of January 13, 2011 and no further action is considered necessary.</p>
09-SA-08	Deficiencies Identified in the Monitoring of WIC High-Risk Vendors	DPH	01/13/11		X			<p>Effective January 13, 2011, the Division of Public Health (DPH) enhanced its internal controls to ensure high-risk vendors are prioritized for review based on each entity's potential for program non-compliance or loss of funds. However, due to the timing of our follow-up fieldwork, we were unable to verify whether the enhanced controls were working properly.</p> <p>In addition, the Office of the State Auditor identified a similar finding in their 2010 Single Audit fieldwork. Therefore, we consider this finding only partially resolved as of January 13, 2011.</p>
09-SA-09	Inadequate Control Over User Access to the North Carolina Claims and Reimbursement Entry System	DHHS	01/03/11		X			<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • As of September 2010, the Department has implemented appropriate policies and procedures to ensure adequate control of access to the North Carolina Claims and Reimbursement Entry System (NC CARES). • For each of the individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked. • Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in March 2010 and July 2010. • Effective March 2010, the Department enhanced existing access control requirements for all Division/Office employees with access to RACF and OLV via the generation of two new reports. The first report is now available through NCXPTR listing all employees with access to systems through RACF. A second report is now available through WIRM listing all employees with access to OLV and their respective roles. All Department Division/Office Information Security Officials (ISO) are required to review and verify the accuracy of these reports on a monthly basis through a positive confirmation. The "Division/Office System Access Control" form will be used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis. • All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access. • DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to the North Carolina Claims and Reimbursement Entry System. • Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised. <p>Therefore, we consider this finding only partially resolved as of January 3, 2011.</p>

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09-SA-10	Inadequate Control Over County User Access to the County Administration Reimbursement System	DHHS	01/03/11		X			<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights. • For each of the 12 individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked as of September 2010. • Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in September 2009 and March 2010. • Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis. • All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access. • DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems. • Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form. <p>Therefore, we consider this finding only partially resolved as of January 3, 2011.</p>
09-SA-11	Failure to Timely Communicate ARRA Federal Award Information to Subrecipients	Controller	10/20/09	X				<p>The Department has appropriately notified the county subrecipients, as well as each Division Director, of the ARRA award information and reporting requirements. As of 10-20-09, the Department has also incorporated Federal Award information with EFT payments, which is now communicated to counties with each disbursement. Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p>
09-SA-83	Control Weaknesses Over Fixed Asset Inventory	Controller / DSB	02/18/10	X				<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department has enhanced the internal controls governing the maintenance of fixed asset records to ensure assets are safeguarded. • The Controller's Office is able to generate a mid-cycle inventory report, which Divisional staffs use to verify that all requested changes/updates have been incorporated into the fixed asset records. Discrepancies noted during the review of the mid-cycle inventory report are submitted to the Controller's Office within 60 days of receipt of the report for corrective action. • All of the DSB and DVR discrepancies noted by the State Auditors have been appropriately resolved as of 2-18-10. <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p>
09-SA-111	Deficiencies in Federal Reporting Procedures	Controller	05/01/10	X				<p>The Department strengthened internal controls by implementing an independent review process for the Aging Cluster SF-269 Financial Status Report effective May 1, 2010. Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p>
09-SA-112	Failure to Timely Communicate Federal Award Information to Subrecipients	DAAS	09/01/10	X				<p>The Division of Aging and Adult Services has incorporated the required award information in the NGA document. Revised NGA documents were sent out in September 2010 to the Aging Cluster program subrecipients that reflected the appropriate federal award information and reporting requirements. Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p>

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09-SA-113	Subrecipient Monitoring Documentation Needs Improvement	DAAS	03/01/10	X				The Division of Aging and Adult Services (DAAS) developed a checklist that is utilized by DAAS monitoring staff at the completion of monitoring visits to ensure that subrecipient files contain all the required documentation. Files are reviewed for completeness prior to the submission of the monitoring report to the subrecipient. A completed checklist, including the date and monitor's signature, is maintained in each subrecipient's file. Therefore, we considered this finding resolved as of March 1, 2010.
