STATE OF NORTH CAROLINA

NORTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES

STATEWIDE FINANCIAL AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2007

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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

March 17, 2008

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Dempsey Benton, Secretary
North Carolina Department of Health and Human Services

We have completed certain audit procedures at the North Carolina Department of Health and Human Services 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, 2007. 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 Department of Health and Human Services included the following:

State of North Carolina's Financial Statements

General Fund, excluding the Division of Mental Health, Developmental Disabilities and Substance Abuse Services

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

Food Stamp Cluster:

- CFDA 10.551 - Food Stamps
- CFDA 10.561 - State Administrative Matching Grants for Food Stamp Program

CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

CFDA 10.558 - Child and Adult Care Food Program

CFDA 84.126 - Rehabilitation Services – Vocational Rehabilitation Grants to States

Aging Cluster:

- CFDA 93.044 - Special Programs for the Aging – Title III-B – Grants for Supportive Services and Senior Centers
- CFDA 93.045 - Special Programs for the Aging – Title III-C – Nutrition Services
- CFDA 93.053 - Nutrition Services Incentive Program (NSIP)

CFDA 93.268 - Immunization Grants

CFDA 93.558 - Temporary Assistance for Needy Families

CFDA 93.563 - Child Support Enforcement

Child Care Development Fund Cluster:

- CFDA 93.575 - Child Care and Development Fund Block Grant
- CFDA 93. 596 - Child Care Mandatory and Matching Funds of the Child Care and Development Fund

CFDA 93.658 - Foster Care – Title IV-E

CFDA 93.659 - Adoption Assistance (Title IV-E)

CFDA 93.667 - Social Services Block Grant

CFDA 93.767 - State Children's Insurance Program

Medicaid Cluster:

- CFDA 93.775 - State Medicaid Fraud Control Units
- CFDA 93.776 - Hurricane Katrina Relief
- CFDA 93.777 - State Survey and Certification of Health Care Providers and Suppliers
- CFDA 93.778 - Medical Assistance Program (Medicaid; Title XIX)

CFDA 93.958 - Block Grants for Community Mental Health

Our audit procedures at the North Carolina Department of Health and Human Services were less in scope than would be necessary to report on the financial statements that relate solely to the Department or its administration of federal programs. Therefore, we do not express such conclusions.

The results of our audit procedures yielded audit findings for the Department related to the State's financial statements and federal financial assistance programs that may require disclosure in the aforementioned reports. These findings are included in the Audit Findings and Responses section of this report.

We noted certain other matters that we reported to management of the North Carolina Department of Health and Human Services in a separate letter dated March 5, 2008.

The North Carolina Department of Health and Human Services' responses to the findings identified in our audit are included in the Audit Findings and Responses section of this report. We did not audit the responses, and accordingly, we express no opinion on them.

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., CPA, CFP
State Auditor

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AUDIT FINDINGS AND RESPONSES

Matters Related to Financial Reporting or Federal Compliance Objectives

The following findings were identified during the current audit and discuss conditions that represent significant deficiencies in internal control and/or noncompliance with laws, regulations, contracts or grants. Similar findings were reported in the prior year for numbers 5, 12, 13, 20, 22, and 31-33.

FINANCIAL STATEMENT ISSUE

1. DEFICIENCIES IN FINANCIAL REPORTING

During our audit of the North Carolina Department of Health and Human Services, we identified the following misstatements in the information report to the Office of the State Controller for inclusion in the State's financial statements.

- The Department calculated the federal portion of the medical claims liability to be $585 million. However, the journal entry to record the receivable from the federal government for its share of the liability was incorrectly keyed into the accounting system as $858 million, resulting in an overstatement of the receivable account by $273 million.
- The fund balance worksheet presented internally-designated balances as restricted resulting in misclassifications between the restricted and unrestricted fund balances in the amount of $62 million. In addition, the fund balances for reserved, designated, and undesignated funds were misclassified due to the inclusion of only pooled cash amounts in the balance instead of the actual fund balance.

As the Department is responsible for the fair presentation of its financial statements, it is essential that effective internal control over financial reporting be established to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements.

Recommendation: The Department should enhance internal control procedures over the year-end reporting process to ensure that financial statements are free of material misstatements.

Department Response: Additional controls have been added to the CAFR process and will be implemented in July and August 2008, during the CAFR process. The error was corrected when the medical Claims Payable reclass was recorded by OSC on 12/03/07 with a 06/30/07 effective date. All subsequent Medical Claims Payable entries will be reviewed by the Supervisor and the Branch Head. A worksheet will be provided with the journal voucher entry that contains formulas to ensure the correct amount is recorded.

A comparison of the journal voucher and NCAS general ledger will also be completed. North Carolina Accounting System Smartstream reports for current year and prior year will be reviewed to ensure the current year entries are reasonable.

The correcting adjustments were made to the fund balance footnotes by the Office of the State Controller during their review process. During future CAFR processes, the adjustments will be analyzed to ensure the balances are properly classified. The Department's Federal Grants Branch will also use additional North Carolina Accounting System Smartstream reports to determine the appropriate classification of the fund balances. These reports will be included in the working papers for CAFR.

FOOD – FOOD STAMP CLUSTER

2. MONITORING PROCEDURES SHOULD BE IMPROVED FOR MANAGEMENT EVALUATION REVIEWS

We identified deficiencies in the monitoring procedures for the Food Stamp program. As a result, there was an increased risk of noncompliance with federal requirements by subrecipients.

The Food and Nutrition Services section monitors Food Stamp activities for the local counties by performing management evaluation reviews. The reviews are completed by the program monitors and reviewed and approved by management; however, documentation to support that approval was insufficient and/or not consistently maintained.

This finding impacts grants #6NC400406 and #7NC400407.

Recommendation: The Division of Social Services should enhance its monitoring procedures for the Food Stamp Nutrition Education program to ensure that sufficient documentation is maintained for management approval.

Department Response: The Department concurs with this finding. The program monitor who conducts the management evaluation review shall sign the review report to certify completion of the report and shall forward the report to the Section Chief for review and approval. A cover letter shall be attached to the review report signed by the Section Chief to indicate certification and approval from the Section Chief prior to mailing the report. Copies of the cover letter and reports shall be maintained by the Section Chief according to retention schedules.

3. LACK OF SEGREGATION OF DUTIES FOR PROCESSES WITHIN THE FOOD STAMP INFORMATION SYSTEM

We determined that county caseworkers could initiate, record, and approve a food stamp application without evidence of supervisory review. This increases the risk that errors or fraud could occur without detection.

This finding impacts grants #6NC400406 and #7NC400407.

