



STATE OF NORTH CAROLINA

**NORTH CAROLINA DEPARTMENT OF HEALTH
AND HUMAN SERVICES**

**RESULTS OF AUDIT PROCEDURES APPLIED TO THE
DESIGN OF INTERNAL CONTROL OVER COMPLIANCE
FOR SELECTED PROGRAMS AWARDED
AMERICAN RECOVERY AND REINVESTMENT ACT FUNDS**

FOR THE YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2010

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

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December 31, 2009

The Honorable Beverly Eaves Perdue, Governor
Members of the North Carolina General Assembly
Lanier M. Cansler, Secretary
North Carolina Department of Health and Human Services

This communication is provided pursuant to the *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, which encourages auditors to communicate, at an interim date, control deficiencies related to federal programs with American Recovery and Reinvestment Act of 2009 (ARRA) funding that are, or likely to be, significant deficiencies or material weaknesses in internal control over compliance. Accordingly, this communication is based on our assessment of the design of internal control over compliance. Because we have not completed our compliance audit, additional significant deficiencies and material weaknesses may be identified and communicated in our final report on compliance and internal control over compliance issued to meet the reporting requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

As part of our audit of the State of North Carolina's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the years ending June 30, 2009 and June 30, 2010, we are considering the State's internal control over compliance with these requirements that could have a direct and material effect on the major programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of North Carolina's internal control over compliance.

We performed these audit procedures at the North Carolina Department of Health and Human Services on the following programs that have received or will receive American Recovery and Reinvestment Act funds:

CFDA #	Program Title	Amount Awarded	Amount Received	Amount Expended
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	\$ 9,600,000	\$ 3,864,392	\$ 3,864,392
10.578	WIC Grants to States (WGS)	\$ 17,276,448	\$ 0	\$ 0
81.042	Weatherization Assistance for Low-Income Persons	\$ 131,954,536	\$ 3,086,021	\$ 3,086,021
84.390	Rehabilitation Services – Vocational Rehabilitation Grants to States	\$ 18,064,931	\$ 4,374	\$ 45,077
93.563	Child Support Enforcement	\$ 23,002,373	\$ 8,098,816	\$ 8,794,379
93.569	Community Services Block Grant	\$ 26,243,124	\$ 1,675,617	\$ 1,675,617
93.713	Child Care and Development Block Grant	\$ 67,543,134	\$ 30,222	\$ 0
93.658	Foster Care – Title IV-E	\$ 12,950,966	\$ 2,304,096	\$ 2,176,394
93.659	Adoption Assistance (Title IV-E)	\$ *	\$ 3,795,128	\$ 3,786,678
93.705	Aging Home-Delivered Nutrition Services for States	\$ 913,413	\$ 0	\$ 0
93.707	Aging Congregate Nutrition Services to States	\$ 1,855,370	\$ 0	\$ 0
93.778	Medical Assistance Program (Medicaid)	\$ 2,267,252,313	\$ 1,025,313,798	\$ 1,033,538,655

* - Title IV-E funding amounts combined for total award amount

Amounts per North Carolina Office of Economic Recovery and Investment's ARRA Funding and Disbursement Report as of October 27, 2009

Our consideration of internal control over compliance is for the limited purpose described above and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined in the following paragraph. However, as discussed subsequently, based on the audit procedures performed on the design of internal control over compliance, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

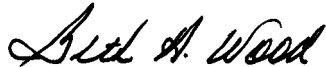
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of

performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affect the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the attached Schedule of Audit Findings and Responses to be significant deficiencies.

A material weakness is a significant deficiency or combination of significant deficiencies that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in findings 1, 2, 5, 6, 7, and 8 to be material weaknesses.

Management's response to our findings is included in the accompanying schedule. We did not audit the response and, accordingly, we express no opinion on it.

This interim communication is intended solely for the information and use of the Governor, the General Assembly, the Office of Economic Recovery and Investment, the Secretary, the Department's audit committee, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

1. FAILURE TO TIMELY COMMUNICATE ARRA FEDERAL AWARD INFORMATION TO SUBRECIPIENTS

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.

