
CROSSCUTTING REQUIREMENTS

**N. C. Department of Health and Human Services
Division of Social Services**

State Authorization:**Agency Contact Persons:****Budget**

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N. C. DHHS Confirmation Reports: SFY 2007 audit confirmation reports for payments made to Counties, Area Programs, Boards of Education, Councils of Government, District Health Departments, DCD State Level Contractors and HRSA Bioterrorism Grant Subrecipients will be available by around late August to early September at the following web address: <http://www.dhhs.state.nc.us/control/> At this site, page down to “Letters/reports/forms for ALL Agencies” and click on “Audit Confirmation Reports (State Fiscal Year 2005-2006)”. Additionally, audit confirmation reports for Nongovernmental entities receiving financial assistance from the DHHS are found at the same website except select “Non-Governmental Audit Confirmation Reports (State Fiscal Years 2005-2007)”.

This document specifies the compliance requirements that must be considered in an organization-wide audit of a county department of social services. It includes consideration of all federal grants received by the county departments of social services via the state Division of Social Services, (DSS), as well as consideration of State funds received by the county departments through the Division of Social Services.

This document also includes the compliance requirements for Child Support Enforcement Programs that are administered by local agencies other than the county department of social services. Local Child Support Enforcement Programs may be administered by the State, the county department of social services or another local agency designated by the County Commissioners.

This document also includes the compliance requirements for programs administered through a contractual agreement with non-governmental subrecipients and the NC DSS. This pertains to programs that require an audit in accordance with OMB Circular A-133 and are funded by the State Division of Social Services. Agreements entered into by the State Division of Social Services may be referred to in this document as a “State-Level Contract.”

The procedures described in this compliance audit guide are to be used by local auditors to test the compliance aspects of various programs. Auditor’s judgment will be necessary to determine if the suggested audit procedures are sufficient to achieve the stated audit objective and whether additional or alternative audit procedures are needed.

The specific compliance requirements and suggested audit procedures for each program in Sections B and C have been provided by the department or agency that administers the program. Auditors must read the statute, policy manuals and/or Code of Federal Regulations to obtain a complete understanding of the compliance requirements.

The requirements are as of the publication date of this revision of the Compliance Supplement. Specific requirements may change periodically, and auditors should be alert to this possibility through their contacts with the cognizant agency, the auditee organization and by other means.

Some compliance requirements are applicable only to the county department of social services (or other local agency administering the Child Support Enforcement Program); some are applicable only to non-governmental sub-recipients, and some may be applicable to one or more.

I. PROGRAM OBJECTIVES

The N. C. Division of Social Services is dedicated to assisting and providing opportunities for individuals and families in need of basic economic support and services to become self-supportive and self-reliant. The Division advocates for and encourages individuals' rights to select actions appropriate to their needs. In cooperation with local departments of social services and other public and private entities, the Division seeks to identify needs, devise and focus resources, and deliver services responsively and compassionately.

III. COMPLIANCE REQUIREMENTS

B, 2. Allowable Costs/Cost Principles

For costs to be allowable for purposes of reimbursement, they must be determined to be allowable in accordance with federal and State policy (see the Division of Social Services Fiscal Manual, Reference Section IIA and OMB Circular A-87). The DSS Fiscal Manual may be found at <http://info.dhhs.state.nc.us/olm/manuals/oc/fsc/man/>. OMB Circular A-87 is located at <http://www.whitehouse.gov/omb/circulars/index.html#numerical.%20>.

G, 7. Matching, Level of Effort, Earmarking

While some programs are funded with one hundred percent Federal/State funds, those with less than one hundred percent Federal/State funding require a local matching share. In accordance with the provisions of NCGS 159, a county must budget local funds in order to secure the required local matching share when Federal/State financial participation is less than one hundred percent. Details pertaining to this requirement can be found in the individual Supplements, depending on the Supplement being audited. Budget details (i.e., the amounts being budgeted) can be found in the contracts and/or program agreements for each program.

L, 12. Reporting

Introduction

Procedures for evaluating fiscal reporting requirements for social services programs should include review of the Division's county reimbursement form, the DSS-1571, the budget estimate package, and the DSS Fiscal Manual (which contains instructions for completion of the DSS-1571, information on the proper claiming of costs and other fiscal policies). A review of the county's budget will be necessary in order to properly examine many of the items discussed in this section. Also, any monitoring reports completed by Local Support program staff should

be reviewed. The auditor should select a sample of expenditures claimed for reimbursement under a program to determine if those expenditures were, in fact, allowable expenditures for that program.