Recommendation: The Department should take appropriate action to address the identified segregation of duties weakness. A possible solution could be implementing an application change to the Food Stamp Information System that would result in the proper segregation of the inputting, recording, and authorizing functions for food stamp applications at the county level. Consideration should also be given to increasing the Quality Assurance activities that should be performed at the County level.

Department Response: To impose this mandate on the 100 county departments of social services at this time could have negative consequences for our program applicants, State and federal program error rates, and county and State administrative costs. While we are aware that State staff need to closely monitor the county staff regarding errors in application processing, we feel that we have existing safeguards in place to reduce risk. Such examples include the current Management Evaluation Reviews, the State Quality Control monitoring and the work of state program representatives.

Future Actions That Will Detect Fraud:

The State is currently seeking a new case management automation solution that will replace FSIS. This Information Technology initiative is called North Carolina Families Accessing Services through Technology (NC FAST). The NC FAST automation solution will have a role base security that will enable the separation of duties based on role(s) within the system. NC FAST also has a requirement that states the vendor must provide a method to automatically pend a case unit action for second party review based on policy and worker profile.

State management will continue to emphasize to county directors the importance of second party review procedures.

4. LACK OF PROGRAM CHANGE CONTROLS FOR THE FOOD STAMP INFORMATION SYSTEM (FSIS)

The Department does not enforce segregation of duties for program application changes to the Food Stamp Information System (FSIS). This increases the risk of unauthorized or untested changes to the program.

Instances were noted where the person making a change to the program was the same person approving that change. Additionally, the Department does not maintain an adequate audit trail of the program changes requested by the users, approval of the changes to be made, program changes made by the programmers, or the authorization of the program changes by another programmer prior to implementation. As a result, unauthorized changes to the FSIS system could go undetected, which could have a material impact on the Food Stamps Program.

All changes, including emergency maintenance and system patches, relating to infrastructure and applications within the production environment should be formally managed in a controlled manner. Program changes, including those to procedures, processes, and system and service parameters, should be tracked and authorized prior to implementation and reviewed against planned outcomes following implementation.

Department policy states that an audit trail shall include sufficient information to document the occurrence of the event and the origin of that event. Audit logs are to be maintained by the system owner as supporting documentation.

This finding impacts grants #6NC400406 and #7NC400407.

Recommendation: The Department should review its policies and procedures for program changes made to the application software for the FSIS system. The FSIS application should be maintained whereby it is possible to track and monitor changes to the application software.

Department Response: DIRM staff (Endeavor team) will implement the changes to the Endeavor to incorporate the appropriate controls with a quorum of two. This control will prohibit any FSIS staff from approving a package they have created. Audit trail request by the user, approval of the change, and implementation is tracked by the QA Track Record application used by both IT and client entities.

5. IMPROPER ACCESS TO THE FOOD STAMPS INFORMATION SYSTEM

We identified deficiencies in the Division of Social Service's oversight and management of employee access to the Food Stamp Information System (FSIS). Of a sample of 22 users selected for review, improper levels of access to the FSIS system were identified for two employees. In addition, it was noted that periodic security reviews were not being performed for the FSIS.

Improper access to computer systems can result in both intentional and unintentional security breaches. Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide Information Technology Standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights and immediate termination of access upon severance or leaving employment.

This finding impacts grants #6NC400406 and #7NC400407.

Recommendation: The Division of Social Services should enhance its prescribed procedures for documenting security access privileges for the FSIS. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Department Response: The North Carolina Division of Social Services Information Security Manual Version 1.0 was effective June 1, 2007. The manual clearly outlines the responsibilities for the establishment, modification or termination of the authorization access to the automated systems owned by the Department of Health and Human Services. Security reviews of FSIS will be performed two times per year. During these reviews, program management staff will review the current listing of authorized users, as provided by the Division of Information Resource Management, to ensure access is restricted to employees whose job duties require such access.

Access to FSIS for the two individuals identified in the Audit was revoked.

6. FOOD STAMP PARTICIPANTS USING INVALID SOCIAL SECURITY NUMBERS

We identified a number of participants in the Food Stamps program with social security numbers that appeared to be invalid. Federal Regulation 7 CFR 273.6, Part A states that the State agency shall require participants in the Food Stamp program to provide a valid social security number prior to certification of eligibility. Part B provides that the failure to provide a valid social security number shall cause the individual to be ineligible to participate in the Food Stamp program. Although the percentage of invalid numbers was low, ineligible costs associated with the participants likely exceed $10,000.

We obtained and tested an electronic file from the Food Stamp Information System (FSIS) that covered the period of July 2, 2002, through April 10, 2007. There were a total of 1,759,812 participants in the population tested. The test procedures included analyzing food stamp recipients social security numbers (SSNs) for validity by comparing recipient SSNs with the ranges of valid SSNs from the Social Security Administration. The results of the review identified:

- A total of 1,906 food stamp recipients were found to have a social security number that fell outside the range of valid numbers issued by the Social Security Administration, an error rate of .1%. In addition, the Division of Social Services had previously identified 4,742 additional invalid social security numbers and had properly excluded them from entitlement participation.
- A total of 1,237 food stamp recipients were found to be using social security numbers that belonged to deceased persons, an error rate of .07%. An additional 1,098 persons were identified as using a deceased person's SSN; however, they were not receiving entitlement benefits as they failed to meet other eligibility criteria.

The Division of Social Service developed reports to the local county departments of social security to review for correction and indicated that any over-issuance of benefits would be calculated and processed for recoupment.

This finding impacts grants #6NC400406 and #7NC400407.

Recommendation: The Division of Social Services should continue to emphasize the required on-line verification procedures that are to be performed during the eligibility

certification processes. In addition, it should continue to follow-up with known deficiencies to ensure recoupment of improper payments.

Department Response: The Division of Social Services is pleased at the small number of exceptions found during this review. It is indicative of the hard work by the counties in verifying social security numbers (SSNs) in the Food and Nutrition Services program. Although it was noted that this small number of exceptions falls within a statistically expected error rate, continuous improvement is important. Thus, we have developed reports from these findings for county DSS offices to review for correction. Over issuances of benefits shall be calculated and processed for recoupment as appropriate. With the recognition regarding the importance of detecting potential SSN errors on a regular basis, a query has been developed in the Client Services Data Warehouse (CSDW) titled "Individuals Without Verified SSNs" to identify individuals in active Food and Nutrition Services cases without verified SSNs. Counties shall use this report to request further information from the client to obtain a valid SSN. The Division is researching the feasibility of developing additional reports, such as a match of recipient SSNs to those belonging to deceased individuals to produce on an ongoing basis. Such reports shall be used to further improve our SSN validation. Counties shall be instructed to use all reports accessible to them to ensure compliance with valid SSNs. An Administrative Letter will be issued immediately by the Section Chief instructing counties of the requirement that they shall use all reports to prevent invalid SSNs. Please note of all of cases noted only 32 cases remain unresolved. No fraud has been substantiated at this point. The greatest majority of these cases were keying errors.