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.

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. In addition, our inspection of award documentation for nongovernmental subrecipients noted that not all required ARRA award information elements were present.

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.

Federal Award Information: This finding affects the following grants:

- CFDA 10.561 - ARRA - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program - Grant #5NC440406
- CFDA 81.042 - ARRA - Weatherization Assistance Program for Low Income Persons - Grant #DE-EE0000118
- 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

SCHEDULE OF AUDIT FINDINGS AND RESPONSES (CONTINUED)

- CFDA 93.705 - ARRA - Home-Delivered Meals - Grant #09AANCC2RR
- CFDA 93.707 - ARRA - Congregate Meals - Grant #09AANCC1RR
- CFDA 93.710 - ARRA - Community Service Block Grant - Grant #G0901NCCOS2
- CFDA 93.713 - ARRA - Child Care Development Block Grant - Grant #G0901NCCCD7

Recommendation: 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.

DHHS Response: The Department concurs with this 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.

2. DEFICIENCIES IN CASH MANAGEMENT PROCEDURES FOR THE MEDICAID PROGRAM

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

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. In addition, reconciliation procedures performed were not sufficient to ensure federal revenues were in agreement with federal expenditures. 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, 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 above-mentioned incorrect drawdown of federal funds 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.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES (CONTINUED)

The above noted control deficiencies increase the risk of incorrect cash management procedures that could affect American Recovery and Reinvestment Act funding for the Medicaid program.

Federal Award Information: This finding affects the following grant:

- CFDA# 93.778 - Medical Assistance Program - Grant #05-0905NCARRA

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 state policies and the Treasury-State Agreement.

DHHS Response: The Department concurs with the finding. The Department does have processes in place to establish and review federal reimbursement codes. These processes have been enhanced to include another level of review and quarterly verification. Existing procedures for reconciliation of federal expenditures to federal revenues have been expanded to include reconciliation of non-federal revenues. 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.

3. INADEQUATE RECONCILIATIONS OF MEDICAL ASSISTANCE PAYMENTS

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.

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.

The above noted control deficiency increases the risk of incorrect reporting of American Recovery and Reinvestment Act expenditures for the Medicaid program.

Federal Award Information: This finding affects the following grant:

- CFDA# 93.778 - Medical Assistance Program - Grant #05-0905NCARRA

Recommendation: 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.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES (CONTINUED)

DHHS Response: The Department concurs with the finding. The Department has now completed the remaining 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) through the month of October 2009. Reconciliations are now current.

4. DEFICIENCIES IN MEDICAID REPORTING PROCESSES

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.

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. Also, certification dates for three of the four quarterly reports reviewed were subsequent to the required deadline.

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.

The above noted control deficiencies increase the risk of incorrect reporting of American Recovery and Reinvestment Act expenditures for the Medicaid program.

Federal Award Information: This finding affects the following grant:

- CFDA# 93.778 - Medical Assistance Program - Grant #05-0905NCARRA

Recommendation: The Department should strengthen internal controls to ensure the proper preparation, review, and timely submission of the CMS-64 Medicaid quarterly report.

DHHS Response: The Department concurs with the finding. CMS-64 preparation is now segregated properly from the primary reviewer. The major cause of late report submissions is that divisions within the Department have had difficulty in meeting monthly closeout deadlines. 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 will implement controls such as cutoff dates for reclassifications to ensure divisions meet targeted deadlines.

5. SUBRECIPIENT MONITORING FOR THE COMMUNITY SERVICE BLOCK GRANT NEEDS IMPROVEMENT

The Department has not executed necessary monitoring procedures for the Community Service 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.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES (CONTINUED)

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, 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.

The lack of an effective tracking system increases the risk that the Department will not adequately monitor the American Recovery and Reinvestment Act expenditures for the Community Services Block Grant program.

Federal Award Information: This finding affects the following grant:

- CFDA# 93.710 - Community Services Block Grant - Grant #G-0901NCCOS2

Recommendation: 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. Enhancement of the plan should specifically address ARRA-related activities.