Financial Reporting

a. DSS-1571, PART I

Compliance Requirements - Information reported for reimbursement on the DSS-1571 must agree with the county general ledger. The following requirements must also be met in conjunction with the reporting of costs for reimbursement:

1. The DSS-1571 must be submitted to the Department of Health and Human Services Office of the Controller by the twentieth calendar day of the month unless an exception is made by the DHHS Controllers Office, (or the first workday after if the twentieth is a non-business day).
2. The county must comply with proper record retention schedules issued by the N. C. Department of Cultural Resources, Division of Archives and History "Records Retention and Disposition Schedule" and the DHHS Controllers Office see: <http://www.ah.dcr.State.nc.us/records/local/SocialServices/SocialServicesScheduleFinal.pdf>
<http://www.ncdhhs.gov/control/record07.doc>
<http://www.ncdhhs.gov/control/record07.xls>

The most restrictive rule of the two rules should be used.

3. Salaries paid must be at the approved rate in accordance with the county pay plan, and salary changes may be approved by the Office of State Personnel (OSP; Black Mountain and Raleigh, NC locations) unless a local personnel system is established in accordance with the requirements in General Statute 126-11. Some counties have staff authorized to classify applications in the DSS which is acceptable practice.
4. Salaries for all county DSS employees must be reported on the DSS-1571.
5. In-Home Aides off-site who are county employees must be reported on the DSS-1571 - Part I as a summary entry by funding source.
6. All fringe benefits must be claimed at the authorized rate.
7. County employees must maintain day sheets in accordance with the DSS Services Information System Policy, which can be found at: <http://info.dhhs.State.nc.us/olm/manuals/dss/rim-01/man/index.htm>

8. Suggested Audit Procedures

Review the procedures for preparing the DSS-1571 and evaluate whether a coordinated effort was made by the county DSS and the finance officer to insure that all costs have been considered and reports are in agreement with the general ledgers.

- Ascertain if the DSS-1571 was submitted to the DHHS Office of the Controller by the twentieth calendar day of the month (or the first workday after if the twentieth is a non-business day).

- Ascertain if the county is complying with the current record retention schedule issued by the NC Department of Cultural Resources and the DHHS Office of the Controller.
- Ascertain if salaries are being paid at the approved rate in accordance with the county pay plan.
- Review the county payroll and determine if all county DSS employees are reported on the DSS-1571; determine if the salaries reported on the DSS-1571 agree with actual salaries paid as documented by payroll records.
- Review the county payroll and determine that summary entry for in-home aides workers salaries reported on the DSS-1571 agree with actual salaries paid as documented by payroll records. Determine that the entry for in-home aides is reviewed and updated each month using the same procedure as that for individual employees.
- Review the fringe benefits reported on the DSS-1571 and determine if they are at the authorized rates.
- Verify that day sheets account for 100 % of employee time as required in the DSS Services Information System User's Manual and, that program codes and activity codes are summarized correctly, that day sheet entries are supported by documentation in case record files and that day sheet summaries are transferred to the DSS-1571 accurately to an eligible fund source.
- Verify that prior month corrections are made in accordance with the DSS Fiscal Manual and that the month/year for which the correction was made has been noted.

b. DSS-1571, PART II

1) CHARGING OF COSTS - GENERAL

Compliance Requirements - Costs can only be directly charged to a program if those expenditures were for items or services that exclusively benefited that program. If the item is a fixed asset that is direct charged, it must be used exclusively for the intended purpose for its entire useful life. Each type of cost must be handled consistently (allocated or direct charged). Expenditures must be properly classified as to the type of expenditure. If costs are reported for which reimbursement is not allowed, such costs must be properly entered in the non-reimbursable column(s). Specific requirements relating to allowable/unallowable costs are found in the DSS Fiscal Manual, Section II. Specific requirements relating to reporting of costs on the DSS-1571 report are found in the DSS Fiscal Manual, Section III.

Suggested Audit Procedures

- Review the DSS-1571, Part II and identify costs that have been directly charged to specific program areas.
- Verify that any capital items with a cost of \$5,000 or more that are directly charged to specific program areas were approved by letter from the DHHS Office of the Controller and the Division of Social Services.
- Verify that requests to direct charge and/or expense equipment with a unit cost over \$5,000 have the required written approval of the responsible federal agency.