7. MONITORING OF A SERVICE PROVIDER NEEDS IMPROVEMENT

The Department does not have adequate procedures in place to ensure that a subcontractor, involved in the issuance and settlement responsibilities for food stamp EBT cards mailed to recipients, is performing its duties in accordance with the Food Stamps program guidelines. As a result, there was an increased risk of noncompliance with federal requirements.

The Department contracts out these EBT card processes, which are subsequently subcontracted to another vendor. As the Department still bears responsibility for compliance with federal requirements, it should ensure that monitoring processes are in place to verify that the subcontractor complied with the applicable requirements.

One such monitoring process is obtaining and reviewing a *Statement on Auditing Standards (SAS) No. 70, Service Organizations* Type II audit report. A SAS 70 Type II report is designed to provide information about control objectives that are relevant to the Food Stamp program operations. Obtaining and reviewing such a report can provide assurance that control objectives related to the Department's program are being met.

This finding impacts grants #6NC400406 and #7NC400407.

Recommendation: The Department should take appropriate action to ensure that effective procedures are implemented for monitoring its external vendors responsible for meeting the compliance objectives for the manufacturing and distribution of food stamp EBT cards. To help accomplish this task, the Department might consider requiring its contractor to obtain a SAS 70 Type II report from this subcontractor to ensure that an adequate controls review occurs.

Department Response: SAS 70 audit requirements state that, "States must obtain an examination by an independent auditor of the State electronic benefits transfer (EBT) service providers (service organizations) regarding the issuance, redemption, and settlement of benefits under the Food Stamps program (CFDA 10.551) in accordance with the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 70, Service Organizations." North Carolina's EBT contractor, eFunds, is required to have an annual SAS 70 audit performed since it is responsible for processing EBT benefit issuances as well as the redemption and settlement of those EBT benefits. EFunds subcontracts to Oberthur for the manufacturing and mailing of EBT cards. Oberthur has nothing to do with the issuance, redemption, and settlement of Food Stamp benefits. Efunds already has an internal controls procedure in place for Oberthur's card production/mailing process in order to confirm that Oberthur is complying with Federal EBT requirements. Therefore, the Department will not require a SAS 70 Audit of Oberthur, but will monitor the EBT card issuance process through reviewing eFunds' current monitoring process of Oberthur.

CFDA 10.557 - SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)

8. DEFICIENCIES IN CASH MANAGEMENT PROCEDURES

The Department of Health and Human Services did not have adequate controls in place to ensure that drawdowns for the administrative costs of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) were processed in accordance with state and federal guidelines. In addition, the federal deposit and expenditure data submitted to the Office of the State Controller (OSC) on the Cash Management Improvement Act (CMIA) report contained numerous errors. This finding relates to grant award 5NC700705 for the 2006 and 2007 federal fiscal years.

We noted errors in 21 percent of the transactions tested. The deficiencies noted included the following:

- Instances were noted where supporting documentation for draw requests did not agree to the amount drawn. As a result, the federal funds drawn were either over or understated.
- Instances were noted where deposits and expenditures reported on the CMIA report were inaccurate. The resulting inaccurate cash balance impacted the OSC's calculation of the State's interest liability due to the federal government.

Recommendation: The Department should strengthen internal controls to ensure that drawdowns are made in compliance with State policies and the Treasury-State Agreement and Cash Management Improvement Act. Controls should be designed and implemented to ensure that data recorded on the Drawdown Request form and reports submitted to the OSC are accurate.

Department Response: The Department concurs with this finding. Controller's Office staff will meet to ensure relevant expenditures and deposits are recorded on the CMIA. Procedures will be reviewed and updated to ensure expenditures reported on the CMIA reports balance to NCAS expenditures for the Department.

9. MONITORING OF A SERVICE ORGANIZATION NEEDS IMPROVEMENT

The Division of Public Health does not have adequate procedures in place to ensure that a contracted vendor is performing its duties in accordance with the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program guidelines. As a result, there is an increased risk of noncompliance with the federal requirements to review food instruments. This finding relates to grant award 5NC700705 for the 2006 and 2007 federal fiscal years.

Title 7 CFR Section 246.12(k)(1) requires the State agency to design and implement a system to review food instruments submitted by vendors for redemption to ensure compliance with the applicable price limitations and to detect questionable food instruments, suspected vendor overcharges, and other errors. Follow-up action is required within 120 days of detecting any questionable food instruments.

The current year costs associated with WIC food instruments is $109 million, which represents nearly 74 percent of the State's total WIC costs. The vendor is responsible for processing food instruments for payment as well as reviewing food instruments for errors and questionable items. The vendor provides various results and expectations reports to the Division that are periodically reviewed; however, there was no documentation to support this review process or that the exceptions are resolved by the vendor within 120 days.

Recommendation: The Division of Public Health should implement effective procedures for monitoring the external vendor who is responsible for meeting the compliance objectives associated with reviewing food instruments. To help accomplish this, the Division might consider obtaining and examining an internal control audit of the vendor (i.e. a SAS 70 report).

Department Response: The Department concurs with this finding. The current contract (effective February 2008) for food instrument processing includes the requirement for an annual SAS 70 report. The Nutrition Services Branch is revising procedures to include reviewing daily and monthly reports of food instrument transactions. In addition, a new position has been created to provide leadership in staff analysis of the WIC Food

Delivery System. Oversight of staff monitoring the food instrument transactions is included in the duties for the position.

CFDA 10.558 - CHILD AND ADULT CARE FOOD PROGRAM

10. INADEQUATE MONITORING OF NONGOVERNMENTAL SUBRECIPIENT AUDIT REPORTS

The Department of Health and Human Services (Department) did not have adequate controls in place to track and monitor the Child and Adult Care Food Program's (CACFP) nongovernmental subrecipient audit reports. The entire CACFP is awarded to subrecipients, and this weakness limits the Department's ability to follow-up on subrecipient audit findings and ensure grant funds are expended in accordance with federal requirements.

This finding impacts grant award 5NC300300 for federal fiscal years 2004 and 2005 and award 5NC300918 for federal fiscal year 2006. The Department has written policies and other procedures designed to track subrecipient audit reports and the follow-up of findings; however, the procedures have not been fully implemented for the nongovernmental subrecipient audits.