DHHS Response: The Department concurs with the finding. Regarding the eight site visits in question, documentation on file indicates three of the site visits were completed within the 3-year timeframe, and one site visit was completed less than one month beyond the timeframe. In the time since the audit finding was identified, two additional site visits have been completed and one is scheduled to occur before December 31, 2009. The Office of Economic Opportunity (OEO) will complete the required monitoring site visits and will develop and utilize an internal tracking method to schedule required monitoring activities, inclusive of follow-up on any required corrective actions.

6. INCORRECT ALLOCATION OF ARRA COMMUNITY SERVICES BLOCK GRANT FUNDS

The allocation of American Recovery and Reinvestment Act (ARRA) Community Services Block Grant funds has not been established in accordance with guidelines specified by the American Recovery and Reinvestment Act of 2009. Unless corrective action is taken, eligible entities will not receive the appropriate allocation of ARRA funding.

States receiving ARRA Community Service Block Grant funds are mandated to subgrant no less than 99% of the ARRA funding to "eligible entities," of which the majority are community action agencies. Our review of the approved budget, per Session Law 2009-0451, identified the allocation of \$26.2 million of Community Service Block Grant funds as follows:

- \$24.7 million, or 94% to community action agencies.
- \$1.3 million, or 5% to limited purpose agencies.
- \$262,000 to the Division of Social Services.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES (CONTINUED)

The “limited purpose” agencies do not qualify as eligible entities as defined by the Community Services Block Act. As a result, the Department currently has not allocated the required 99% of ARRA funding to eligible entities.

Federal Award Information: This finding affects the following grant:

- CFDA# 93.710 - Community Services Block Grant - Grant #G-0901NCCOS2

Recommendation: The Department should consult with the Office of State Budget and Management to amend the current ARRA budget amounts for the Community Services Block Grant to comply with the allocation requirements specified in the American Recovery and Reinvestment Act of 2009.

DHHS Response: The Department concurs with the finding. However, while the budget was established as passed by the General Assembly (SB 202), the Office of Economic Opportunity’s state plan for the Recovery program clearly listed that 99% of the funding would be allocated to the Community Action Agencies. As such, only the eligible Community Action Agencies have applied for and/or received contracts for the Recovery funding. Limited purpose agencies did not participate in the application process and will not be receiving contracts for Community Services Block Grant (CSBG) Recovery funding. The North Carolina Department of Health and Human Services will follow up with the Office of State Budget to amend the current budget to comply with the allocation requirements specified in the American Recovery and Reinvestment Act of 2009.

7. DEFICIENCIES IN INTERNAL CONTROL OVER EARMARKING REQUIREMENTS

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 earmarking requirement for American Recovery and Reinvestment Act (ARRA) funds.

Normally, states must use at least 90% of allotted Community Service Block Grant funds for subgrants to eligible entities, and that percentage rises to 99% for ARRA Community Service Block Grant funds. 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 \$13.8 million, only 84% of the total federal funds allocated for that grant year. Further review noted:

- One community action agency and one limited purpose agency did not request or expend any of their allocated funds, totaling in excess of \$900,000.
- Six community action agencies and two limited purpose agencies failed to expend their allocated amounts, resulting in unexpended allocations.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES (CONTINUED)

- 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 ARRA expenditures for the Community Service Block Grant program.

Federal Award Information: This finding affects the following grant:

- CFDA# 93.710 - Community Services Block Grant - Grant #G-0901NCCOS2

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.

DHHS 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. OEO will initiate communication with the Offices of Budget and Analysis and the DHHS Office of the Controller to clarify issues related to redistribution of unexpended funds for multi-year allocations.

Previous management was unaware funds allocated for a specific county/entity should be redistributed to existing agencies when an agency is no longer eligible to receive Community Service Block Grant (CSBG) funds. Management was not aware monies from one particular county could be re-designated into the State-wide formula to be redistributed to another county.

As a result, the money designated for a particular county was not drawn down during the period of time covered by the audit. Further, the limited purpose agency referenced above as not requesting or expending any of their allocated funds had not been eligible to receive CSBG funding for a number of years. OEO is in the process of identifying additional services providers. Once this is complete, OEO will begin the implementation process for redistributing unexpended funds as appropriate. If redistribution requires designation of new agencies, this process could take a **minimum** of 18 months.