09-SA-114	Deficiencies in Federal Reporting Procedures	Controller	05/01/10	X				The Department strengthened internal controls by implementing an independent review process for the Aging Cluster SF-269 Financial Status Report effective May 1, 2010. Therefore, we consider this finding resolved and no further corrective action is considered necessary.
09-SA-115	Failure to Timely Communicate Federal Award Information to Subrecipients	DAAS	09/01/10	X				The Division of Aging and Adult Services has incorporated the required award information in the NGA document. Revised NGA documents were sent out in September 2010 to the Aging Cluster program subrecipients that reflected the appropriate federal award information and reporting requirements. Therefore, we consider this finding resolved and no further corrective action is considered necessary.
09-SA-116	Subrecipient Monitoring Documentation Needs Improvement	DAAS	03/01/10	X				See response to finding 09-SA-113.
09-SA-117	Deficiencies in Federal Reporting Procedures	Controller	05/01/10	X				The Department strengthened internal controls by implementing an independent review process for the Aging Cluster SF-269 Financial Status Report effective May 1, 2010. Therefore, we consider this finding resolved and no further corrective action is considered necessary.
09-SA-118	Failure to Timely Communicate Federal Award Information to Subrecipients	DAAS	09/01/10	X				The Division of Aging and Adult Services has incorporated the required award information in the NGA document. Revised NGA documents were sent out in September 2010 to the Aging Cluster program subrecipients that reflected the appropriate federal award information and reporting requirements. The Division also stated that the NSIP grant was entitlement funding and should not be included on the NGA. Therefore, we consider this finding resolved and no further corrective action is considered necessary.
09-SA-119	Subrecipient Monitoring Documentation Needs Improvement	DAAS	03/01/10	X				See response to finding 09-SA-113.
09-SA-120	Inadequate Control Over County User Access to the County Administration Reimbursement System	DHHS	01/03/11		X			See response to finding 09-SA-10.
09-SA-121	Documentation Lacking in County Case Files for Temporary Assistance for Needy Families Program	DSS	07/29/10	X			\$1,629	The following corrective action has occurred: <ul style="list-style-type: none"> • The Division of Social Services (DSS) continues to enhance its monitoring and training activities for county intake personnel to ensure documentation of the eligibility determination process is properly maintained. • All of the counties with discrepancies established corrective action plans to address the weaknesses/discrepancies identified by the State Auditors. Subsequent follow-up by the Division's Work First Representatives (WFR) verified that corrective action was taken in regards to the audit findings. • All of the discrepancies noted by the State Auditors in the 2 case files have been appropriately investigated and resolved by county and Divisional personnel as of 7-29-10. With regards to the \$1,629 in questioned costs, the missing file was located and reviewed by the local auditor who subsequently determined that the client was eligible for the services. <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p>
09-SA-122	Inadequate Control Over County-Level User Access to the Eligibility Computer Systems	DSS / DMA	01/03/11		X			The following corrective action has occurred: <ul style="list-style-type: none"> • The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights. • For each of the 25 individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked as of September 2010. • Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in September 2009 and March 2010.

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09-SA-122 (continued)								<ul style="list-style-type: none"> • Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis. • All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access. • DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems. • Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form. <p>Therefore, we consider this finding only partially resolved as of January 3, 2011.</p>
09-SA-123	Inadequate Control Over County User Access to the TANF Data Collection System	DSS	01/03/11		X			<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights. • For each of the 7 individuals identified as not having authorization documentation on file, such documentation has since been obtained from the appropriate ISO or the individual's access has been revoked as of September 2010. • Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in June 2010 and September 2010. • Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis. • All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access. • DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems. • Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form. <p>Therefore, we consider this finding only partially resolved as of January 3, 2011.</p>
09-SA-124	Inadequate Control Over County User Access to the County Administration Reimbursement System	DHHS	01/03/11		X			See response to finding 09-SA-10.