- Verify that items direct charged to specific program areas, regardless of cost, have written approval from the DHHS Office of the Controller.
- Obtain available records and determine if items, equipment and/or services directly charged to a program were employed exclusively in that program.
- Sample fixed assets purchased within the last 5 years that were either disposed of or transferred to another agency or changed to another use. If the asset is not beyond its useful life (as defined in IRS regulations, unless otherwise documented), check to determine if it was originally direct charged to a particular program. If it was direct charged, then determine that the original program was reimbursed for the assets remaining useful life (based on sale, transfer, or change dates). If the item was cost allocated but was disposed of or transferred to another agency before expiration of its useful life, check to determine if the proper adjustment was made on the DSS-1571 to repay the correct proportion of State and federal reimbursement.
- Ascertain whether similar costs were consistently cost allocated or directly charged.
- Verify that costs reported are allowable in accordance with Section II of the DSS Fiscal Manual.
- Verify that costs are properly reported on the DSS-1571 report as detailed in Section III of the DSS Fiscal Manual.
- Verify that costs charged to a given program were allowable costs for that program, as indicated in the individual compliance supplement for the program.
- Verify that Federal or State funds have not been used for modifications to local case management systems in relation to interfacing with or utilizing the NC FAST System. (Refer to the Dear County Director of Social Services letter dated November 4, 2005.)
- Verify that all costs reported were paid and/or recorded as an expenditure on the county's general ledger prior to being reported for reimbursement.

2) PROFESSIONAL SERVICES

Compliance Requirements - Professional services can include a variety of administrative support functions that an agency might purchase, including program-related services purchased from an expert or consultant such as translation, interpretation or the services of an attorney. Whichever type of services are purchased, the following requirements must be met if the costs are to be reported on the DSS-1571, Part II as administrative support for the agency:

- The services have not been identified as being services to clients, but are directly and tangibly beneficial to the agency in the furtherance of its social services programs.
- The services must be in conformity with a written contract which specifies terms and conditions, which has been properly executed, and which is on file with both parties prior to requesting reimbursement.

- Contracts shall be negotiated on the basis of total allowable costs (as defined in the Fiscal Manual) and in accordance with an approved budget.
- For the services of professionals other than attorneys (attorney services are discussed below) reimbursement rates may be negotiated as follows:
 1. Regarding those services for which the Social Services Commission has established a maximum, rates may be negotiated up to the rate established by the Commission. These rates can be obtained by contacting the program contact person listed on the Supplement or by looking at the Rates for Services chart at: <http://www.dhhs.state.nc.us/dss/budget/contracts.htm> .
 2. For services other than those addressed by the Social Services Commission, reimbursable rates may also be negotiated provided that the county thoroughly documents that the rate agreed upon is reasonable, necessary and competitive.

Attorney Services

- a) The costs of legal service required in the administration of the grant programs is allowable. The cost of legal services provided by the county attorney, as a part of his/her official duties (legal advisor to the county commissioner) is unallowable. Legal expenses for the prosecution of claims against the federal government are unallowable.
- b) Regardless of whether the attorney is a staff attorney or whether the attorney's services are purchased, there must be consistency in charging/allocating the associated costs. The county must either direct charge all costs of legal services or allocate all costs.

Attorney Services Contracts and Allowable Costs

Legal Attorney Services - These are defined as the activities engaged in by an attorney in the actual provision of legal services to the agency. A rate of up to \$125 per hour may be negotiated for these services, which must be inclusive of the attorney's time as well as of any adjunctive expenses routinely incurred by an attorney in the public practice of law. Such adjunctive expenses might include photocopying, postage, telephone bills, legal secretary expenses, etc.

Expenses incurred by the attorney which are necessary expenditures in connection with the provision of a specific service are allowable (e.g. filing fees, sheriff fees). Also, effective December 15, 2005, a county may request a waiver of the \$125 per hour rate. Justification must be submitted to the Division of Social Services for approval. Waivers are granted on a yearly basis. Approval for a waiver of the \$125 per hour rate must be submitted each year.

- a. Administrative Attorney Services - These are defined as the activities engaged in by an attorney outside the realm of legal services as defined above. Specifically, this category would include attendance at professional meetings, seminars, and other approved activities as specified in the contract. A rate of up to \$55 per hour may be negotiated for these services, not to exceed \$440 per day.

- b. Travel and Subsistence - Payments are allowable in addition to the hourly rates delineated for legal attorney services and administrative attorney services, up to a maximum of the same rates that are applicable to the county DSS employees. These costs must be included in the agreement as a budget addendum. However, an attorney may not be paid an hourly rate for time spent traveling.

