

THE HIGHS AND LOWS OF INTERNAL AUDITING



Social Services Appropriations Subcommittee – August 20th, 2019
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RECOMMENDATION 1: EXAMINE FUNDING SOURCES

- We recommend that the Department of Health review programs not currently contributing to indirect costs that are primarily funded from sources that are not General Fund nor federal funds and have total program funds over \$100,000 and report on what the funding impact and amount would be if those programs paid indirect costs by October 1, 2019.
 - “Health is neutral on providing the requested information to the LFA and the Appropriations Subcommittee. However, Health opposes any change in the indirect or administrative funding methodology. Additional indirect costs to critical public health programs would result in significant reductions in program services.”

RECOMMENDATION 1: EXAMINE FUNDING SOURCES

- We recommend that Human Services consider the following and report on the advantages and disadvantages and the possibility of General Fund savings by October 1, 2019:
 - 1. Whether certain routine audits, such as for the Office of Public Guardian, could be billed directly to the requisite division;
 - 2. If there are any grants for which indirect is not being maximized; and
 - 3. If there is a better model for allocating indirect costs than based on personnel, given that audits often involve contractors.
- Human Services supports this recommendation
 - “Human Services will evaluate the funding options proposed and report back by October 1, 2019.”

RECOMMENDATION 2: PROMOTE TIP LINE

- We recommend that Health and Human Services create an email address or online form for internal audit tip line submissions.
- We recommend that all agencies promote their internal audit tip lines (phone number and email address/online form) to employees and the public, such as by:
 - Posting the tip lines prominently on the website homepage
 - Including the tip line in employee training procedures and implementing policies about reporting to internal audit
 - Creating a website for the internal audit office, if one does not yet exist

RECOMMENDATION 2: PROMOTE TIP LINE

- Health supports these recommendations
 - “The tip number is already included in new employee training and is periodically communicated to employees through department-wide employee emails, staff meetings, and on the employee HealthNet website.”
 - “We will post the tip line prominently on the Health website. We will look into the possibility of setting up a tip email, along with a separate page for internal audit on the Health website. These actions, however, will incur additional costs. These costs can be absorbed if the funding structure of the office is not changed.”
- Human Services supports these recommendations
 - “Human Services supports the recommendation to promote tip lines to employees and the public.”

RECOMMENDATION 2: PROMOTE TIP LINE

- Workforce Services supports these recommendations
 - “The DWS website currently provides email addresses and/or phone numbers for reporting benefit assistance fraud, unemployment insurance fraud, and all other potentially unethical or fraudulent activity; however, this information could be more prominently displayed.”
 - “A recent risk assessment survey found that 98% of employees are aware of how to report potentially fraudulent or unethical activity, which indicates that employee training or adopting policies communicating the existence of a hotline may not be necessary. However, policies and trainings could be adopted which more clearly communicates to employees that they should be aware of fraud, and have a responsibility to report it.”
 - “The Internal Audit Division has a website on DWS’s intranet. This site describes the purpose and mission of DWS internal audit, the fraud hotline, and what to expect during an audit. As noted in the first bullet, phone numbers and/or email addresses are available for fraud reporting on DWS’s website. We will evaluate what additional information may need to be included on a public facing internal audit website, and expand as appropriate.”

RECOMMENDATION 3: INCREASE THE NUMBER OF DATA SOURCES FOR RISK ASSESSMENT

- We recommend that agencies add these processes to their annual risk assessment:
 - Health and Human Services
 - Survey of a subset of employees, in addition to directors
 - Workforce Services
 - Information systems in development
 - Internal fiscal issues report

RECOMMENDATION 3: INCREASE THE NUMBER OF DATA SOURCES FOR RISK ASSESSMENT

- Health supports this recommendation
 - “Health will add a survey to a subset of employees during the annual risk assessment.”
- Human Services supports this recommendation
 - “Human Services will plan to include employee surveys for the annual risk assessment.”
- Workforce Services supports this recommendation
 - “The risk assessment conducted by DWS annually is intended to be as comprehensive as possible. If there is information we have not considered that others have used, we welcome the suggestions.”