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09-SA-125	Appropriate Action Not Taken in Child Support Cases	DSS	09/17/10		X			<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department continues to generate Self-Assessment reports monthly to identify cases that have not met compliance timeframe. • The Department continues to develop and implement Corrective Action Plans (CAPs) to improve compliance rates in the local CSE offices. Regional Representatives monitor the CAPs on a quarterly basis and reports are submitted to Child Support Enforcement (CSE) management. <p>Self-Assessment scores demonstrate that local offices with large ratios of cases to caseworkers are much less likely to meet compliance with Establishment timeframes. It is unlikely that the statewide score will reach the compliance rate of 75% unless caseload size can be reduced in those offices with large establishment caseloads. Therefore, we consider this finding only partially resolved as of September 17, 2010.</p>
09-SA-126	Failure to Timely Communicate ARRA Federal Award Information to Subrecipients	Controller	10/20/09	X				The Department has appropriately notified the county subrecipients, as well as each Division Director, of the ARRA award information and reporting requirements. As of 10-20-09, the Department has also incorporated Federal Award information with EFT payments, which is now communicated to counties with each disbursement. Therefore, we consider this finding resolved and no further corrective action is considered necessary.
09-SA-127	Inadequate Control Over County User Access to the County Administration Reimbursement System	DHHS	01/03/11		X			See response to finding 09-SA-10.
09-SA-128	Deficiencies in Cash Management Procedures	Controller	03/12/10	X				The Controller's Office reviewed drawdown procedures with staff on March 12, 2010, stressing the importance of monitoring cash on hand, supervisory review, and maintenance of backup documentation. In addition, the Department increased report retention for LIHEAP system documentation effective January 6, 2010. Therefore, we consider this finding resolved.
09-SA-129	Documentation Lacking in County LIHEAP Case Files	DSS	05/24/10	X			\$527	<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Division of Social Services (DSS) continues to enhance its monitoring and training activities for county intake personnel to ensure documentation of the eligibility determination process is properly maintained. • All of the counties with discrepancies established corrective action plans to address the weaknesses/discrepancies identified by the State Auditors. Subsequent follow-up by the Division's County LIHEAP Consultants verified that corrective action was taken in regards to the audit findings. • All of the discrepancies noted by the State Auditors in the 3 client files have been appropriately investigated and resolved by county and Divisional personnel as of 5-24-10. With regards to the \$527 in questioned costs, the \$321 has been recouped as of 5-21-10 and the missing documentation (\$206 questioned cost) was located and reviewed by the Division's County LIHEAP Consultant who subsequently determined that the client was eligible for the services. The \$206 should no longer be considered a questioned cost. <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p>
09-SA-130	Failure to Follow Subrecipient Monitoring Plan for LIHEAP Crisis Intervention Program	DSS	09/16/10		X			<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Division of Social Services (DSS) continues to enhance its monitoring and training activities for county intake personnel to ensure documentation of the eligibility determination process is properly maintained. • Effective September 16, 2010, the monitoring plan for the Energy Programs was updated to include the LIHEAP Crisis Intervention Program. The monitoring plan and the schedule of counties to be monitored are updated each year and posted on the DSS website. <p>Due to the timing of our follow-up fieldwork, we were unable to verify whether the DSS monitors were monitoring the counties in accordance with the updated monitoring plan. Therefore, we considered this finding only partially resolved as of September 16, 2010.</p>
09-SA-131	Deficiencies in Cash Management Procedures for the Community Services Block Grant Program	Controller	10/01/09	X				The Department enhanced procedures to include a supervisory review and approval of payroll and revenue clearing draws effective October 1, 2009 in order to ensure the accuracy of draw requests for Community Services Block Grant funds. In addition, the Department continues to review drawdown procedures with staff stressing the importance of monitoring cash on hand, supervisory review, and maintenance of backup documentation. Therefore, we consider this finding resolved and no further corrective action is considered necessary.

