



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF GOVERNMENT AFFAIRS

ROY COOPER
GOVERNOR

MANDY COHEN, MD, MPH
SECRETARY

BEN POPKIN
ASSISTANT SECRETARY FOR LEGISLATION

November 1, 2017

SENT VIA ELECTRONIC MAIL

The Honorable Phil Berger, Co-Chair
Joint Legislative Commission on
Governmental Operations
North Carolina General Assembly
Room 2007, Legislative Building
Raleigh, NC 27601

The Honorable Tim Moore, Co-Chair
Joint Legislative Commission on
Governmental Operations
North Carolina General Assembly
Room 2304, Legislative Building
Raleigh, NC 27601

Dear Chairmen:

North Carolina General Statute §143B-216.51(g) requires the Department of Health and Human Services' Office of Internal Auditor OIA to issue a report to the Secretary on the status of corrective actions taken by the Department of Health and Human Services (DHHS) no later than six months after the State Auditor publishes any audit report pursuant to law. The law also requires that a copy of this report be filed with the Joint Legislative Commission on Governmental Operations pursuant to the General Statute. Pursuant to the provisions of law, the Department is pleased to submit the attached report.

Should you have any questions regarding the report, please contact Mark Payne, Interim Director of the Office of the Internal Auditor, at 919-855-3760.

Sincerely,

Ben Popkin
Assistant Secretary for Legislation

cc:	Mark Payne	Denise Thomas	Marjorie Donaldson	Kolt Ulm
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Office of the Internal Auditor
HEALTH AND HUMAN SERVICES

Follow-up Assessment of the Department of Health and
Human Services' Matters for Further Consideration from
the INV-2017-0416 Franklin Vance Warren Opportunity,
Inc., Investigative Report

Issued by the Office of the State Auditor
April 18, 2017

October 18, 2017

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DEPARTMENT OF HEALTH AND HUMAN SERVICES OFFICE OF INTERNAL AUDITOR

ROY COOPER
GOVERNOR

MANDY COHEN, MD, MPH
SECRETARY

MARK PAYNE
INTERIM DIRECTOR

October 18, 2017

Secretary Mandy Cohen, MD, MPH
N.C. Department of Health and Human Services
Adams Building, 101 Blair Drive
Raleigh, NC 27603

The Office of the Internal Auditor (OIA) has conducted a follow-up assessment of the Matters for Further Consideration identified for the Department of Health and Human Services' (DHHS), Division of Child Development and Early Education (DCDEE or Division) from the Franklin Vance Warren (FVW) Opportunity, Inc., Investigative Report, INV-2017-0416. The report was issued by the Office of the State Auditor (OSA) on April 18, 2017.

Conclusion

OIA observed sufficient evidence to conclude that DCDEE has taken appropriate corrective action to reduce the risks identified in the Matters for Further Consideration noted in OSA's investigative report. In our opinion, the corrective actions implemented in relation to each matter described were adequate to reduce the risk that these issues would continue to exist in subsequent periods. A summary of OSA's Matters for Further Consideration, DHHS's corrective actions planned by DCDEE, and OIA's observed results are included in Appendix A.

Objective

The objective of our follow-up assessment was to evaluate whether DCDEE has taken appropriate corrective action in response to OSA's Matters for Further Consideration and has implemented these corrective actions as described in the DHHS response to OSA's Investigative Report. Our follow-up assessment was conducted pursuant to G.S. 143B-216.51(g). The General Statute requires OIA to issue a report to the Secretary on the status of corrective actions taken by the Department of Health and Human Services no later than six months after the State Auditor publishes any audit report pursuant to law. A copy of this report shall also be filed with the Joint Legislative Commission on Governmental Operations pursuant to the General Statute.

Scope

The scope of our follow-up assessment encompasses the review of all activities directed toward the resolution of the risks associated with the Matters for Further Consideration as provided by OSA, as well as management's corrective actions described in DHHS's Response to the original investigative report.

Methodology

In order to form an opinion on the current status of OSA's Matters for Further Consideration and corrective actions identified in DHHS's Response, we performed the following functions:

- We reviewed OSA's Investigative Report in order to gain a better understanding of the Matters for Further Consideration identified.
- We reviewed DHHS' Response to the original report in order to gain a better understanding of corrective actions planned.
- We discussed with DCDEE management the corrective actions which were to be implemented.
- We conducted subsequent tests to evaluate whether corrective actions attributed to DCDEE were implemented and reduce the risk that the matters identified would continue to exist in subsequent periods.