RECOMMENDATION 4: MOVE FATALITY REVIEWS TO THE OFFICE OF QUALITY AND DESIGN

- We recommend that the Department of Human Services move the fatality review process from The Bureau of Internal Review and Audit to the Office of Quality and Design.
- Human Services supports this recommendation

OVERVIEW OF INTERNAL AUDIT FUNCTIONS: TYPES OF AUDITS

Health	Human Services	Workforce Services
	Compliance audits (i.e. department policies, federal regulations, contract monitoring)	
	Fraud investigations	
	Conflict of interest reviews	
	Performance audits (efficiency and effectiveness)	
	Information technology audits	
	Follow-up on external audits	
	Institutional Review Board audits	

NUMBER OF AUDITS BY TYPE AND AGENCY

	Average Number of Audits Per Year: FY 2014 - FY 2018						Total Audits FY 2014 - FY 2018
	Compliance	Fraud	Conflict of Interest	Information Technology	Performance	External Follow-Up	
Health	20.6	0.6	0	1.1	2.9	0.4	135
Human Services	1.8	6.4	6.4	0.4	0.4	0.4	81
Workforce Services	4	0.9	0.3	0.4	2.4	0.5	42

Note: Total Audits numbers include audits from categories not listed here.

SOURCES OF INFORMATION FOR RISK ASSESSMENT

	Health	Human Services	Workforce Services
Consultation with division and office directors	Yes	Yes	Yes
Tip line (phone) for employees and public	Yes	Yes	Yes
Tip email address or online form for employees and public			Yes
Employee survey			Yes
Concerns identified by other state agencies (internal audit or other)	Yes	Yes	Yes
External audits, including the Single Audit (legislative auditors, state auditors)	Yes	Yes	Yes
Ideas from professional audit organizations	Yes	Yes	Yes
Internal fiscal issues report	Yes	Yes	
Recent audits and investigations	Yes	Yes	Yes
Previous risk assessments (items not addressed)	Yes	Yes	Yes
Information systems in development	Yes	Yes	

HOW DO INTERNAL AUDIT OFFICES COMPARE?

FY 2020	Auditor FTEs	Auditor Vacancies	Total Funds/ Auditor	General Fund/ Auditor	FTEs/ Auditor
Health	6.0	0	\$736,516,800	\$91,477,200	180
Human Services	4.8	1.0	\$183,890,700	\$87,063,000	700
Workforce Services	11.0	1.0	\$ 97,594,700	\$ 7,975,000	192

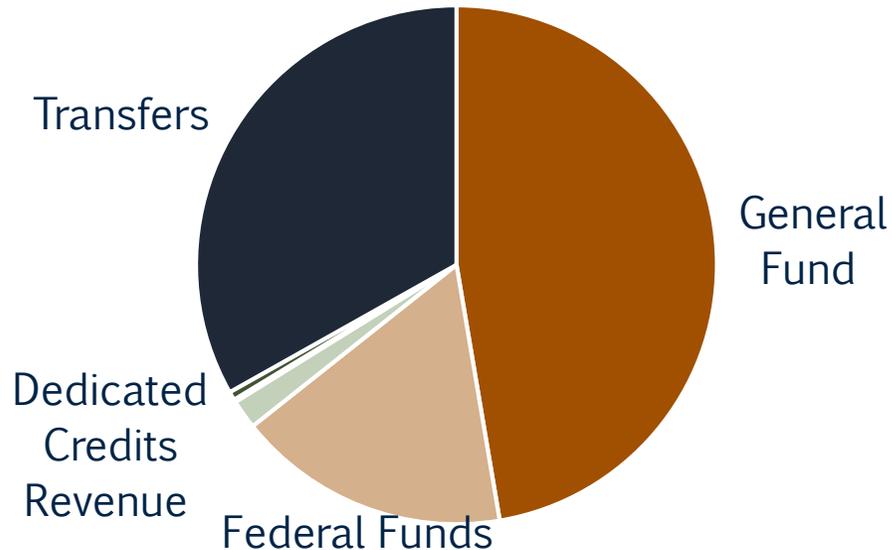
HOW ARE INTERNAL AUDIT OPERATIONS FUNDED?