In accordance with OMB Circular A-133, subrecipient audits are required for entities expending $500,000 or more in federal awards during the subrecipients' fiscal year. The State must ensure the required audits are completed within nine months of the end of the subrecipients audit period, management decisions are issued on audit findings within six months after the receipt of the subrecipient's audit report, and the subrecipient took timely and appropriate action on all findings.

Recommendation: The Department should continue with its implementation of its subrecipient tracking system to ensure proper tracking of nongovernmental subrecipient audit reports and the subsequent issuance of management decisions.

Department Response: Effective September 1, 2007, enhancements to the audit resolution tracking log were implemented to reduce the possibility of responses to requests for programmatic input and management letters being late. Additional fields were added to capture summary information and serve as alerts for required action. Staff responsible for management determination letters are aware of the importance of accurately tracking the response due dates and were instructed to begin using the new fields to strengthen tracking of due dates. This action fully addresses the finding. While the Department continues to work on a management system which will provide automated support to the audit resolution tracking process, this alternative was necessary because implementation of automated support will not occur until SFY 08/09.

11. DEFICIENCIES IN CASH MANAGEMENT PROCEDURES

The Department of Health and Human Services did not have adequate controls in place to ensure that drawdowns for the Child and Adult Care Food Program (CACFP) were

processed in accordance with state and federal guidelines. In addition, the federal deposit and expenditure data submitted to the Office of the State Controller (OSC) on the Cash Management Improvement Act (CMIA) report contained numerous errors. This finding relates to grant award 5NC300918 for the 2006 and 2007 federal grant periods.

We noted errors in 33 percent of the transactions tested. The deficiencies noted included the following:

- Instances were noted where supporting documentation for draw requests did not agree to the amount drawn. As a result, the federal funds drawn were either over or understated.
- Instances were noted where deposits and expenditures reported on the CMIA report were inaccurate. The deposits column was overstated by over $5 million due to the Department including other federal programs on the report. The resulting inaccurate cash balance impacted the OSC's calculation of the State's interest liability due to the federal government.

Recommendation: The Department should strengthen internal controls to ensure that drawdowns are made in compliance with State policies and the Treasury-State Agreement and Cash Management Improvement Act. Controls should be designed and implemented to ensure that data recorded on the Drawdown Request form and reports submitted to the OSC are accurate.

Department Response: The Department concurs with this finding. Inadvertently, a former cluster of CFDAs was used to compute the draws; however, these CFDAs are now paid separately. The CMIA reports were revised in October 2007 to reduce the deposits by the amount of the Summer Food draws which are no longer in a cluster. Procedures will be reviewed and updated to ensure appropriate draws are reported on the CMIA reports.

CFDA 84.126 – REHABILITATION SERVICES – VOCATIONAL REHABILITATION GRANTS TO STATES

12. BASIC SUPPORT CLAIMS WERE NOT PROPERLY PAID

There were weaknesses in the Department's controls over the payment of Basic Support claims in the Rehabilitation Services - Vocational Rehabilitation Grants to States program. As a result, the Department paid claims in error totaling a net overpayment of $43,891, resulting in questioned costs of $34,544.

The Basic Support Grant is administered by both the Division of Vocational Rehabilitation (DVR) and the Division of Services for the Blind (DSB). An examination of 241 client files revealed the following:

a. One drug claim was paid using an incorrect methodology for payment. Effective December 2001, a State Maximum Allowable Cost (SMAC) rate was initiated for use in determining the lowest price for certain drugs. The SMAC price was not considered when pricing these claims. This oversight resulted in an overpayment for DVR of $17. The federal share of $14 is questioned costs.

b. Six claims were paid incorrectly due to the use of an incorrect rate while pricing the claim. The correct rate was not loaded timely into the payment system and is the result of the DVR/DSB payment system not being able to retroactiviely pay claims based on updated pricing information. Five claims were for DVR and one claim was for DSB. The errors resulted in net underpayments of $819 and $3 for DVR and DSB, respectively. The federal share to be questioned for DVR is $645 and for DSB is $2.

c. Four DVR inpatient claims were paid in error based on keying errors by agency personnel. This resulted in an overpayment of $36,916. The federal share of $29,053 is questioned costs.

d. Sixteen DVR inpatient claims were paid in error due to the rates for the Diagnosis Related Grouping (DRG) and hospital rates being entered incorrectly in the payment system. The errors resulted in a net underpayment of $48 with a questioned federal share of $37.

e. One DVR claim was paid in error due to the payment of an incorrectly billed invoice. This invoice was not verified by agency personnel for proper amounts prior to payment. The error resulted in an overpayment of $728. The federal share of $573 is questioned costs.

f. One DVR medical claim was paid without the required vendor signature. The vendor was paid $5,100, the federal share of $4,014 is considered to be questioned costs.

g. One DVR claim was paid in error due to the system paying on the incorrect DRG resulting in an overpayment of $2,000. The federal share of $1,574 is considered to be questioned costs.

In addition, we noted weaknesses in the Department's controls over the development of the Individualized Plan for Employment (IPE):

Three DVR client files included an IPE that did not include the services that were provided to the clients. The total amount paid for services to the clients was $3,733 of which the federal share of $2,938 is questoned costs.

The control weaknesses that allowed the errors to occur could, under other circumstances, cause other claims to be paid incorrectly by amounts that are significant. Section 1-11 of the Division of Vocational Rehabilitation internal policies manual requires that invoices for hospital services have vendor signatures and be paid at the Medicaid rate. The Medicaid State Plan and the Hospital Manual define the correct methodology for the payment of inpatient and outpatient claims, and calculating cost outliers. The Medicaid Pharmacy manual defines the correct methodology for

determining drug pricing. Section 5-3-3 pf the DVR internal policies manual requires that services to be provided to reach an employment outcome must be reported on an IPE in the client's case file.

This finding impacts grants #H126A050049, #H126A060049, and #H126A070049 at the Division of Vocational Rehabilitation and grants #H126A050050, #H126A060050, and #H126A070050 at the Division of Services for the Blind.

Recommendation: The Department should strengthen internal controls to ensure that all invoices are properly processed and paid. Rate changes should be obtained in a timely manner and properly incorporated into the Divisions' payment procedures. Also, the Divisions should ensure that payment calculations are updated regularly in accordance with Medicaid payment methodology. The Divisions should perform an analysis to determine the total impact of the errors and require reimbursement from providers for overpayments. Additionally, the Division should strengthen internal controls to ensure the necessary documentation of services is complete and included in the client files.

Department Response: The Department concurs with the finding. In each of the three cases cited in the audit, the Individual Plan of Employment has subsequently been updated to reflect approved services which were originally omitted through an oversight. Staff have been cautioned to adhere to established procedures when documenting need and authorizing payments for services.