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09-SA-132	Deficiencies in Internal Control Over Earmarking Requirements	OEO / Controller	01/18/11	X				<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Office of Economic Opportunity hired two Fiscal Analysts and a CSBG Program Manager in April, 2010. These positions are responsible for monitoring subgrantee expenditures. • OEO enhanced its monitoring procedures to include a quarterly review of each contract including written feedback to the agency. • OEO has strengthened its follow-up procedures with agencies having unacceptable expenditure rates to ensure adequate spending levels are achieved. • OEO is currently working with the Controller's Office to determine the amount of available discretionary funds for re-distribution. <p>The Office of the State Auditor did not identify a similar finding in their 2010 Single Audit fieldwork; therefore, we consider this finding resolved as of January 18, 2011.</p>
09-SA-133	Deficiencies in Internal Control Over Period of Availability Requirements	OEO / Controller	01/18/11	X				<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Office of Economic Opportunity (OEO) has strengthened its internal controls to ensure the proper tracking and monitoring of subrecipient expenditures and obligations occurs on a timely basis. • OEO hired two Fiscal Analysts in April 2010 to assist with monitoring expenditure rates at the subrecipient level. • OEO has enhanced its subrecipient monitoring and communication efforts to ensure the maximization of available resources occurs within the appropriate period of availability. <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p>
09-SA-134	Deficiencies in Federal Reporting Procedures for the Community Services Block Grant Program	Controller	07/22/10	X				<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Federal SF-269 report was revised and submitted to the Office of Grants Management on March 4, 2010 to reflect the correct encumbrance amount. • The Department strengthened internal controls by implementing an independent review process for the SF-269 Financial Status Report effective May 1, 2010. • The truncation problem with the NCAS reports was corrected when the Department expanded the Special Purpose Expenditures Report parameters to accommodate additional digits. The change was implemented July 22, 2010. <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p>
09-SA-135	Subrecipient Monitoring for the Community Services Block Grant Needs Improvement	OEO	01/18/11	X				<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Office of Economic Opportunity (OEO) has strengthened its internal controls and monitoring plan to ensure the proper tracking and on-site monitoring of the subrecipients' activities occurs in a timely manner. • OEO hired two Fiscal Analysts in April 2010 to assist with monitoring the subrecipients' fiscal activities. <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary as of January 18, 2011.</p>
09-SA-136	Inadequate Control Over County User Access to the Subsidized Child Care Reimbursement System	DSS	01/03/11		X			<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department implemented policies and procedures to ensure adequate control of access to its system applications and conduct periodic, documented reviews of its users' access rights. • Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We noted during our follow-up assessment that security officers had performed security reviews in February 2010 and July 2010. • Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis. • All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access.

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09-SA-136 (continued)								<ul style="list-style-type: none"> • DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems. • Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form. <p>Therefore, we consider this finding only partially resolved as of January 3, 2011.</p>
09-SA-137	Inadequate Control Over County User Access to the Subsidized Child Care Reimbursement System	DSS	01/03/11		X			See response to finding 09-SA-136.
09-SA-138	Inadequate Control Over County User Access to the County Administration Reimbursement System	DHHS	01/03/11		X			See response to finding 09-SA-10.
09-SA-139	Inadequate Control Over County User Access to the County Administration Reimbursement System	DHHS	01/03/11		X			See response to finding 09-SA-10.
