

Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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May 12, 2014

Dr. Aldona Vos, Secretary
North Carolina Department of Health and Human Services
2001 Mail Service Center
101 Blair Drive – Adams Building
Raleigh, North Carolina 27699-2001

Dear Dr. Vos:

We are pleased to confirm with you the arrangements for our financial audit at the North Carolina Department of Health and Human Services for the fiscal year ending June 30, 2014. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act, as amended; and the provisions of OMB Circular A-133.

Audit Objectives

Our financial audit objectives at the Department for the fiscal year ending June 30, 2014, include the following:

- a. We will audit selected financial statement amounts and disclosures reported to the Office of the State Controller included in the State's *Comprehensive Annual Financial Report (CAFR)*. Our objective and responsibility is to express an opinion as to whether the State's financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The *CAFR* scope currently planned for the Department includes auditing the General Fund, excluding the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services. We will inform you if we have to adjust the planned audit scope.
- b. We will subject the amounts and disclosures reported to the Office of the State Controller for the State's Schedule of Expenditures of Federal Awards presented in the *Single Audit Report* to the auditing procedures applied in our audit of the financial statements. We will also perform certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Our objective and responsibility is to report on the fairness of the Schedule when considered in relation to the basic financial statements taken as a whole.
- c. We will apply certain limited procedures to required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding methods of measurement and presentation of the required supplementary information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtain during our audit of the basic financial statements.

We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

- d. We will audit matters related to federal financial assistance programs for the purpose of complying with the audit requirements of the Single Audit Act and OMB Circular A-133. Our objective and responsibility is to express an opinion as to whether the State has complied, in all material respects, with the compliance requirements that have a direct and material effect on major federal programs. The Single Audit scope currently planned for the Department includes auditing the following programs:
1. Adoption Assistance – Title IV-E (CFDA 93.659);
 2. Aging Cluster (CFDA's 93.044, 93.045, and 93.053);
 3. Block Grants for Prevention and Treatment of Substance Abuse (CFDA 93.959);
 4. Child and Adult Care Food Program (CFDA 10.558);
 5. Children's Health Insurance Program (CFDA 93.767);
 6. Foster Care – Title IV-E (CFDA 93.658);
 7. HIV CARE Formula Grants (CFDA 93.917);
 8. Medicaid Cluster (CFDA's 93.720, 93.777, and 93.778);
 9. Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA 84.126);
 10. Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA 10.557);
 11. Supplemental Nutrition Assistance Program Cluster (CFDA's 10.551 and 10.561); and
 12. Temporary Assistance for Needy Families Cluster (CFDA's 93.558 and 93.714).

We will inform you if we have to adjust the planned audit scope.

- e. We will audit other financial matters not related to the objectives described above if determined necessary during the course of our audit.

Audit of the Financial Statements

The aforementioned auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with appropriate auditing standards.

In making our risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.

Audit of Federal Compliance

Our audit of the North Carolina Department of Health and Human Services' compliance with requirements applicable to major federal programs will be conducted in accordance with the aforementioned auditing standards. Circular A-133 requires that we plan and perform the audit to obtain reasonable assurance about whether the entity has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major federal award programs. Our procedures will consist of determining major federal programs and performing the applicable procedures described in the U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the State's major programs. The purpose of those procedures will be to express an opinion on the State's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to Circular A-133.

Also, as required by Circular A-133, we will perform tests of controls to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each of the State's major federal programs. However, our tests will be less in scope than would be necessary to render an opinion on these controls and, accordingly, no opinion will be expressed in our report.

Audit Reporting

We will offer to hold one or more exit conference(s) with you to discuss the results of the audit. We will also provide you a management letter detailing those results. As required by the aforementioned auditing standards, we will inform you of any fraud, instances of noncompliance (unless clearly inconsequential), significant deficiencies in internal control, or instances of material abuse that come to our attention. Because the determination of abuse is subjective, our audit will not provide reasonable assurance of detecting abuse.