We express our appreciation to the management and staff of the Division of Child Development and Early Education and the Office of the State Auditor for their cooperation and assistance provided during this follow-up assessment.

Mark Payne,
Interim Director, Office of the Internal Auditor

APPENDIX A

SUMMARY OF OSA'S MATTERS FOR FURTHER CONSIDERATION, DHHS'S RESPONSE, AND OIA'S FOLLOW-UP RESULTS

FISCAL REVIEWS NEEDED TO ENSURE ACCOUNTABILITY FOR \$139 MILLION IN ANNUAL PRE-KINDERGARTEN FUNDS (*Paraphrased*)

The North Carolina Department of Health and Human Services, Division of Child Development and Early Education (Division) should consider performing fiscal reviews of NC Pre-Kindergarten (NC Pre-K) program contractors and subcontractors. The fiscal reviews should ensure that \$139 million per year in state funds “provide high-quality educational experiences to enhance school readiness for eligible four-year-old children.”

The Division's program manual, *NC Pre-Kindergarten (NC Pre-K) Program Requirements and Guidance Manual*, requires fiscal monitoring to verify that NC Pre-K contractors comply with program requirements.

The Division does not perform fiscal reviews to determine how contractors and subcontractors spend NC Pre-K program funds. According to the Division's Assistant Director of Administrative Services (Assistant Director), the Division focuses its monitoring efforts on programmatic compliance rather than fiscal issues. However, without fiscal oversight, NC Pre-K funds are at-risk for improper use.

The Division should also consider increasing the frequency of its site visits to perform fiscal reviews. The Assistant Director said that from July 2012 to June 2015, the Division conducted 42 programmatic monitoring visits to selected Pre-K contractors. Therefore, on average, the Division visited 14 of 91 (15%) contractor sites per year. At that frequency, the Division monitors each Pre-K contractor approximately once every seven years. Infrequent monitoring visits limit the Division's ability to identify potential misuse of NC Pre-K funds.

DHHS' Response (Paraphrased)

In light of the fact that the Division contracts with Franklin Granville Vance Smart Start who in turn contracts with Franklin Vance Warren Opportunities, Inc. and the recommendations in the Matters for Further Consideration, we recognize that the NC Pre-K Fiscal and Contracts manual should be improved to provide clarification on the expectations of Division's primary contractors and their subcontractors.

The contracts between the Division and the 91 entities who administer the program at the local level are Financial Assistance Contracts that require line item budgets and limitations on the use of accepted funds. These Contractors are responsible for determining eligibility for services and for monitoring the provider sites for whom they subcontract. The subcontracts with NC Pre-K sites are Purchase of Services to provide a certain number of slots at specified rates for ten months.

The Division conducts fiscal monitoring of a sample of one-third NC Pre-K Contractors (Financial Assistance Contracts) each year. Previously, this monitoring was conducted through a combination

of desk audits and on-site visits; however, beginning in SFY 15-16 the Division modified its fiscal monitoring activities to be conducted on-site only.

Corrective Actions Identified in DHHS' Response:

1. DCDEE WILL REVISE THE NC PRE-K FISCAL AND CONTRACT MANUAL

DHHS' Response (Paraphrased)

To clarify responsibilities of Contractors and subcontractors, here are examples of how the Division will revise the NC Pre-K Fiscal and Contract manual:

- Information that pertains to the NC Pre-K subcontracts will be separated into its own section and not be included in the other sections that only apply to the 91 DCDEE NC Pre-K Contractors (Financial Assistance). For example, Sections 2 and 3 will be revised to only reference the NC Pre-K Financial Assistance Contracts. In this way, information on direct services funds, administrative funds, start-up funds, and allowable costs will be more clearly understood to apply to DCDEE's Contractors (Smart Start partnerships and Local Education Agencies).
- A new section that pertains only to the NC Pre-K subcontracts (Purchase of Service) will explain that sites must follow the subcontract requirements which include adhering to NC Pre-K program standards; providing a specified number of slots for a specified rate for ten months in order to provide services to children; and submitting accurate attendance records to the NC Pre-K Contractor.
- Section 13 on Monitoring will clarify that DCDEE NC Pre-K Financial Assistance Contractors are responsible for monitoring that NC Pre-K subcontracted sites appropriately earned the funds that they were paid – that the number of children billed for actually attended at the site, the site followed NC Pre-K program requirements, and the subcontracted rates were correctly paid.