Suggested Audit Procedures - Verify that all professional fees, including attorney fees, are adequately documented, within allowable limits, and reported correctly for reimbursement. Verify that the hourly charge for attorney fees includes adjunctive expenses mentioned above-legal secretary expenses, photocopying, etc-and that these expenses are not billed separately.

3) TRAVEL EXPENDITURES

Compliance Requirement - A county's travel expenditures must be within allowable limits in accordance with a county wide travel plan (in the absence of a county wide travel plan, State rates apply).

Suggested Audit Procedure - Verify that travel expenditures are claimed within allowable limits and are properly documented.

4) BOARD MEMBER EXPENDITURES

Compliance Requirement - Members of the county Board of Social Services may receive a per diem in such amount as shall be established by the county board of commissioners. Reimbursement for subsistence and travel shall be in accordance with a policy set by the board of commissioners, and recorded in the official minutes of the Board of Commissioners.

Suggested Audit Procedure - Verify that Board Members' expenditures are adequately documented and within allowable per diem amounts (as established by the county board of commissioners).

5) IN-HOME AIDE COST - Form 3538 (Effective with October 1, 1989 Date of Service)

Compliance Requirements - This form is used for counties to compute overhead cost for the In-Home Aide program which is an off-site program and does not benefit from all overhead cost as does an on-site program. The computation of charges for this cost to the in-home aide program is based on the program's share of the local department's full-time equivalencies (FTE) expressed as a percentage of the total and applied to the total overhead cost determined by the local department as benefiting the In-Home Aide Program. (Reference Fiscal Manual Section III, III A-6-1.) FTE information is calculated from day sheets, which are completed by the Home Aid personnel.

Suggested Audit Procedures

- Verify that the FTE's entered on the Form 3538 are correct by each major program area. Equivalencies on Form 3538 should match the day sheets.
- Verify that FTE's for the in-home aide program are computed correctly.

- Verify that the amounts entered in Column II beginning with Cost of Space and ending with Board Member Expense are those amounts reported on the DSS-1571, Part II.
- Verify that amounts entered under Indirect Cost are 1/12 of the annual amount of the local department's county-wide cost allocation plan or that the correct single rate indirect cost percentage and base is used if applicable.
- Verify that the amounts that are shown in Column III are correct, that all items that should be carried from Column II were carried over, and that computations made from totals of Column III are correct.
- Verify that amount of overhead reported is entered correctly on the DSS-1571, Part II and that appropriate funding code is used.
- Verify that amount of in-home aide overhead reported on the DSS-1571, Part II is subtracted from the total indirect cost reported on Line 311 of the DSS-1571, Part II.

c. DSS-1571, PART IV, PURCHASE OF SERVICE

Compliance Requirements - The DSS-1571, Part IV is submitted by counties or State-Level Contractor to the DHHS Office of the Controller to cover the provision of purchased services. Contractors submit the Part IV (or an invoice that contains all necessary information) to the county monthly in time for the county to use that information to complete a DSS-1571, Part IV. The Part IV should be submitted together with the regular county submission of the DSS-1571, Part II. The form must be completed in accordance with the instructions in the Fiscal Manual. Purchases of many services require completion of the DSS 5027, Client Entry form, which authorizes the purchase. Information and instructions for completion of the DSS 5027 is located in the Services Information System (SIS) User's Manual. Information regarding the allowance of purchased services can also be found in Appendix B of the SIS User's Manual and whether to claim via the DSS-1571 Part II or Part IV.

Suggested Audit Procedures

- Verify that a contract exists, as appropriate, for all purchased services reported on form DSS-1571, Part IV.
- Verify that the costs reported are within the allowable limits of the purchase contract.
- Verify, as applicable to the particular service being contracted, that every contract contains General Contract language, Terms and Conditions, Scope of Work, Certification Regarding Drug-Free Workplace Requirements (if applicable), Conflict of Interest Policy (required to be notarized), and No Overdue Taxes (required to be notarized). It is also acceptable for the entire contract to be notarized.
- Verify that each contract, where applicable, contains Certification Regarding Environmental Tobacco Smoke, Certification Regarding Lobbying, Certification Regarding Debarment, Suspension, Ineligibility, and Voluntary Exclusion-Lower Tier Covered Transactions, HIPAA Business Associate Addendum, Certification Regarding Transportation, and Certain Reporting and Auditing Requirements. In

order to determine whether any of these items need to be attached to the contract, refer to contract guidance located at: <http://www.dhhs.state.nc.us/dss/budget/contracts.htm> .