At the conclusion of the audit:

- a. We will provide to the Office of State Controller our report on the State of North Carolina's basic financial statements. The Office of State Controller will publish the financial statements, and our report thereon, in the State's *CAFR*. We cannot provide assurance that unmodified opinion on the financial statements will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement.
- b. As part of our audit of the State of North Carolina's basic financial statements, and in accordance with the requirements of *Government Auditing Standards*, we will publish in the State's *Single Audit Report* a written report describing the scope of our testing of internal control over financial reporting and over compliance with laws, regulations, and provisions of grants and contracts, including the results of that testing. However, providing an opinion on internal control and compliance over financial reporting will not be an objective of the audit and, therefore, no such opinion will be expressed. We will also publish in your separate report your portion of the statewide audit results, including our audit findings and your responses.

- c. As part of our audit of the State of North Carolina's compliance with requirements applicable to major federal programs, and in accordance with the requirements of the Single Audit Act and OMB Circular A-133, we will publish in the State's *Single Audit Report* a written report on major federal program compliance and also describing the scope of our testing of internal control over compliance, including the results of that testing. However, providing an opinion on internal control compliance will not be an objective of the audit and, therefore, no such opinion will be expressed. We will also publish a separate report with your portion of the statewide audit results, including our audit findings and your responses.
- d. We intend to make reference to the audit results by local government auditors as a basis, in part, for our opinion on compliance related to the "intake function" to determine eligibility for the following major programs: Adoption Assistance – Title IV-E, Children's Health Insurance Program, Medicaid Cluster, Special Supplemental Nutrition Program for Women, Infants, and Children, and Temporary Assistance for Needy Families Cluster. If we determine that for any reason we will not be able to rely on these auditors' results in forming our opinion or if the results are not available within a reasonable amount of time after we are ready to issue our report, we may decide that it is appropriate to modify or disclaim our opinion related to these major programs.
- e. We will communicate in a letter to those charged with governance: (1) our views on the accounting policies, accounting estimates, and financial statement disclosures; (2) significant difficulties, if any, encountered during the audit; (3) disagreements with management, if any; (4) other findings or issues, if any, considered to be significant to the subject matter of our audit; (5) information about misstatements noted in our audit; (6) significant findings or issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management; (7) our views about significant matters that were the subject of management's consultations with other accountants when we are aware of such consultation; and (8) the written presentations made to us by management.

The Office of the State Auditor uses the Internet as its primary distribution system for audit reports. Anyone interested in receiving our final report should register with our Electronic Publication System (EPS) at www.ncauditor.net. Those who register will receive an e-mail notification and a link to the report as soon as it is posted on our web site. A limited number of printed copies will be sent to you, but these will not be mailed until after the web posting.

Management's Responsibilities

Our audit will be conducted on the basis that management acknowledge and understand that they have responsibility:

- 1. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. You will be required to review and approve any adjustments that we may propose as a result of our audit, and you must be in a position in fact and appearance to make an informed judgment on the financial statements. We will update the financial statements for all adjustments that you approve, but you will be required to assume responsibility for the final financial statements.
- 2. For compliance with requirements applicable to federal programs.
- 3. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements.
- 4. For the design, implementation, and maintenance of internal control relevant to compliance with requirements applicable to federal programs.

5. For safeguarding assets.
6. For identifying all federal awards expended during the period.
7. For identifying laws, regulations, grants, and contracts applicable to its activities and its federal programs.
8. To provide us with:
 - a. Access to all information that is relevant to our audit objectives, such as records, documentation, and other matters.
 - b. Additional information that we may request from you for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

With regard to required supplementary information and supplementary information on which we report in relation to the basic financial statements taken as a whole, you acknowledge and understand your responsibility (a) for the preparation of the supplementary information in accordance with the applicable criteria, (b) to provide us with the appropriate written representations regarding supplementary information, (c) to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information, and (d) to present the supplementary information with the audited financial statements, or if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by you of the supplementary information and our report thereon.