8. DEFICIENCIES IN INTERNAL CONTROL OVER PERIOD OF AVAILABILITY REQUIREMENTS

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 period of availability requirements related to the American Recovery and Reinvestment Act (ARRA) funding.

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

SCHEDULE OF AUDIT FINDINGS AND RESPONSES (CONTINUED)

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.

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 ARRA expenditures for the Community Service Block Grant program.

Federal Award Information: This finding affects the following grant:

- CFDA# 93.710 - Community Services Block Grant - Grant #G-0901NCCOS2

Recommendation: The Department should strengthen internal controls to ensure the proper tracking and monitoring occurs for ARRA 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.

DHHS Response: The Department concurs with the finding. We 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. The Office of Economic Opportunity (OEO) will develop and utilize a tracking system to monitor ARRA obligations and expenditures at the subrecipient level to ensure maximization of available ARRA resources. 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.

9. DEFICIENCIES IN CASH MANAGEMENT PROCEDURES FOR THE COMMUNITY SERVICE BLOCK GRANT PROGRAM

The Department did not have controls in place to ensure the accuracy of the drawdown of Community Service Block Grant funds in accordance with federal requirements. As a result, there is an increased risk of the drawdown of excessive federal funds.

Processing errors were identified for the Community Service 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.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES (CONTINUED)

The above noted control deficiency increases the risk of incorrect drawdown of federal funds that could affect American Recovery and Reinvestment Act (ARRA) funding for the Community Services Block Grant program.

Federal Award Information: This finding affects the following grant:

- CFDA# 93.710 - Community Services Block Grant – Grant #G-0901NCCOS2

Recommendation: The Department should strengthen internal controls to ensure adequate review and verification of proper drawdowns of federal funds.

DHHS Response: The Department concurs with the finding. Unit Supervisors are now reviewing Payroll and Revenue Clearing draws processed by staff in the Federal Funds/Financial Reporting Branch. This process became effective October 1, 2009.

10. CONTROL WEAKNESSES OVER FIXED ASSET INVENTORY

The Department does not have adequate controls in place to ensure compliance with federal equipment maintenance requirements for the Rehabilitation Services - Vocational Rehabilitation Grants to States. As a result, there is an increased risk that assets will not be properly accounted for and safeguarded.

During our 2009 audit, we noted the following:

- The Department's controller's office does not review the reconciliation between the division's annual inventory listings and the fixed asset system to ensure discrepancies identified during the annual inventory are resolved. We noted instances where requests for inventory changes were submitted to the controller's office, but the fixed asset records were not properly updated.
- The Division of Services for the Blind does not properly follow-up with the Department's controller's office to ensure year-end asset inventory records are accurate and that all discrepancies have been resolved.

The OMB Circular A-133 Compliance Supplement requires the Department to have an appropriate control system that will adequately safeguard and maintain equipment acquired with federal funds. It specifically includes requirements to maintain proper records, a physical inventory of equipment, and a reconciliation of the inventory count to the equipment records.

The above noted control deficiencies increase the risk of noncompliance with federal equipment maintenance requirements applicable to American Recovery and Reinvestment Act funds received for the Rehabilitation Services - Vocational Rehabilitation Grants to States program. Similar deficiencies in internal control have been reported since our audit for the year ended June 30, 2004.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Federal Award Information: This finding affects the following grant:

- CFDA# 84.390 - Rehabilitation Services - Vocational Rehabilitation Grants to States - Grant# H390A090049 and H390A090050

Recommendation: The Department should enhance its fixed asset accounting and inventory procedures to ensure proper records are maintained and assets are safeguarded.

DHHS Response: The Department concurs with the finding. The Division of Services for the Blind will request an updated copy of the fixed asset listing after the year-end inventory has been submitted to the DHHS Office of the Controller and review to ensure requested changes have been made. The DHHS Office of the Controller will reinforce to staff the need for performing inventory reconciliations.

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