- Verify that any imposed fees and cost sharing revenue (effective 3/1/94) are reported on the DSS-1571, Part IV (column 16 & 17).
- Verify that the Fund I.D. column (column 19), is completed which is the indicator of what funding is being requested for the service.
- Verify that documentation exists to support all services reported on Form DSS-1571, Part IV including the other recipient data reflected on the form.
- Verify that a valid DSS-5027 (SIS Client Entry Form) exists for each client/recipient reported, if applicable. To determine if the DSS-5027 is required, refer to the SIS Manual, Appendix B, Service Codes and Definitions table, which may be obtained from the services supervisor.
- Verify that the Statement of Administrative Cost certification form section for the Part IV was completed, if applicable, and faxed to DHHS County Administration.

Compliance Requirements - Cash payment and purchased in-home aide services should be reported for reimbursement on the DSS-1571, Part IV in accordance with the instructions in the Fiscal Manual. In-Home Aide workers providing the service under the cash payment method must have their activities documented by appropriate time records. A properly completed chore agreement must have been executed. In-Home Aides must be paid at least the Federal minimum wage rate.

Suggested Audit Procedures

- Verify that In-Home Aide workers have been approved and properly completed time records.
- Verify that In-Home Aide agreements have been properly completed.
- Verify that In-Home Aides are being paid at least the current Federal minimum wage rate.

N, 14. Special Tests and Provisions

1. Contract Procedures Applicable to all Social Services programs

Compliance Requirement - The Division of Social Services or a county department of social services must have a written contract in place for all services, elements or components of a service provided by an agency, individual, etc. and reimbursed by the county department of social services utilizing federal and/or State funds administered through the Division of Social Services. The county department of social services may purchase any service or component of a service except for those that are specifically prohibited by policy or law. A maximum reimbursement must be specified in the contract by amount and source of fund. The effective period of the contract must be stated. The contract may cover any appropriate period up to twelve months. If the services are purchased through an individual fixed rate, the contract must coincide with the period for which the individual fixed rate was established. The contract must be signed and dated by authorized representatives of each party. The Conflict of Interest and the No Overdue

Taxes forms must be notarized. It is also acceptable for the entire contract to be notarized. The DSS-1571, Part IV identifies those services which a county department of social services purchased for specific clients. The county is out of compliance for purchased services reported on the DSS-1571, which are not covered by a contract or county purchase order.

Any service purchased by a County DSS must have a contract unless a purchased service is covered in a specific program which does not require use of the updated contract guidance and has Federal and/or State funding. Examples include Crisis Intervention Program (CIP), Day Care, and Family Foster Homes.

The Division of Social Services Family Services Manual, Volume VI, Chapter IV is obsolete effective July 1, 2006. Updated guidance is posted at: <http://www.dhhs.state.nc.us/dss/budget/contracts/htm>.

County departments of social services may utilize the Division's standard basic instruments posted at the reference web site or may utilize a locally developed instrument provided that such instrument(s) meet general contract requirements. The locally developed contract is in compliance if General Contract Language, Terms and Conditions, Scope of Work, Certification Regarding Drug-Free Workplace, Conflict of Interest Policy, and No Overdue Taxes along with any additional attachments are a part of the contract. Contract guidance can be found at: <http://www.dhhs.state.nc.us/dss/budget/contracts/htm>. The first six items (I: General Contract – VI: Attachment E – No Overdue Taxes) are required with every contract unless the contract is with another governmental entity. In addition, remaining attachments may or may not be needed based on the type, amount, and funding sources of the contract. Review the contract to determine if any additional attachments are required. It is acceptable for the county to combine the contract and all applicable attachments together into one document or maintain separate forms for each attachment.

The basis for the relationship between the State or county and the for-profit or non-profit contractor is the written contract. All mutual understandings and expectations shall be clearly stated in the contract. All contracts for provision of services to clients, shall contain, at a minimum, the following provisions as indicated in this Rule, except that Subparagraphs (b) (11) and (b) (18) of this Rule shall not apply to contracts with individuals:

- (1) names of the contracting parties;
- (2) beginning and ending dates of the contract period; however, no contract shall extend beyond the fiscal years, except as allowed by G.S. 159;
- (3) description of the services to be provided and the expectations of the parties;
- (4) amount and method of payment;
- (5) address and social security number or IRS identification number of contractor;
- (6) the following statement when a contract period is greater than 30 days: "This contract may be terminated at any time upon mutual consent of both parties or after 30 days upon notice of termination by one of the contracting parties;"
- (7) a statement which indicates that the contract may be terminated immediately with cause upon written notice to the other party; the cause shall be documented in writing to the other party detailing the grounds for termination; and if applicable, the contract may contain a provision indicating method of payment of liquidated damages upon such termination;