The Department will strengthen internal controls to ensure that all invoices are properly processed and paid. In all of the cases where an overpayment was made the provider has been contacted and a refund has been requested. Additional payments to providers will be made on the next appropriate payment cycle.

The Department continues to work with the Division of Medical Assistance, the Department of Information Resource Management, and the Department of Health and Human Services Controller's Office to ensure that all DMA rate changes and payment calculation methodologies are in the current payment system. The discrepancies in rates would be eliminated if the processing of the Basic Support payments was included in the Division of Medical Assistance fiscal agent contract for payment of medical claims; therefore efforts will continue to work with the Division of Medical Assistance and the Controller's Office to become part of that contract.

13. DEFICIENCIES IN THE DETERMINATION AND DOCUMENTATION OF CLIENT ELIGIBILITY

There were deficiencies related to the determination of client eligibility and completion of financial needs documentation in the Rehabilitation Services - Vocational Rehabilitation Grants to States program. As a result, we question $24,357 in costs for this federal program.

Our examination of 241 client files revealed cases in which eligibility was not determined in a timely manner and the individual financial needs documentation was not completed according to the specifications in federal requirements:

- Required Agreement to Extend Eligibility Decision forms were not obtained in a timely manner for eight clients. Seven clients were from the Division of Vocational Rehabilitation (DVR) and one client was from the Division of Services for the Blind (DSB).

  Title 34 CFR Section 361.41 and the Division of Vocational Rehabilitation's internal policies manual require that the eligibility extension forms be filed if eligibility cannot be determined within 60 days. Since clients were later determined eligible, there are no questioned costs.

- Three clients did not have appropriate documentation of the individual's financial status. Two files did not have the completed form nor the documentation of the individual's SSI/SSDI status as specified in DVR's policies. Since proof of financial need was not determined, the clients would not be eligible for cost services to be provided. The clients were paid $644 resulting in questioned costs of the federal share of $507.

- Three clients did not have adequate documentation of income for the completion of the financial forms. Without proper documentation of the clients' income, it can not be determined that the clients appropriatately met the financial needs tests. These clients were paid $30,304. The federal share of $23,850 is questioned costs.

This finding impacts grants #H126A050049, #H126A060049, and #H126A070049 at the Division of Vocational Rehabilitation and grants #H126A050050, #H126A060050, and #H126A070050 at the Division of Services for the Blind.

Recommendation: The Division of Vocational Rehabilitation and the Division of Services for the Blind should strengthen internal controls to ensure that all applicable eligibility forms are obtained when required and that financial needs forms are completed and documented before cost services are provided in accordance with the requirements specified in federal regulations.

Department Response: The Department concurs with the finding. The Division of Vocational Rehabilitation Services (DVR) has experienced high staff turnover which has contributed to ongoing problems with determination of eligibility within 60 days and documentation of the client's financial need. DVR is developing an online training module to be completed by Division Rehabilitation Counselors which will strengthen training and orientation of new counseling staff.

With regard to verification of SSI/SSDI benefits, DVR has found this process within the Social Security System to be unusually complex and cumbersome. DVR recently began to use TPQY (Third Party Query) to verify benefits and are developing training for all counselors.

The questioned costs that were identified will be reviewed and any overpayment refunded as required by the federal funding agency.

For the Division of Services for the Blind (DSB) there are procedures for routine supervisory review of files which should have prevented this type of error from occurring. DSB will remind staff that the required Extension Form must be signed and in the file if eligibility determination can not be made within the required sixty day period from the application date.

14. CONTROL WEAKNESSES OVER FIXED ASSET INVENTORY

During our testing of the year-end inventory of fixed assets, we noted that the Division of Services for the Blind had control weaknesses in maintaining accurate inventory records. Deficiencies noted included:

- The original inventory listing identified 43 missing assets from the warehouse. Upon auditor inquiry, all but 7 items were accounted for as located in the warehouse or previously transferred to another location. A review of the 7 missing items identified that the warehouse personnel were not completing appropriate documentation to support the missing items or to properly account for those items on the departmental fixed asset listing as maintained by the Department's Controller's office.
- One sample asset item was identified as being transferred from the warehouse. In verifying the asset transfer, we noted that the asset was not included on the departmental fixed asset listing and no documentation was available to support either the transfer or removal of the asset item.

The above errors could result in the fixed asset inventory being incorrectly reported. Federal guidelines provide that the Division properly account for, safeguard, and maintain fixed asset items acquired with Federal funds.

This finding impacts grants #H126A050050, #H126A060050, and #H126A070050 at the Division of Services for the Blind.

Recommendation: The Division of Services for the Blind should enhance its procedures related to the accounting for fixed asset items. Proper documentation should be maintained to support changes to the fixed asset master listing.

Department Response: The Department concurs with this finding. The Division of Services for the Blind (DSB) believes that confusion arose when staff changes occurred involving those responsible for inventories. During this period, some assets were relocated without adequate documentation to track them. To remedy this problem in the future, the Division and Controller's Office staff have met to review the process and confirm that all forms being used are the most current ones and additional training has been provided to staff. Maintaining accurate asset records is an ongoing process, but we expect all records to be current by June 30, 2008.

15. INCORRECT REPORTING OF PROGRAM INCOME

Program income was incorrectly reported on the SF-269, *Financial Status Reports* by both the Division of Services for the Blind and the Division of Vocational Rehabilitation. The Division of Services for the Blind over-reported program income in the amount of $373,733, while the Division of Vocational Rehabilitation over-reported program income by $199,342.

The errors occurred due to procedureal errors including the failure to agree the reported amounts to the accounting records, failure to include all program income amounts in the presentations, or failure to perform reconcilations of the program income accounts. As program income is considered to be an addition to available grant funds, the incorrect reporting of program income affects total reported grant disbursements and subsequently, the potential incorrect drawdown of Federal funds.

Federal guidelines specify the requirements for recording and using program income and require that organizations have adequate controls in place to verify that all program income is properly recorded in the accounting records and reported to Federal oversight agencies.

This finding impacts grants #H126A050049, #H126A060049, and #H126A070049 at the Division of Vocational Rehabilitation and grants #H126A050050, #H126A060050, and #H126A070050 at the Division of Services for the Blind.

Recommendation: Department management should enhance controls related to the identification, recording, and reporting of program income amounts.

Department Response: The Department concurs with the finding. In the future, program income will be reported on the SF 269 reports using NCAS records. The program income extracted from NCAS will be verified quarterly by the Controller's Office and the Divisions prior to submitting the reports. The Divisions of Services for the Blind and of Vocational Rehabilitation Services will train staff to ensure adequate knowledge in verifying program income in NCAS.