09-SA-140	Ineligible Benefit Payments for the Foster Care Program	DSS	01/12/11		X		\$14,343	<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Division of Social Services (DSS) recovered the \$22,410 (federal share = \$14,343) in questioned costs identified by the State Auditors in April 2010 from the respective counties. DSS identified an additional \$9,479 in ineligible payments that has also been recovered from the counties as of April 2010. • As of 1-12-11, the DSS Data Reporting and Performance Management Team in partnership with the Division of Information Resource Management (DIRM) are developing a system edit to prevent IV-E payments from being issued for youth over the age of 18. This system edit is expected to be completed by July 2011. • Until the system edit is fully implemented, DSS is using a monthly report (Youth 18 and older in Foster Care and Receiving Title IV-E Payments) to monitor ineligible IV-E payments for youth over the age of 18. <p>Therefore, we consider this finding only partially resolved as of January 12, 2011.</p>
09-SA-141	Documentation Errors in County Foster Care Title IV-E Program		08/27/10	X				<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Division of Social Services (DSS) continues to enhance its monitoring and training activities for county personnel to ensure documentation of the eligibility re-determination process is properly maintained. • A corrective action plan to address the discrepancy identified by the local auditor was submitted by the county. Subsequent follow-up by a DSS Children's Program Representative (CFR) verified that corrective action was taken in regards to the audit finding. • The case file was reviewed and the child was subsequently determined to be eligible for the IV-E services except for one month. The Department processed an adjustment for the one-month overpayment in September 2009. • The discrepancy noted by the local auditor in the one case file has been appropriately investigated and resolved by county and Divisional personnel as of August 27, 2010. <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p>
09-SA-142	Failure to Timely Communicate ARRA Federal Award Information to Subrecipients	Controller	10/20/09	X				The Department has appropriately notified the county subrecipients, as well as each Division Director, of the ARRA award information and reporting requirements. As of 10-20-09, the Department has also incorporated Federal Award information with EFT payments, which is now communicated to counties with each disbursement. Therefore, we consider this finding resolved and no further corrective action is considered necessary.

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09-SA-143	Inadequate Control Over County User Access to the County Administration Reimbursement System	DHHS	01/03/11		X			See response to finding 09-SA-10.
09-SA-144	Failure to Timely Communicate ARRA Federal Award Information to Subrecipients	Controller	10/20/09	X				The Department has appropriately notified the county subrecipients, as well as each Division Director, of the ARRA award information and reporting requirements. As of 10-20-09, the Department has also incorporated Federal Award information with EFT payments, which is now communicated to counties with each disbursement. Therefore, we consider this finding resolved and no further corrective action is considered necessary.
09-SA-145	Inadequate Control Over County User Access to the County Administration Reimbursement System	DHHS	01/03/11		X			See response to finding 09-SA-10.
09-SA-146	Inadequate Control Over County User Access to the County Administration Reimbursement System	DHHS	01/03/11		X			See response to finding 09-SA-10.
09-SA-147	Documentation Lacking in County Children's Health Insurance Program Case Files	DMA	08/25/10	X				<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Division of Medical Assistance (DMA) continues to enhance its monitoring and training activities for county intake personnel to ensure documentation of the eligibility determination process is properly maintained. • The two counties with discrepancies established corrective action plans to address the weaknesses/discrepancies identified by the State Auditors. Subsequent follow-up by the DMA Medicaid Program Representatives (MPR) verified that corrective action was taken in regards to the audit findings. • All of the discrepancies noted by the State Auditors in the four client files have been appropriately investigated and resolved by county and Divisional personnel as of August 25, 2010. <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p>
09-SA-148	Inadequate Control Over County-Level User Access to the Eligibility Information System	DSS / DMA	01/03/11		X			See response to finding 09-SA-122.