- (8) a clause which indicates that the State or county (area) is held harmless from acts committed by the contractor;
- (9) signature of each party to the contract;
- (10) a pre-audit statement in accordance with G.S. 159-28;
- (11) a statement specifying the procedure for budget revisions, if applicable, and provisions for fund balance;
- (12) the procedure for resolving disagreement between the contracting parties;
- (13) for equipment purchased with non unit-cost reimbursement funds, such as start up or special purpose funding, title to assets purchased under the contract in whole or in part rests with the contractor so long as that party continues to provide the services which were supported by the contract; if such services are discontinued, disposition of the assets shall occur as approved by the Division of Social Service;
- (14) client records of the contractor shall be accessible for review for the purpose of monitoring services rendered, financial audits of third party payors, research and evaluation;
- (15) upon request, the contractor shall provide data about individual clients for research and study to the contractor;
- (16) the State or county requirement to provide to the contractor all pertinent rules, regulations, standards and other information distributed by the Division necessary for the performance of the contractor under the terms of the contract;
- (17) the State or county requirement to monitor the contract to assure compliance with rules of the Commission, the Secretary and G.S. 122C-142;
- (18) a copy of the independent audit referenced in Subparagraph (b)(20) of this Rule, if required, shall be forwarded to the Office of the State Auditor at 300 North Salisbury Street, Raleigh, North Carolina 27603-5903.
- (19) provisions that outline the responsibility of the contractor for the adoption, assessment, collection and disposition of fees in accordance with G.S. 122C-146;
- (20) a requirement that the contractor shall make available to the State or county its accounting records for the purpose of audit by State authorities and that the party will, when required by general statute or in accordance with the annual Memorandum of Agreement, have an annual audit by an independent certified public accountant.”

Suggested Audit Procedures - Sample written contracts with contractors and determine if the contract provisions set forth in (b) (1) through (20) above have been included in each contract as required.

Compliance Requirement - A contract must contain identifying information to include: names of parties involved, address (location), services to be provided, number of clients to be served, an estimate of the number of units to be provided, specification of the target population, and a description of the services/activities to be provided including objectives. The contract/agreement must include provisions for the following: conditions for subcontracting, if allowed; amending the contract, assurance of civil rights compliance; eligibility determination and authorization of services for specific clients; confidentiality safeguards; requirement to meet applicable State and federal standards. Contracts must contain a provision for termination.

Suggested Audit Procedures

- Verify that the contract contains all necessary provisions and that all appropriate attachments are included in the contract package.
- Verify that the contractor adhered to all terms of the contract as specified in the contract documents.
- Verify that any changes are supported by properly executed contract amendments and/or budget amendments as outlined in guidance of contract document Item XIV Contract Amendment located on the web site.
- Verify that the termination of any contract was made in accordance with policy and contract provisions.

Compliance Requirement - A contract must be negotiated on the basis of either the total cost or the unit cost. The contractor may be a public or private agency or an individual. Unit cost should be indicated in the Scope of Work section of the contract. It should indicate that reimbursement is to be made on a unit cost basis and that the rate amount has been approved by the Division. If the county needs to exceed a fixed rate unit cost, the county must obtain approval from the Division of Social Services. If the cost is a negotiated rate, reimbursement is based on fair market value for the service in the area. Detailed information should be maintained on how the negotiated rate was determined.

Suggested Audit Procedures

- Verify that the contract indicates the correct status of the contractor and the method of reimbursement.
- Verify that all contracts reimbursed on a unit cost basis include detailed terms in the contract and that the rate amount has been approved by the Division. (A copy of correspondence transmitting rate approval should be in the contract file.)

Compliance Requirement - For contracts where the reimbursement is made on the basis of a standard or individual fixed rate, the method of reimbursement should be specified in the Scope of Work section of the contract.

Suggested Audit Procedures

- Verify that a correct and complete Scope of Work is included as a part of the contract.
- Verify the basis on which the negotiated rate specified in the contract was established.

2. Internal Control for Information Systems

Compliance Requirement - Data is input by the county through terminals or personal computers connected to the State network. Internal controls associated with the data input should be reviewed to insure the integrity of output at the State. Counties have the option for direct worker entry (DWE) of most data into the Eligibility Information System (EIS) and the Food Stamps Information System (FSIS). These are two major systems that support programs administered by county Departments of Social Services. EIS supports Medicaid and TANF, while FSIS supports Food Stamps. To do DWE, counties must develop a DWE plan and have it approved by the Divisions of Social Services and Medical Assistance.