In addition, as required by Circular A-133, it is management's responsibility to prepare the schedule of expenditures of federal awards in accordance with Circular A-133 requirements, follow up and take corrective action on reported audit findings from prior periods and to prepare a summary schedule of prior audit findings, and follow up on current year audit findings and prepare a corrective action plan for such findings. Management will also make the auditor aware of any significant vendor relationships where the vendor is responsible for program compliance. You agree that you will confirm your understanding of your responsibilities as defined in this letter to us in your management representation letter.

Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to our audit objectives. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

As part of our audit process, we will request from you written confirmation concerning representations made to us in connection with the audit. You will also be responsible for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

We understand that appropriate personnel will be available to assist us in gaining an understanding of the Department's internal control and in the performance of certain clerical functions, such as retrieving and filing documents selected for testing. We also understand that you will provide adequate working space for our staff during the engagement. This environment should include a means for allowing auditors to connect electronically to our office's LAN. The

preferred method is via a direct connection through your LAN. Our MIS staff is available for consultation, if needed. Please call Hunter Robinson at (919) 807-7500 should you require assistance.

If you intend to publish or otherwise reproduce the financial statements and make reference to our office, you agree to provide us with printers' proofs or masters for our review and approval before printing.

Our audit does not relieve management of their responsibilities.

Audit Timing and Fees

As part of the financial and federal compliance audits, our information system auditors began audit fieldwork on April 23, 2014, and we expect our financial auditors to begin audit fieldwork on approximately May 12, 2014. We anticipate the release of our individual reports on the Department's *CAFR* and Single Audit results by approximately December 15, 2014 and March 16, 2015, respectively. However, circumstances may arise that cause us to alter our planned schedule. We will contact your controller to make final arrangements for our audit.

The Office of the State Auditor is funded by both General Fund appropriations and receipts for certain auditing services. We will bill you for the actual cost of the audit effort necessary to meet the requirements of the Single Audit Act, including the federal proportionate share of the *CAFR* audit cost.

We estimate your proportionate share of the cost of auditing the State's *CAFR* will be approximately \$51,344. In addition, we estimate your cost for performing federal compliance work required by the Single Audit Act will be approximately \$1,441,020. Details of these estimates are included in the attached schedule. These amounts have been estimated assuming we will not encounter unusual difficulties in completing the audit. If significant unexpected audit time becomes necessary due to circumstances beyond our control, we will immediately notify you and discuss additional fees.

Other

The audit documentation for this engagement is the property of the Office of the State Auditor and constitutes confidential information. However, we may be requested to make certain audit documentation available to federal, state, or other agencies with legal oversight authority or to other auditors. If requested, access to such audit documentation will be provided under our supervision. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. The parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

For your information, our recent external peer review reports are available on our web site at www.ncauditor.net under "About Us."

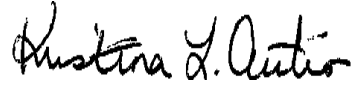
These arrangements only cover the currently scheduled financial audit activity for your agency. In the event that other audit responsibilities, such as information systems audits, performance audits, hotline investigations, or additional financial audits are deemed necessary, you will be notified via separate communication.

If the foregoing is in accordance with your understanding, please sign this letter in the space provided to indicate your agreement with the arrangements and return it at your earliest convenience.

We look forward to working with you and your staff to complete our audit in an effective and efficient fashion. Please let us know should you have any questions or comments.