09-SA-150	Deficiencies in Medicaid Provider Billing and Payment Process	DMA	02/23/11		X		\$30,535	<p>The following corrective action has occurred:</p> <ol style="list-style-type: none"> 1. The Division of Medical Assistance (DMA) continues to improve its provider communications and training. Education letters were sent to providers notifying them of the minimum elements required to comply with Medicaid documentation guidelines. Additional emphasis on proper coding and documentation requirements has been incorporated into the DMA training offered to providers. 2. With regards to the 22 claims totaling \$40,597 (federal share = \$30,535) that were questioned by the State Auditors, the following corrective actions have occurred: <ul style="list-style-type: none"> • 14 claims totaling \$59,397.14 (federal share = \$42,581.44) have been appropriately resolved and/or recouped as of 9/8/10. • 7 claims totaling \$253.95 (federal share = \$167.38) that represented underpayments to the providers have been appropriately resolved through the provider's cost settlement process as of 2-23-11. • The final claim in the amount of \$18,546.03 (federal share \$11,878.73) represented an underpayment to the provider as a result of an error in the DRG calculation. The provider was notified by certified letter on April 14, 2010 of the error along with instructions to file a corrected claim for adjustment. As of 2-23-11, the provider has not requested an adjustment for the \$18,546.03 underpayment.. <p>Therefore, we consider this finding only partially resolved as of February 23, 2011.</p>
09-SA-151	Inadequate Reconciliations of Medical Assistance Payments	DMA	09/24/10	X				Monthly reconciliations of the paid medical assistance claims as reported in the Medicaid Management Information System (MMIS) to the claims payment expenditure amounts in the North Carolina Accounting System (NCAS) are being performed on a timely basis. Therefore, we consider this finding resolved as of September 24, 2010.

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09-SA-152	Deficiencies Noted with Tracking of Program Change Controls for Medicaid Management Information System	DMA	01/19/11	X				<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department continues to enhance its program change controls for tracking program change and file maintenance requests in MMIS. • The Department continues to strengthen internal procedures to ensure effective management of program change controls are addressed in the implementation of the replacement MMIS system. <p>The Office of the State Auditor did not identify a similar finding in their 2010 Single Audit fieldwork; therefore, we consider this finding resolved as of January 19, 2011.</p>
09-SA-153	Failure to Terminate User Access for the Medicaid Management Information System and Department Network		07/31/11		X			<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • As of September 2010, the Department has implemented appropriate policies and procedures to ensure adequate control of access to the Medicaid Management Information System (MMIS) and the Department's network. • The MMIS and network access for the former DHHS employee identified in the audit has been revoked as of August 19, 2010. • Per policy, security officers must complete security reviews twice a year to ensure required authorizations are on file and take appropriate action immediately to correct any discrepancies noted. We were informed during our follow-up assessment that the DMA Security Office staff had not performed security reviews of MMIS access until August 2011. • Effective March 2010, DHHS requires all Division/Office Information Security Officials (ISO) to review and verify monthly the accuracy of their employees' mainframe access rights via Resource Access Control Facility (RACF) and to the Online Verification (OLV) application. This is accomplished with the review of customized RACF and Web Identity Role Management (WIRM) reports. The "Division/Office System Access Control" form is used to report monthly to the Department Privacy and Security Office (PSO) the results of the review via email. The reports have been modified for usability by the counties, which are expected to adhere to the monthly review and reporting procedures. However, we noted during our follow-up assessment that as of September 22, 2010 several Divisions were not submitting the "Division/Office System Access Control" form to the PSO on a monthly basis. • All users granted access to State IT systems since July 2007 do not have an Information Resource Access Authorization Form (IRAAF) on file. Only DSS, DIRM and Office of the Internal Auditor use the IRAAF to track access. • DIRM implemented an electronic version of the IRAAF (e-IRAAF) in January 2011 to be used by the counties and the Department to help automate/document the access review/authorization process. Use of the e-IRAAF has replaced the previous procedures for submission of IRAAFs to update an individual's access rights. DHHS management has mandated the use of the e-IRAAF for all