
CROSSCUTTING REQUIREMENTS

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

State Authorization: Requirements for subrecipients of the NC DHHS Division of Social Services

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N. C. DHHS Confirmation Reports:

SFY 2009 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 Sub recipients 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 2008-2009)”. 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 \(State Fiscal Years 2007-2009\)](#)”.

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 subrecipients, 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. 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.

L, 12. Reporting

Introduction

Procedures for evaluating fiscal reporting requirements for social services programs should include review of the Division's county reimbursement form 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. General

1. The DSS-1571 must be submitted and balanced 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.records.ncdcr.gov/local/SocialServices/2006_SocialServicesRecRetention.pdf
<http://www.ncdhhs.gov/control/>

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

Suggested Audit Procedures

- Ascertain if the DSS-1571 was submitted and balanced 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). Print transmittal to view submission date (transmittal can state the 21st if transmitted in the later part of the day on the 20th).
 - 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.
 - Verify that the Statement of Administrative Cost Certification form section for parts I, II and IV were completed if applicable and faxed to the DHHS County Administration section.
- 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 board of county commissioners of any county may establish and maintain a personnel system for all employees of the county subject to its jurisdiction, which system and any substantial changes to the system, shall be approved by the State Personnel Commission as substantially equivalent to the standards established under State Statute 126 for employees of local departments of social services, local health departments, and area mental health programs, local emergency management programs. If approved by the State Personnel Commission, the employees covered by the county system shall be exempt from all provisions of this Chapter except Article 6.
2. Salaries for all county DSS employees must be reported on the DSS-1571.

3. 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.
4. All fringe benefits must be claimed at the authorized rate.
5. 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>

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 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 – Ascertain and identify costs that have been directly charged to specific program areas.

- Verify that requests to expense or depreciate equipment with a unit cost over \$5,000 have the required written approval of the DHHS Office of Controller.
- 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 and DCD letter dated September 15, 2008 PM-REM 05-2008.)
- 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 types 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: See Fiscal Manual: http://info.dhhs.state.nc.us/olm/manuals/ooc/fsc/man/FSCs2.htm#P15_115

- 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, has been properly executed, and is on file with both parties prior to requesting reimbursement.

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, a county may request a waiver for any rate above \$125 per hour. Such request should include justification for the rate above \$125 per hour. This justification should include market rate for Attorney services in the area, projected number of hours of usage, type of cases the Attorney will handle and programmatic area cases fall in. Request for a waiver must be submitted to the Division of Social Services Budget Officer. If approved, the approval is for one state fiscal year. A new request for a waiver must be submitted *each* State fiscal 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.

Agencies may also hire an attorney on a retainer basis, provided that the fees reported for reimbursement are adjusted annually (by June 30th) so as to not exceed the hourly rates indicated [above] for the hours actually worked.

Child Support attorneys may not be hired on retainer per federal regulations requiring reimbursement for ACTUAL TIME spent on a case based on the contracted hourly rate

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.

Compliance Requirement – An annual reconciliation and adjustment, if necessary, is made between actual hours worked and amounts paid do not exceed allowable amounts. Child Support Attorney can not be hired on retainer.

Suggested Audit Procedures – Verify a reconciliation was made and adjustments were made if necessary and no attorneys in Child Support have been hired on retainer.

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 In-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.

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. 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 or purchase order exists, as appropriate, for all purchased services reported on form DSS-1571.
- 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.

Compliance Requirements – In-home aide services should be reported for reimbursement on the DSS-1571 in accordance with the instructions in the Fiscal Manual. In-Home Aide workers must have their activities documented by appropriate time records.

Suggested Audit Procedures

- Verify that In-Home Aide workers have approved and properly completed time records.

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 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.

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 but not limited to 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.ncdhhs.gov/dss/budget/contracts.htm>. Effective July 1, 2007, the following replaces Chapter 143-6.2: Chapter 143C-6-23, which is posted at: http://www.ncleg.net/EnactedLegislation/Statutes/HTML/ByChapter/Chapter_143C.html

Any organization that receives Federal or State financial assistance from a State agency is called a “subrecipient”. Counties, as subrecipients of the State, must develop monitoring procedures to ensure that funds are appropriately spent by any subrecipients with whom they may contract to provide services.

The following definition has been developed to assist in determining when a contract must be utilized: “Any service purchased by a County Department of Social Services must have a contract unless a purchased service is covered in a specific program which does not require use of this specific contract and has Federal and/or State funding”.

County Department of Social Services can use the documents and instructions as guidance when entering into a contract as a subrecipient of the NC DSS. It is permissible for a county to use their own wording, but they must include the content in the forms listed. These forms are located at: <http://www.ncdhhs.gov/dss/budget/contracts.htm>

Suggested Audit Procedures –

- Sample written contracts with contractors and determine if the contract provisions set forth in <http://www.dhhs.state.nc.us/dss/budget/contracts.htm> have been included in each contract as required.
- 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.
- 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 the Food and Nutrition Services Program (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. The working documentation 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 costs 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).

Competitively acquired data processing equipment and services used to meet county needs, costing \$5,000,000 or *more* per acquisition needs prior approval.

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 Advanced Planning Document (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.

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 recoupment. Claims for overpayments in the Work First, Food and Nutrition Services Program (Food Stamps) and Medicaid Programs are to be entered and tracked in the EPICS system by all counties. When an AFDC/TANF overpayment occurred because of county error (County Responsible Overpayments (CROPS)), the claim must be keyed into EPICS. The EPICS

system will automatically close the claim and the adjustment is then made. The overpayment is collected by State Office through an adjustment of county funds. 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.