Sincerely,

BETH A. WOOD, CPA
STATE AUDITOR



Kristina L. Autio, CPA
Audit Manager

BAW/KLA:ae

cc: Sherry Bradsher, Deputy Secretary for Human Services
Matt McKillip, Senior Policy Advisor
Rod Davis, Chief Financial Officer
Mark Payne, Chief Compliance Officer
Joseph Cooper, Jr., Chief Information Officer
Suzanne Merrill, Acting Director, Division of Aging and Adult Services
Penelope Slade-Sawyer, Director, Division of Public Health
Wayne Black, Director, Division of Social Services
Robin Gary Cummings, M.D., Director, Division of Medical Assistance
Dave Richard, Acting Director, Division of Mental Health Developmental Disabilities
and Substance Abuse Services
Eddie Weaver, Director, Division of Services for the Blind
Elizabeth Bishop, Acting Director, Division of Vocational Rehabilitation
Angeline Sligh, Director, Office of Medicaid Management Information System Services
Karen Tomczak, Director, Division of Information Resource Management
Pyreddy Reddy, Chief Information Security Officer
Emery Edwards Milliken, General Counsel
Chet Spruill, Director, Internal Audit
Jim Slate, Director, Budget and Analysis
Laketha Miller, Controller
Monica Hughes, Audit Resolution Coordinator

Attachment

RESPONSE:

This letter correctly sets forth the understanding of the North Carolina Department of Health and Human Services regarding the financial audit activities currently scheduled by the Office of the State Auditor for the fiscal year ending June 30, 2014.

By: _____

Title: _____

Date: _____

**DHHS CAFR and SINGLE AUDIT (SA) ESTIMATE
SFY2014**

(1) CAFR Bill Rate: (CAFR Hours * 43%) * \$94

(2) Single Audit Bill Rate: SA Hours * \$94

Engagement	Agency Number	Service Code	Estimated Hours	Estimated Cost (1) / (2)
DHHS - Central Administration				
CAFR - DHHS CAFR	4410	1920	1,270.0	\$51,334.00
SA - DHHS Federal Indirect (Central)	4410	2099	2,490.0	\$234,060.00
SA - Statewide Planning	4410	2015	60.0	\$5,640.00
DHHS - Division of Aging and Adult Services				
SA - Aging Cluster	4411	2514	730.0	\$68,620.00
DHHS - Division of Public Health (DPH)				
SA - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	4430	2157	880.0	\$82,720.00
SA - Child and Adult Care Food Program	4430	2158	730.0	\$68,620.00
SA - HIV Care Formula Grant	4430	2658	730.0	\$68,620.00
DHHS - Division of Social Service (DSS)				
SA - Supplemental Nutrition Assistance Program (SNAP)	4440	2105	720.0	\$67,680.00
SA - Temporary Assistance for Needy Families (TANF)	4440	2565	780.0	\$73,320.00
SA - Foster Care - Title IV-E	4440	2615	560.0	\$52,640.00
SA - Adoption Assistance - Title IV-E	4440	2616	380.0	\$35,720.00
DHHS - Division of Medical Assistance (DMA)				
SA - Medicaid/CHIP - Federal Indirect (General)	4445	2099	660.0	\$62,040.00
SA - Medicaid Cluster	4445	2505	2,980.0	\$280,120.00
SA - Children's Health Insurance Program (CHIP)	4445	2635	920.0	\$86,480.00
DHHS - Division of Blind Services (DBS)				
SA - Rehabilitation Services - Vocational Rehabilitation Grants to States (VR)	4450	2435	430.0	\$40,420.00
DHHS - Division of Mental Health (DMH)				
SA - Block Grants for Prevention and Treatment of Substance Abuse	4460	2675	1,020.0	\$95,880.00
DHHS - Division of Vocational Rehabilitation (DVR)				
SA - Rehabilitation Services - Vocational Rehabilitation Grants to States (VR)	4480	2435	1,260.0	\$118,440.00

Total Estimated Cost for DHHS CAFR \$51,334.00

Total Estimated Cost for DHHS SA (Central and Grants) \$1,441,020.00

Overall Total Estimated Cost for DHHS CAFR and SA \$1,492,354.00