Suggested Audit Procedures

- Terminal or Personal Computer Security

Determine that physical access to State network terminals or personal computers that are connected to the State mainframe is controlled. Terminals or personal computers should be located in an area that can be locked to discourage unauthorized access. Users should log off each time the terminal or personal computer is left unattended.

Obtain a list of persons authorized to use the terminals or personal computers. Authorization for access should be granted only to those employees who use the terminals or personal computers in the performance of their duties.

User passwords should be protected from being discovered by unauthorized personnel. Determine that procedures for communicating passwords to authorized personnel are adequate to protect the secrecy of passwords.

Determine that procedures exist for the timely deletion of terminated employees' passwords.

- Data Origination

Identify documents that are used for each type of input. In DWE counties, county has the option of not completing a written data entry document source. Document is the data gathering instrument.

Obtain a list of personnel that is responsible for input preparation and or output.

Review the data preparation control functions performed before the data is processed to determine if there are proper authorizations for each application.

Determine that the source documents are properly retained for a specified period of time.

- Data Input

Review the procedures for verifying input.

Determine the control over the source documents and identify controls in place to ensure that all have been keyed.

Determine if the information that is keyed generates a turn-around document.

If turn-around document is generated, compare information to the input document on sample basis. (Source document is the data collection instrument for many DWE costs.)

Compare batch totals generated by the computer to control logs, if applicable.

Determine the procedures that exist over documents that have to be corrected and resubmitted due to errors detected by the system.

- Output Controls

Ascertain that output reports are reviewed for completeness and form.

Document the procedures for reconciling output to control totals. Output reconciliation's should be performed by someone independent of the input process.

On a sample basis, test the reconciliation.

Document the controls that are used in the event that a recipient check is returned to the county. This is usually a result of (a) replacement checks and (b) Post Office returns.

On a sample basis, trace payment amounts on the check register to the amount determined by eligibility specialist at the time of application. (This does not apply to the Low-Income Energy Assistance program, as the eligibility amounts are determined by the computer.)

Determine control over county issued checks.

3. Indirect Costs

Compliance Requirement - A prepared indirect cost plan must be on file for the current year. For information pertaining to the actual preparation of a county-wide central supporting services cost allocation plan (indirect cost plan), counties should refer to OMB Circular A-87. Only those indirect costs applicable to programs benefiting the local DSS or local agency can appropriately be included in the Indirect Cost Plan. Also, contractors budgeting indirect cost should have their plans reviewed.

Suggested Audit Procedures

- Verify that there is a prepared plan on file for the current year and plans for contractors have been approved by their cognizant federal agency.
- Verify that the local DSS has submitted a certification of an Indirect Cost Plan to the Office of the Controller as required by the DSS Fiscal Manual.
- For those cost pools from which distributions are made to social services, verify the following:
 - a. Is a description of services provided included? Are costs included in the pool to be distributed identified?
 - b. Is the allocation basis adequately described?
 - c. Are capital expenditures, general government expenses, pass-through funds, and other applicable credits and other unallowable cost as defined by OMB Circular A-87 excluded from the base as well as the pool to be distributed?
 - d. Does the county plan contain the methodology used to calculate the billing rates for directly charged central services for any direct charged central services?
 - e. Are all benefiting county departments included in the distribution base?
 - f. Is the basis for allocation of each cost pool reasonably related to the benefits received by each department?
 - g. Has the county adjusted costs billed at fixed rates to actual allowable costs as defined by OMB Circular A-87 at least annually?
 - h. If cost of space is included, have directly reported costs been reduced from DSS's allocated cost?
 - i. Have social services programs received credit or adjustments for any billings in excess of allowable costs?

4. Prior Approval Requirements for Computer Equipment and/or Services

Compliance Requirements - Acquisitions of computer equipment (hardware and software) and services are governed by federal regulations of the Department of Health and Human Services (USDHHS) and the Department of Agriculture, Food and Nutrition Service (USDA). These acquisitions are also made under the requirements of a Division of Social Services (DSS) Administrative Letter. Prior written approval must be obtained from both the Director of the Division of Information Resource Management (DIRM) of the North Carolina Department of Health and Human Services (NCDHHS) and the federal government (if USDHHS and/or USDA will be participating in any of the costs) in any of the following circumstances:

- a. The total acquisition cost is \$5 million or greater (45 CFR 95.611, 7 CFR 277.18(c). For county equipment acquisitions, this threshold is based on annual total costs for the State Fiscal Year.
- b. The total acquisition cost is \$1 million or greater, and is acquired non-competitively from non-governmental sources (45 CFR 95.611, 7 CFR 277.18(c). For county equipment acquisitions, this threshold is based on annual total costs for the State Fiscal Year.
- c. Federal financial participation (FFP) is being requested at an enhanced rate, regardless of the acquisition cost (45 CFR 95.611, 7 CFR 277.18(c).
- d. If an acquisition does not require DIRM and federal approval under the three circumstances above, DIRM prior written approval is required, regardless of acquisition cost, if the project includes any of the following: development of software; custom modification of purchased software; purchase of specialized human services software other than off-the-shelf software commercially available to the public for general business or personal use.

DIRM and/or federal approval is obtained by submitting an Advance Planning Document (APD) to the Division of Social Services (45 CFR 95.611, 7 CFR 277.18(c).

Prior approval is not required for certain types of acquisitions and FFP is available at the regular rates if the acquisition does not require prior written approval by DIRM and/or the federal government as described above. A Computer Equipment Acquisition Plan must be filed with the Division of Social Services prior to the acquisition. Acquisitions in this category are:

- a. Terminals, personal computers, personal computer printers or workstations up to the level of one such device per worker.
- b. System printers up to one per three workers or one per floor or one per site, whichever is greater.
- c. Local area networks or minicomputers when necessary to maximize the benefit of such devices and other devices as required to connect to the State network.
- d. Off-the-shelf software commercially available to the public for general business or personal use.

Acquisitions by central county computer facilities of computer equipment and services from commercial sources that are acquired primarily to support public assistance programs are subject to the prior written DIRM and federal approval requirements. Computer equipment and services are considered to be primarily acquired to support public assistance programs when these programs may reasonably be expected to either be billed

for more than fifty percent (50%) of the total charges made to all users of computer equipment and services during the time period covered by the service agreement or directly charged for the total cost of the purchase or lease of computer equipment or services (45 CFR 95.605).

Suggested Audit Procedures

- Determine the total costs of each acquisition of computer equipment or services and the total for the fiscal year.
 - Verify that an APD has been prepared and submitted to the Division of Social Services for each acquisition that requires prior DIRM and/or federal approval.
 - Verify that written approval letters are on file and that these approvals were received prior to the acquisition of computer equipment or services. Verify that the actual purchase amount did not exceed approved amounts.
 - For acquisitions not requiring prior approval, verify that a Computer Equipment Acquisition Plan was prepared and signed by the proper county officials. Verify that the actual purchase amounts did not exceed the amounts listed on the Plan.
 - For acquisitions not requiring prior approval, verify that the Computer Equipment Acquisition Plan was filed with the Division of Social Services prior to the acquisition by examining the confirmation of receipt memorandum that is sent to the county by the Division. Verify that the amount listed on this memorandum agrees with the total amount listed on the county copy of the Plan.
 - Determine if any acquisitions by central county computer facilities of computer equipment or services were acquired primarily to support public assistance programs.
 - Verify that an APD has been prepared and submitted to the Division of Social Services for each acquisition by a central county computer facility that requires prior DIRM and/or federal approval.
 - Verify that required written approval letters are on file and that these approvals were received prior to the acquisition by central county computer facilities of computer equipment or services.
5. Enterprise Program Integrity Control System (EPICS)

Effective May 1, 2000, the Enterprise Program Integrity Control System (EPICS) was implemented statewide to track and collect overpayments in the AFDC/TANF, Food Stamps, and Medicaid programs. EPICS is intended to not only allow investigators to resolve incidents of fraud and overpayment more quickly, but also increase recoupments. Claims for overpayments in the Work First, Food Stamps and Medicaid Programs are to be entered and tracked in the EPICS system by all counties. The county must maintain adequate documentation to substantiate the overpayment for all cases.

Compliance Requirement: Counties must maintain adequate case documentation to substantiate the claim entry into EPICS. This information includes, but is not limited to the dates of the overpayment period, documentary evidence to substantiate that an overpayment occurred, such as wage stubs or verification from an employer, other income verification and household composition verification, and the budgets used to compute the amount of the overpayment.

Audit Objective: Determine whether the correct information was entered into EPICS when the claim was established and that sufficient back up documentation exists to support the claim.

Suggested Audit Procedure:

Sample cases where an overpayment is documented for a claim entered into EPICS and determine if sufficient documentation exists.

- Using the Fraud Investigator's documentation, ensure that overpayment cases identified were entered into EPICS and sufficient documentation exists to support the claim.