



# **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, 2005**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**



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

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

March 31, 2006

The Honorable Michael F. Easley, Governor  
Members of the North Carolina General Assembly  
Mr. George C. Stokes, 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, 2005. 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 audit findings and recommendations for the Plan related to the State's financial statements and federal financial assistance programs that may have required disclosure in the aforementioned reports. These findings are 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 findings and recommendations were identified during the current audit and discuss conditions that represent deficiencies in internal control and/or noncompliance with laws, regulations, contracts, or grant agreements. The first finding was identified by the Plan's independent auditor, Thomas and Gibbs, CPA, PLLC, and has been adapted for inclusion in the State's *Single Audit Report*. A similar finding was reported in the prior year.

#### **1. CLAIM PAYMENTS MADE IN ERROR**

During the 2005 contract year, nine HealthChoice medical claims were processed incorrectly by the Claims Processing Contractor (CPC). One claim that should have been denied resulted in a duplicate overpayment of \$51, while the other eight erroneous claims resulted in underpayments totaling \$2,924. The CPC's nine errors resulted in a claim payment error rate of 1.88% for the 2005 contract year for HealthChoice claims. The projected underpayment of HealthChoice medical claims was \$148,189. This amount is considered to be immaterial to the Plan's Statement of Medical Claims Paid for the year ended June 30, 2005.

The \$51 HealthChoice claim that resulted in a duplicate overpayment projects to a questioned costs amount that would likely exceed \$10,000; therefore, the actual known error amount of \$51 is identified as questioned costs. The projected underpayment of \$148,189 is deemed to be immaterial noncompliance with the allowable costs/cost principles compliance type for 2005.

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:* Plan management should continue its efforts to ensure that the CPC accurately processes all medical claims.

*Plan Response:* The Plan will work closely with its CPS to ensure that all medical claims are processed accurately. Once problems have been identified with the claims processing, the CPC has procedures to identify the breakdown in its controls and provide ongoing training to claim processors as needed to prevent the same problem(s) from reoccurring.

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

---

### 2. CONTRACT MANAGEMENT AND MONITORING DEFICIENCIES

We identified deficiencies in the contract management and monitoring procedures of the Plan that included the following:

- There was no formal written contract to support the Plan's arrangement for actuarial services during the fiscal year. A contract dispute resulted in the Plan engaging a substitute contractor to provide the required actuarial services; however, this subsequent arrangement was verbal and a formal contract was not executed until September, 2005. The services were completed in August, 2005. In addition, the Division of Purchase and Contract did not approve the contract until September, 2005.
- In our review of the Plan's agreement with the Claims Processing Contractor (CPC), we did not find documented approval for 9 of the 14 contract amendments signed prior to March 11, 2005.
- Documentation was not available to support the adequate monitoring of the CPC contract. Discussions with the former Contracting Director identified that no formal monitoring policies were in place during the audit period to require documented monitoring procedures on a periodic or regular basis.

The Administrative Code for the Division of Purchase and Contract requires that all contracts for consultant services be in writing and executed by the department head. Any modifications to approved contracts are subject to the same approval requirements of the original contract. In addition, it is the Plan's responsibility to ensure compliance with the contract requirements and specifications. Failure to adequately monitor the activities under contract could lead to an increased risk that the funds are not being spent for their proper purpose.

*Recommendation:* Plan management should develop and implement policies and procedures to support management and monitoring efforts for all contracts. The contract management and monitoring system should ensure the establishment of formal contract agreements, disbursements in accordance with contract terms and applicable amendments, and documented monitoring activities to support compliance with contract terms.

*Plan Response:* The Plan recently hired a Contract Manager who will be responsible for monitoring the CPC contracts and other contracts. The Plan is in the process of improving the contracting process through implementing new procedures and/or acquiring a contract management system to help effectively monitor all contracts executed by the Plan. The expected completion date for implementation will be late 2006.

## **ORDERING INFORMATION**

---

Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647