Divisions/Offices within the Department. However, the e-IRAAF was not configured/designed to grant/track access to all systems. • Because access to IT systems is decentralized, the DHHS Security Standards were revised effective June 30, 2008 to allow the Divisions/ Offices within the Department to use various forms and/or methods for granting/modifying/terminating access to State IT systems and application resources. The DHHS Security Manual and the DHHS Security Standards have not been revised/updated to mandate the use of the e-IRAAF form. • The Division of Medical Assistance (DMA) Information Technology (IT) & The Health Insurance Portability and Accountability Act (HIPAA) Section is also currently working on developing a new Intranet website which will host a link to the Automated Access and Resource Management System (AARMS) now in development. The new intranet website is being completed in phases. It is anticipated that the first phase will be completed by December 31, 2011. Due to the non-availability of resources, delays have occurred. This AARMS system will be a Structured Query Language (SQL) database using Hyper Text Markup Language (HTML), front end forms and automated workflow processes. It will have auditable, password validated authorization, steps built in that will ensure these notifications are accomplished and accesses are revoked in the specified time frame allotted for each system, application or network. The data used to populate personnel records in AARMS will directly feed the information to security officials in • DMA's Recipient and Provider Services section who will use the Division of Information Resources Management's (DIRM's) electronic Information Resource Access Authorization Form (e-IRAAF), (Eligibility Information System (EIS), Online Verification (OLV), IEVS, etc). Currently the Division is using e-IRAAF system that is mandated by Department of Health Human Services (DHHS) Privacy and Security Office (PSO) to track all system access. • The policies and procedures for granting and terminating MMIS access for non-DMA workforce personnel have also been updated. This process is formally documented in the DMA Information Systems User Authorization and Access Policy, dated August 1, 2010 and the Internal DMA MMIS Access Control Procedures, dated April 1, 2010. <p>Therefore, we consider this finding only partially resolved as of July 31, 2011.</p>

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09-SA-154	Inadequate Control Over County User Access to the County Administration Reimbursement System	DHHS	01/03/11		X			See response to finding 09-SA-10.
09-SA-155	Deficiencies in Cash Management Procedures for the Medicaid Program	Controller / DMA	11/01/10	X				<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department implemented additional control procedures for the creation of and changes to FRC's. Effective 5-25-10, a new form was implemented for the creation, revision and approval of FRC's. • The Department implemented a new procedure in SFY 2010 requiring a monthly comparison of earned revenue and expenditures which includes all FRC's. In addition, the procedure also enhances the supervisory review and approval process. • The Department worked with the Office of State Controller and the State Treasurer to modify the federal funds drawdown procedures for Medicaid funds. Effective June 8, 2009, the DHHS Office of the Controller now processes the Medicaid cash drawdown based on actual expenditures. • The DHHS Office of Controller worked with the claims administrator to develop a report to provide the Department with the necessary information based upon actual claim payments to enhance the Medicaid cash draw calculation. The report was developed and incorporated into the drawdown calculation process in November 2010. <p>Therefore, we consider this finding resolved as of November 2010.</p>
09-SA-156	Documentation Lacking in County Medicaid Case Files	DMA	09/16/10	X			\$105	<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Division of Medical Assistance (DMA) continues to enhance its monitoring and training activities for county intake personnel to ensure documentation of the eligibility determination process is properly maintained. • The eleven counties with discrepancies established corrective action plans to address the weaknesses/discrepancies identified by the State Auditors. Subsequent follow-up by the DMA Medicaid Program Representatives (MPR) verified that corrective action was taken in regards to the audit findings. • All of the discrepancies noted by the State Auditors in the forty client files have been appropriately investigated and resolved by county and Divisional personnel as of 9-16-10. With regards to the \$105 in questioned costs, the \$105 was recouped from the county on August 31, 2010. <p>Therefore, we consider this finding resolved and no further corrective action is considered necessary.</p>
09-SA-157	Inadequate Control Over County-Level User Access to the Eligibility Information System	DSS / DMA	01/03/11		X			See response to finding 09-SA-122.