CFDA 93.268 – IMMUNIZATION GRANTS

16. VALUE OF VACCINES AWARDED NOT DISCLOSED TO SUBRECIPIENTS

The Division of Public Heath did not disclose to its subrecipients the value of vaccines awarded. As a result, there is an increased risk that the value of vaccines was not included on the subrecipients' Schedule of Expenditures of Federal Awards (SEFA), which may have affected whether or not the program was audited at the subrecipient level.

The Division awarded Immunization Grants in the form of vaccines and cash to subrecipients for calendar years 2006 (H23/CCH422554-04) and 2007

(H23/CCH422554-05). Over 95 percent of the subrecipients' awards were in the form of vaccines; however, the subrecipients were never informed of the value of these vaccines. Although the Department of Health and Human Services had procedures in place to ensure local government subrecipients obtain the required audits and that appropriate action was taken on audit findings, it is highly unlikely that the Immunization Grants would be selected for audit at the subrecipient level because the subrecipients would only have the value of cash received to report in their SEFA.

OMB Circular A-133 requires that a pass-through entity be responsible for communicating the Federal award information to each subrecipient. It also requires that the value of vaccines received by the State and it subrecipients as well as grant funds be included in the total expenditures when determining Type A programs and that the value of vaccines be included with grant funds on the SEFA.

Recommendation: The Division should implement procedures to provide the value of vaccines awarded to it subrecipients to ensure the accurate reporting of federally awarded vaccines.

Department Response: The Department agrees with this finding. The Division is currently developing a plan to ensure that subrecipients are aware that the value of the vaccines is considered to be financial assistance and to provide a report that summarizes the value of vaccines distributed during a State fiscal year by subrecipient. Funding sources for the vaccines will be identified in accordance with the Division's CDC Annual Spend Plan and CDC's Population Estimate Survey. The Department will work with the CDC to ensure this proposed solution fully meets expectations.

93.558 – TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

17. IDENTIFIED LOCAL COUNTY ELIGIBILITY ISSUES WITH THE TANF PROGRAM

We identified deficiencies in the eligibility documentation for participants of the Temporary Assistance for Needy Families (TANF) program. We believe that questioned costs are likely to exceed $10,000 in the population.

North Carolina grants TANF funds to the counties as part of the Work First County Block Grant. Each county is responsible for ensuring that only eligible families are approved for Work First. The Office of the State Auditor randomly selected 5 local counties for testing of the local eligibility process with our sample selection consisting of 25 participants for each selected county. Of the 125 tested case files, deficiencies were identified in 11 case files as follows:

- One case file did not have adequate or complete kinship verification
- Three case files did not have proof of household on file
- One case file had no citizenship verification, no household verification, and no kinship or residency documentation

- Two case files had no budget documentation
- One case file had no proof of household or residency
- Two case files did not contain an application or a budget
- One case file selected for review could not be located

Federal regulations for the TANF program specify that eligibility for TANF assistance requires a family to include a minor child who lives with a parent or other adult caretaker relative. A family must also be "needy", that is, financially eligible according to the State's applicable income and resource criteria. We noted that caseworkers were involved in establishing and approving all aspects of the eligibility determination process. In addition, errors were noted where caseworkers either failed to request, follow-up on a request, or maintain complete documentation to support the eligibility determination process.

This finding impacts grants #G0601NCTANF and #G0702NCTANF.

Recommendation: The Division of Social Services should enhance its monitoring and training activities for county intake personnel to ensure proper determination for the TANF program. Counties should provide additional training to staff to ensure documentation of the eligibility determination process. Follow-up procedures should be performed to verify corrective action takes place for the identified cases.

Department Response: The Work First field supervisor shall instruct the eight Work First Representatives to review with all counties the policies and procedures for documenting proper eligibility determination. In addition, a "Dear County Director" letter will be sent to the 100 counties informing them of the audit findings, reminding them of the policies for documenting proper eligibility as well as encouraging them to consider implementing local case review processes.

Each finding will be evaluated and any questioned costs will be recouped.

18. LACK OF SEGREGATION OF DUTIES FOR PROCESSES WITHIN THE ELIGIBILITY INFORMATION SYSTEM

Weaknesses were noted relating the segregation of duties performed by county caseworkers in the performance of their intake functions within the Eligibility Information System (EIS). There are no application controls in the EIS system to prevent the same caseworker from recording and approving the program eligibility application. Therefore, a county caseworker could incorrectly add applicants to the program with little or no detection.

The Department should implement a division of roles and responsibilities that would properly segregate the recording and authorizing functions within the eligibility application process to ensure that no single individual could subvert a critical process.

This finding impacts grants #G0601NCTANF and #G0702NCTANF.

Recommendation: The Department should take appropriate action to address the identified segregation of duties weakness. A possible solution could be implementing an application change to the Eligibility Information System that would result in the proper segregation of the recording and authorizing functions for eligibility applications at the county level. Consideration should also be given to increasing the Quality Assurance activities that should be performed at the County level.

Department Response: To impose this mandate on the 100 county departments of social services at this time could have negative consequences for our program applicants, State and federal program error rates, and county and state administrative costs. While we are aware that State staff need to closely monitor the county staff regarding errors in application processing, we feel that we have existing safeguards in place that are outlined below.

Existing Safeguards That Would Detect Fraud:

State monitors pull approximately 450 to 800 county records per month and check for errors and improper actions in application processing.

On an annual basis, Quality Control (QC) consultants pull approximately 700 county records for Medicaid QC, 1416 county records for PERM (includes Medicaid and NCHC), and 2000 county records for CARR (Case Action Record Review).

There are reports (i.e., Caseworker Supervisor Activity Report, the weekly and monthly Report Cards, and the Application Included Report) that are generated for use by county managers that indicate the case actions completed each month. The caseworker that keyed the action is associated on the report with the applicable case action.

Medicaid Program Representatives have also recommended that county management pull application logs on a regular basis to check for discrepancies by comparing the logs to the EIS reports of applications taken.

Future Actions That Will Detect Fraud:

The State is currently seeking a new case management automation solution that will replace EIS. This Information Technology initiative is called North Carolina Families Accessing Services through Technology (NC FAST). The NC FAST automation solution will have a role base security that will enable the separation of duties based on role(s) within the system. NC FAST also has a requirement that states the vendor must provide a method to automatically append a case unit action for second party review based on policy and worker profile.

State management will continue to emphasize to county directors the importance of second party review procedures especially in areas where the same caseworker registers and disposes of the application.

