

STATE OF NORTH CAROLINA

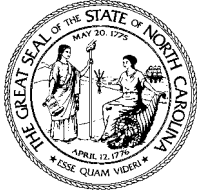
**RESULTS OF
STATEWIDE FINANCIAL AUDIT PROCEDURES AT THE
NORTH CAROLINA TEACHERS' AND STATE EMPLOYEES'
COMPREHENSIVE MAJOR MEDICAL PLAN**

FOR THE YEAR ENDED JUNE 30, 2004

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR



Leslie W. Merritt, Jr., CPA, CFP
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April 13, 2005

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Ms. Ginny Klarman, Interim Executive Administrator,
North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan

We have completed certain audit procedures at the North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan related to the State of North Carolina reporting entity as presented in the *Comprehensive Annual Financial Report (CAFR)* and *Single Audit Report* for the year ended June 30, 2004. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

In the *CAFR*, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor presents the results of tests of internal control and compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs. Our audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and the Single Audit Act as applicable. Our audit scope at the North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan included the following:

State of North Carolina's Financial Statements

Pension and Other Employee Benefit Trust Fund: State Health Plan

State of North Carolina's Administration of Federal Financial Assistance Programs

State Children's Insurance Program

Our audit procedures at the North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan were less in scope than would be necessary to report on the financial statements that relate solely to the Plan or its administration of federal programs. Therefore, we do not express such conclusions.

The results of our audit procedures yielded an audit finding and recommendation for the Plan related to the State's financial statements and federal financial assistance programs that may

have required disclosure in the aforementioned reports. This finding is included in the findings and recommendations section contained herein. Our recommendations for improvement and management's response follow each finding.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

The following finding and recommendation was identified during the current audit and discusses a condition that represents a significant deficiency in internal control and/or noncompliance with laws, regulations, contracts, or grants.

CLAIM PAYMENTS MADE IN ERROR

During the 2004 contract year, three medical claims were processed incorrectly by the Claims Processing Contractor (CPC). Two claims were related to overpayments of \$13,508, while the other claim was an underpayment of \$303. The CPC's error rates for the 2004 contract year for state employee claims and HealthChoice claims were 4.47% and 0.19%, respectively. The combined projected overpayment of state employee and HealthChoice medical claims was \$32,785,317. This amount is considered to be immaterial to the Plan's Statement of Medical Claims Paid for the year ended June 30, 2004.

One of the three errors previously noted was related to a HealthChoice claim that was paid twice. Since projected questioned costs would likely exceed \$10,000, we are questioning the federal share of \$292 of the \$395 of actual known error. The projected overpayment of \$312,980 is deemed to be immaterial noncompliance with the allowable costs/cost principles compliance type for 2004.

All medical claims should be processed accurately in accordance with North Carolina General Statutes. OMB Circular A-87 requires allowable costs to be adequately documented and program costs to be necessary and reasonable for proper and efficient administration of the grant program. In accordance with section 501(a)(3) of OMB Circular A-133, the Auditor shall report in an audit finding known questioned costs that are greater than \$10,000 for the allowable costs/cost principles compliance type. The Auditor must also report known questioned costs, regardless of amount, when likely questioned costs are greater than \$10,000 for the allowable costs/cost principles compliance type.

Recommendation: Management should continue its efforts to ensure that the CPC accurately processes all medical claims.

Agency's Response: You noted that there were claims incorrectly paid by the Claims Processing Contractor (CPC). Our independent auditing firm, Thomas and Gibbs, discovered these errors.

Thomas and Gibbs has worked with your office to develop different stratifications for the claims audits. We have requested additional audits by our auditing firm for duplicate claims paid. This is an ongoing process that we will keep in place until we are satisfied that the CPC has in fact met the terms of their contract and that the duplicate claims procedures are in place and are working.

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press and the general public upon request.

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Director, Fiscal Research Division

April 27, 2005

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