FY 2020	Health	Human Services	Workforce Services
General Fund	\$ 386,900	\$ 399,000	\$ 204,900
Federal Funds	\$ 396,900	\$ 47,400	\$ 1,052,600
Dedicated Credits			\$ 8,600
Restricted			\$ 3,900
Transfers		\$ 37,000	\$ 129,500
Closing Nonlapsing			
Total	\$ 783,800	\$ 483,400	\$ 1,399,500

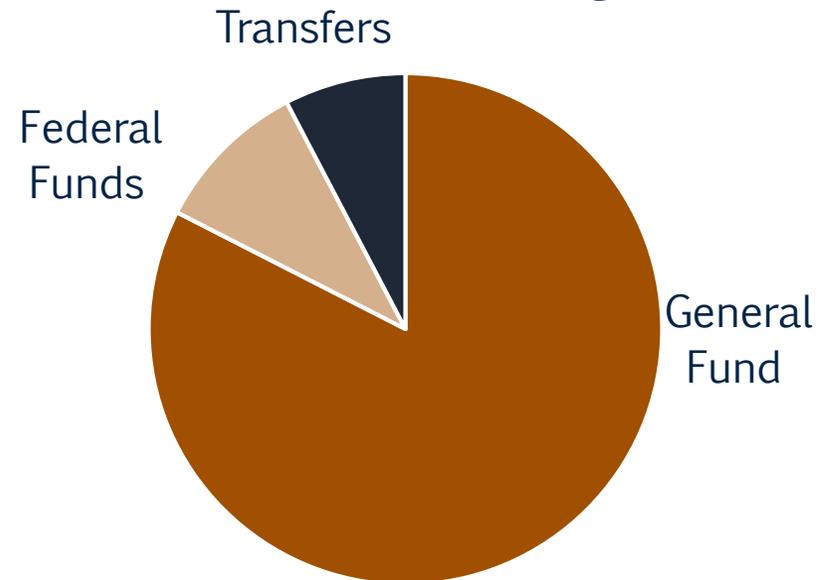
HOW ARE INTERNAL AUDIT OPERATIONS FUNDED?

- The mix of funding sources for internal audit and for Human Services overall is significantly different:

Human Services Total Budget



Internal Audit Budget



WHAT WOULD YOU DO WITH MORE RESOURCES?

Health	Human Services	Workforce Services
<p>“Increase monitoring of funds passed through to subrecipients / contractors”, such as: “Are services provided by a subrecipient done in an effective and efficient manner?”</p>	<p>Hire up to three FTEs to do region reviews, with one assigned to each major division (increasing staffing to FY 2009 levels)</p>	<p>“Additional resources would allow us to accomplish more prioritized audits, including more performance and efficiency audits.”</p>
<p>“Improve analysis of controls to determine if systems and data is adequately protected”, such as: “Review of controls over the MMIS payment system to ensure HIPAA data is adequately protected.”</p>	<p>"Do more audits on the risk assessment, such as auditing contractor-managed client trust funds in the Divisions.”</p>	<p>Examples of additional audits include: identification of potential improper payments and improper employee access to information, review of independent boards associated with DWS, and assessment of internal controls.</p>
<p>“Complete more high-risk audits”, such as Medical Cannabis and Medicaid Expansion</p>		<p>See posted FY19 Internal Audit Plan for more details.</p>



WHAT WOULD YOU DO WITH FEWER RESOURCES?

Health	Human Services	Workforce Services
<p>“Limited audits of future high risks not yet identified”, such as Medical Cannabis and Medicaid Expansion</p>	<p>"It would be difficult to finish the mandatory audits, such as Institutional Review Board and Office of Public Guardian."</p>	<p>“We would complete fewer projects on the annual audit plan. It would be the decision of DWS’s Executive Director’s Office to determine which projects would not be completed.”</p>
<p>“Decrease monitoring of funds passed through to Local Health Departments”, such as “Eliminate reviews of monthly expenditure reimbursements”</p>	<p>“The fewer audits performed, the positive impact of BIRA is mitigated. As a result, risk goes up that fraud may go undetected and compliance with policies may be reduced."</p>	
<p>“Reduced audit coverage of all programs”, such as Ryan White and Baby Watch Early Intervention programs.</p>		

SUGGESTED STAFFING LEVELS – NORTH CAROLINA STANDARDS

- Methodology based on budget size, number of FTEs department-wide, department organization and decentralization, and amount of passthrough grants

	Currently budgeted FTEs for FY 2020	Recommended number of FTEs per North Carolina methodology	Higher/ (Lower) Costs Total Funds
Health	6	18	\$1,419,100
Human Services	4.8	12.4	\$760,800
Workforce Services	11	10	\$(447,700)

PRESENTATION BY AGENCIES TO JUSTIFY APPROPRIATE FUNDING LEVEL



RECOMMENDATION SUMMARY

1. Examine Funding Sources
2. Promote Tip Line
3. Increase the Number of Data Sources for Risk Assessment
4. Move Human Services fatality reviews to the Office of Quality and Design