19. LACK OF PROGRAM CHANGE CONTROLS FOR THE ELIGIBILITY INFORMATION SYSTEM (EIS)

The Department does not enforce segregation of duties for program application changes to the Eligibility Information System (EIS). Instances were noted where the person making a change to the program was the same person also approving that change. Consequently, programmers are able to implement changes to the production environment without any secondary approval. Additionally, the Department does not maintain an adequate audit trail of the program changes requested by the users, approval of the changes to be made, program changes made by the programmers, or the authorization of the program changes by another programmer prior to implementation. As a result, unauthorized changes to the EIS system could go undetected which could have a material impact on the associated programs including TANF.

All changes, including emergency maintenance and system patches, relating to infrastructure and applications within the production environment should be formally managed in a controlled manner. Program changes, including those to procedures, processes, and system and service parameters, should be tracked and authorized prior to implementation and reviewed against planned outcomes following implementation.

Department policy states that an audit trail shall include sufficient information to document the occurrence of the event and the origin of that event. Audit logs are to be maintained by the system owner as supporting documentation.

This finding impacts grants #G0601NCTANF and #G0702NCTANF.

Recommendation: The Department should review its policies and procedures for program changes made to the application software for the EIS system. The EIS application should be maintained whereby it is possible to track and monitor changes to the application software.

Department Response: DIRM staff (Endeavor team) will implement the changes to Endeavor to incorporate the appropriate controls with a quorum of two no later than April 30, 2008. This control will prohibit any EIS staff from approving a package they have created. Audit trail request by the user, approval of the change, and implementation is tracked by the QA Track Record application used by both IT and client entities.

20. IMPROPER ACCESS TO THE ELIGIBILITY COMPUTER SYSTEMS

We identified deficiencies in the Division of Social Service's oversight and management of employee access to the Eligibility Information System (EIS). Improper levels of access to the EIS system were identified for three of twelve employees tested as the employees were no longer in the positions for which the access was required. In addition, nine of the twelve employees did not have authorization documentation on file to support the granted level of access.

Similar test procedures were performed for the Enterprise Program Integrity Control System (EPICS). Of five users tested, we noted that one separated employee continued to have system access. Authorization documentation was not on file for any of the five users tested.

Improper access to computer systems can result in both intentional and unintentional security breaches. Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide Information Technology Standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights and immediate termination of access upon severance or leaving employment.

This finding impacts grants #G0601NCTANF and #G0702NCTANF.

Recommendation: The Division of Social Services should continue to enhance its prescribed procedures for documenting security access privileges for both the EIS and EPICS systems. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Department Response: The North Carolina Division of Social Services Information Security Manual Version 1.0 was effective June 1, 2007. The policy manual clearly outlines the responsibilities for the establishment, modification or termination of the authorization access to the automated systems owned by the Department of Health and Human Services. Security reviews of EIS and EPICS will be performed two times per year. During these reviews, program management staff will review the current listing of authorized users, as provided by the Division of Information Resource Management, to ensure access is restricted to employees whose job duties require such access.

Access to EIS for the three individuals identified in the Audit was revoked. The Division of Social Services' Security Officer will insure that documentation to support the appropriate access to EIS for the remaining nine individuals identified in the Audit is obtained and placed in the file. Access to EPICS for the separated employee identified in the Audit was revoked. The Division of Social Services' Security Officer will insure that documentation to support the appropriate access to EPICS for the remaining five individuals identified in the Audit is obtained and placed in the file.

21. IMPROPER ACCESS TO THE COUNTY ADMINISTRATION REIMBURSEMENT SYSTEM (CARS)

We identified deficiencies in the Division of Social Service's oversight and management of employee access to the County Administration Reimbursement System (CARS). The CARS processes payments for administrative and service costs for various grants including TANF as well as tracks county expenditures by program. Of our sample of 29 identified users, we noted 14 users did not have authorization documentation on file to support individuals' access to the CARS system. In addition, we found conflicting data

sets between the Division of Information Resource Management and the County Administration section with the Department's Office of Controller as to the population of individuals with user access.

Improper access to computer systems can result in both intentional and unintentional security breaches. Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide Information Technology Standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights and immediate termination of access upon severance or leaving employment.

This finding impacts grants #G0601NCTANF and #G0702NCTANF

Recommendation: The Division of Social Services should continue to enhance its prescribed procedures for documenting security access privileges for the County Administration Reimbursement system. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements. In addition, periodic reconciliations should be performed by the Division of Information Resource Management and the County Administration section to ensure data consistency.

Department Response: The DHHS Office of the Controller has not always maintained a list of employees with access to the County Administration Reimbursement System (CARS). This list was developed and implemented by a former supervisor who felt the need to authorize access to the CARS in order to limit unauthorized access. Upon further review, the Department feels that this authority is outside of the scope of work for which the Office of the Controller is responsible. Therefore, the Office of the Controller will immediately cease approving access to the CARS and maintaining a list of authorized system users. Requests for access to CARS will be forwarded to the DHHS Customer Support Center which will be responsible for maintaining authorization documentation on file to support DHHS Controller's Office employees' access to the CARS system.

Access to CARS for county staff is managed by the county Security Officer, who forwards the request for access, using the County DSS Staff Information Resource Access Authorization Form (IRAAF), directly to the DHHS Customer Support Center. The county Security Officer is responsible for maintaining authorization documentation on file to support county employees' access to the CARS system. County security officers in the counties where there were county staff without authorization on file will be contacted to ensure that subsequent to the finding authorization documentation was secured.

DHHS staff will explore how best to accomplish the recommendation to ensure that access is restricted to authorized users and employee user access rights are systematically

evaluated; to ensure privileges granted are appropriate for the necessary job requirements.

93.563 - CHILD SUPPORT ENFORCEMENT

22. APPROPRIATE ACTION NOT TAKEN IN CHILD SUPPORT CASES

The Division of Social Services failed to take appropriate action in the established time periods for its child support cases. These failures exceeded the 25% error rate used by the federal government to determine substantial compliance with child support requirements.

Weaknesses identified in the Division of Social Service's system of managing and bringing enforcement actions included (our testwork was performed for all open cases in the Division's Data Warehouse):

a) Federal regulations require the Division of Social Services to establish paternity and support obligations for all IV-D cases that require this type of action. We found that 39% of open cases were not in compliance with this requirement.

b) Federal regulations require the Division of Social Services to provide the appropriate child support services needed for interstate cases (cases in which the child and custodial parent live in one state and the responsible relative lives in another state). We found that 32% of open cases were not in compliance with this requirement.