OIA Follow-up Results

DCDEE provided OIA with the NC Pre-K Program Fiscal and Contract Manual, revised and approved August 24, 2017, effective for SFY 2017-2018. OIA reviewed and verified revisions to the manual as described in DHHS' Response. Specifically, OIA verified:

- The revised manual includes an additional section (Section 4) for NC Pre-K subcontracts, explaining the NC Pre-K Contractors' responsibilities for monitoring subcontracted sites, and sections 2 and 3 have been revised to only reference the NC Pre-K Financial Assistance Contracts and Contractors.
- The new section (Section 4) also includes subcontract requirements and standards for NC Pre-K Contractor subcontracts (Purchase of Services).
- The revised manual describes NC Pre-K Financial Assistance Contractors monitoring responsibilities for NC Pre-K subcontracted sites, including the Contractor's determination of whether the sites appropriately earned the funds that they were paid – that the number of children billed for actually attended the site, the site followed the NC Pre-K program requirements, and the subcontracted rates were correctly paid.

OIA concludes that this Matter for Further Consideration and its corrective actions are resolved.

2. DCDEE WILL UPDATE LANGUAGE IN THE SUBCONTRACT TEMPLATE FOR PURCHASE OF SERVICE

DHHS' Response (Paraphrased)

Division will update the NC Pre-K Program Template for Contracts Between Lead Agencies and Providers (the subcontract template) so that the designation of Purchase of Service contract is contained within the subcontract language rather than on the template's instruction cover page that is referenced by the primary Contractor.

OIA Follow-up Results

OIA reviewed the revised subcontract template included in the NC Pre-K Program Fiscal and Contract Manual, revised and approved August 24, 2017 and effective for SFY 2017-2018, and verified that the template includes Purchase of Service contract requirements and other language in an area of the template for use and consideration that is relevant to the subcontractor.

OIA concludes that this Matter for Further Consideration and its corrective action is resolved.

3. DCDEE WILL CONDUCT ON-SITE MONITORING FOR ALL NC PRE-K CONTRACTORS IN ACCORDANCE WITH A THREE-YEAR AUDIT CYCLE

DHHS' Response

The report suggested increasing the frequency of DCDEE's site visits to perform fiscal reviews. DCDEE conducts fiscal monitoring of a sample of one-third NC Pre-K Contractors (Financial Assistance) each year, so that all contractors are monitored in a 3-year cycle. In the past, this monitoring was done through a combination of desk audits and on-site visits. We wanted to let you know that starting in SFY 15-16, DCDEE now conducts on-site monitoring for all NC Pre-K Contractors in the sample.

OIA Follow-up Results

OIA reviewed the NC Pre-K Program Fiscal and Contract Manual, revised and approved August 24, 2017 and effective for SFY 2017-2018 and verified the revised manual includes the statement that DCDEE will conduct fiscal monitoring of contractors through on-site visits. The manual further explains that its monitoring methodology is to conduct approximately 30 on-site visits each year, which provides coverage over approximately one-third of the 91 lead agencies/contractors in any given year. OIA reviewed DCDEE's tracking log of all on-site visits during SFY 2016-2017, which indicates that 30 of 91 (33%) on-site reviews were conducted during the year.

OIA concludes that this Matter for Further Consideration and its corrective actions are resolved.

4. DCDEE WILL FOLLOW UP WITH FGV SMART START TO CONFIRM THAT NC PRE-K FUNDS PAID TO FVW OPPORTUNITY WERE APPROPRIATELY EARNED

DHHS' Response - (Paraphrased)

We will follow up with Franklin Granville Vance (FGV) Smart Start to specifically confirm that the NC Pre-K funds they paid to Franklin Vance Warren (FVW) Opportunity were appropriately earned. We will confirm that the number of children that they billed for actually attended at the

site, that FVW Opportunity was paid the predetermined rate in the subcontract, and that the site met all NC Pre-K Program standards.

OIA Follow-up Results

OIA reviewed documentation from February 14, 2017, where DCDEE requested confirmation from FGV Smart Start for verification that FVW Opportunity appropriately earned the NC Pre-K funds received. FGV Smart Start confirmed with DCDEE that FVW Opportunity appropriately earned the NC Pre-K funds that it was paid by FGV Smart Start during SFY 2012-2017. FGV Smart Start also confirmed that the number of children that it billed for actually attended the site, that it was paid according to the rate in the subcontract, and that the site met all NC Pre-K Program standards.

OIA concludes this Matter for Further Consideration and its corrective actions are resolved.