09-SA-158	Deficiencies in Medicaid Reporting Processes	DMA	12/10/10	X				<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Department strengthened internal controls by properly segregating the CMS-64 preparation process from the primary reviewer. • The Department continues to enhance its procedures to ensure the timely submission of the CMS-64 report. <p>The Office of the State Auditor did not identify a similar finding in their 2010 Single Audit fieldwork; therefore, we consider this finding resolved as of December 10, 2010.</p>
09-SA-159	Deficiencies in Controls Over the Provider Eligibility Enrollment Process	DMA	08/19/10		X			<p>The following corrective action has occurred:</p> <ol style="list-style-type: none"> 1. Effective April 2009 DMA contracted with Computer Sciences Corporation (CSC) to develop and implement a replacement MMIS system. CSC also assumed the responsibility for provider Enrollment, Verification and Credentialing (EVC) activities in late April 2009. 2. DMA developed procedures to monitor CSC's EVC activities on a random basis in 2009 to ensure ineligible providers no longer participate in the Medicaid program. 3. With regards to the 8 provider files that were either missing, not inclusive of all required enrollment documentation or not properly end-dated in MMIS; the following corrective action has occurred as of 8-19-10: <ul style="list-style-type: none"> • Two provider files have been properly end-dated. • The missing documentation identified by OSA in two provider files has not been located. by DMA • The four provider files that were identified as missing by OSA still have not been located by DMA. <p>The Office of the State Auditor identified a similar finding in their 2010 Single Audit fieldwork; therefore, we consider this finding only partially resolved as of August 19, 2010.</p>

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09-SA-160	Deficiencies in Internal Control Over Earmarking Requirements	DPH / Controller	01/12/11		X			<p>The following corrective action has occurred:</p> <ul style="list-style-type: none"> • The Division of Public Health enhanced the spreadsheets that it uses to track compliance with various earmarking requirements. However; OSA noted errors in the spreadsheets and that program expenditures were still not being adequately tracked in the accounting system to sufficiently demonstrate compliance with the various earmarking requirements during their 2010 Single Audit fieldwork. • The Division met with the DHHS Controller's Office on September 16, 2010 to address the accounting coding structure requirements for the HIV Care grant. • The Division met with OSA in September 2010 to discuss acceptable corrective actions for better internal controls over earmarking requirements. An agreement was reached and the appropriate corrective actions will be fully implemented by April 1, 2011. <p>Therefore, we consider this finding only partially resolved as of January 12, 2011.</p>
09-SA-163	Deficiencies in Internal Control Over Earmarking Requirements	DMH / Controller	06/23/11	X			\$10,000	<p>The following corrective action has occurred.</p> <ul style="list-style-type: none"> • The Controller's Office enhanced the coding structure in NCAS effective July 1, 2009 by establishing Federal Reimbursement Codes (FRCs) in order to track the SAPT set aside requirement. • The Division has refunded the HIV and Primary Prevention set-aside shortfalls to SAMHSA grants management in the amounts of \$363,020 and \$ 491,350 respectively as of 3/5/10. • The Division of Mental Health contacted the National Association of State Alcohol and Drug Abuse Directors for input and clarification of State sponsorships regarding the \$10,000 questioned cost. The costs were subsequently deemed unallowable and the \$10,000 was refunded to the federal funding agency (SAMHSA) on June 23, 2011. <p>Therefore, we consider this finding fully resolved as of June 23, 2011.</p>
09-SA-164	Monitoring Procedures Need Improvement	DMH	09/23/10		X			<p>The following correction action has occurred.</p> <ul style="list-style-type: none"> • Effective September 2010, the Division of Mental Health, Disability Determination, and Substance Abuse Services (DMH) developed procedures to facilitate monitoring activities, including the development and implementation of a fiscal monitoring plan for the Local Management Entities (LME) during State 2009-2010 fiscal year. • DMH developed written procedures entitled "DMH/DD/SAS Budget & Finance Team Settlement and Sub-recipient Monitoring Procedures for Local Management Entities" to ensure fiscal operations related to the LME services delivery and systems management are being documented and reported accurately. • During SFY 2010, DMH completed a compliance review of the SAPTBG funds that were awarded to the LMEs. Identified deficiencies were timely communicated to the LMEs and corrective action plans were completed by the LMEs. • As of September 23, 2010, DMH had not completed the fiscal reviews of the 2008 and 2009 LME settlement documentation. <p>Therefore, we consider this finding only partially resolved as of September 23, 2010.</p>