Federal regulations require child support agencies to maintain an effective system of monitoring compliance with support obligations. Regulations require that within 90 days of locating an absent parent, the Division of Social Services must establish an order for support, establish paternity, or document unsuccessful attempts to achieve the same. Federal regulations also require actions to be taken on interstate cases in specified timeframes, including referring cases to other states within 20 calendar days of locating an absent parent in the other states and providing services necessary as a responding state.

This finding impacts grants #G0604-NC4004 and G0704-NC4004.

Recommendation: The Division of Social Services is performing self-assessments to review their compliance with applicable federal guidelines. Management should continue to evaluate and enhance its internal control procedures to ensure compliance with federal child support processing requirements.

Department Response: Since 2002, numerous corrective actions have been developed and implemented to improve compliance in the areas of Establishment (Paternity and Child Support) and Interstate. As a result of corrective actions, the statewide compliance score in Interstate has risen continuously: 2003-39%, 2004-44%, 2005-54%, 2006-64%, and 2007-68%. Improvement will continue as we maximize the resources we have and develop greater skills with the tools available to aid in meeting the required timeframes.

Training in this area continues to be emphasized by field staff and regional trainers. Additionally, Interstate Self-Assessment reports are generated monthly in the data warehouse and made available to local office workers who are instructed to identify and work on cases that require action in order to meet compliance standards. Local offices that do not score 75% in Interstate self-assessment work with their Regional Representative to develop a Corrective Action Plan that includes activities intended to improve the score. COAs are monitored quarterly by the Regional Representative and monitoring reports are submitted to the Assistant Chief for Local Operations. Child support agents carry large caseloads ranging from 400 to 600 cases. Staff turnover rates are high; therefore, vacancies often create even larger caseloads for remaining staff. Compliance in Interstate is expected to improve as resources are allowed. However, complete compliance may not be achievable at present due to staffing levels.

As a result of corrective actions, the statewide compliance score in Establishment has risen continuously: 2002-35%, 2003-41%, 2004-51%, 2005-57%, 2006-58%, and 2007-61%. Establishment is a very difficult area in which to achieve compliance because the regulations require that both paternity and support be established or that the non-custodial parent be served with court action within 90 days of location. Unfortunately, situations occur that cause the timeframe to expire: NCPs often schedule an appointment to discuss paternity and support and don't show up or reschedule, genetic testing may be necessary which causes a delay while the lab completes the testing, court action is often filed but the NCP cannot be located for service at his/her last known address, etc. Child support agents carry large caseloads ranging from 400 to 600 cases. Staff turnover rates are high, therefore vacancies often create even larger caseloads for remaining staff. It is very difficult for an agent with a large caseload to handle each case with strict timeframes, even when no delays occur. Currently, 5 of 16 state-operated offices and 36 of 71 county-operated offices are in compliance with Establishment timeframes. Field staff work with local office supervisors to develop Corrective Action Plans annually in those offices that are out of compliance. Every quarter, field staff monitor the local office CAPs and submit monitoring reports to the Assistant Chief for Local Operations. Additionally, Establishment Self-Assessment reports are generated monthly in the data warehouse and made available to local office supervisors and workers. Workers are instructed to use the reports to identify and work on cases that require action in order to meet compliance standards. Compliance in the area of Establishment is probably not possible until worker caseloads are reduced to a more manageable size.

23. IMPROPER AUTHORIZATION FOR ACCESS TO THE AUTOMATED COLLECTION TRACKING SYSTEM (ACTS)

We identified deficiencies in the Division of Social Service's oversight and management of employee access to the Automated Collection Tracking System (ACTS). Documentation to support user authorization levels was not available for seven of the 15 tested system users. Established procedures for granting access for all users were not being consistently followed and periodic reviews were not being performed to verify proper user authorizations.

Improper access to computer systems can result in both intentional and unintentional security breaches. Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data. Statewide Information Technology Standards specify that system access be controlled and prescribe procedures such as documented reviews of users' rights and immediate termination of access upon severance or leaving employment.

This finding impacts grants #G0604-NC4004 and G0704-NC4004.

Recommendation: The Division of Social Services should enhance its prescribed procedures for documenting security access privileges for ACTS. Periodic security reviews should be conducted to ensure that access is restricted to authorized users and employee user access rights should be systematically evaluated to ensure privileges granted are appropriate for the necessary job requirements.

Department Response: Accurate documentation has been completed for all users.

Child Support Enforcement is currently following the new Information Security Manual, developed June 2007, by the Division of Social Services. We are in the process of obtaining a new ACTS worker profile form and confidentiality agreement for all CSE workers.

Periodic reviews will be conducted to ensure all ACTS users are authorized. The CSE Central Office Security Officer will send a quarterly email message to all local office supervisors requesting confirmation of the continuing employment of all staff. We will emphasize the importance of adherence to the security procedures. Supervisors will be requested to review the ACTS worker table to determine if any staff needs to be removed or level of access modified. The Central Office Security Officer is dependent upon the local offices to provide timely, accurate information regarding an employee's departure from the agency. When received, responses from the supervisors will be documented and retained for future reference.

CFDA 93.658 - FOSTER CARE - TITLE IV-E

24. IDENTIFIED LOCAL COUNTY ELIGIBILITY ISSUES WITH THE FOSTER CARE IV-E PROGRAM

We identified two instances where ineligible payments were made in the Foster Care IV-E program. As a result, we are questioning $24,545 in costs. In addition, the affected counties should review for additional costs that may be related to prior years.

In North Carolina, each county is responsible for determining Foster Care IV-E eligibility. The Office of the State Auditor randomly selected 5 local counties for testing of the local eligibility process with our sample selection consisting of 25 participants for each selected county. Of the 125 tested case files, deficiencies were identified in two cases as identified below:

- One error was noted where the judicial determination was not made within 60 days of removing the child from the home. The total amount paid during the 2007 audit year was $817.
- One error was noted where the child did not live with a parent or specified relative within the six-month timeframe of removal. Total payments for this ineligible child during the 2007 audit year were $23,728. The county indicated that it had discovered this error during a review just prior to our visit.

Federal regulations for the Foster Care program require that the judicial determination occur no later than 60 days from the date of the child's removal from the home. Regulations also provide specific requirements that must be met for the child to meet the definition of living with a specified relative.

This finding impacts grants #0601NC1401 and #0701NC1401.

Recommendation: The Division of Social Services should enhance its monitoring and training activities for county intake personnel to ensure proper determination for Title IV-E funding occurs. Counties should provide additional training to staff to ensure documentation of the eligibility determination process. Follow-up procedures should be performed to verify corrective action takes place for the identified cases.

Department Response: The Child Welfare field supervisor shall instruct the eight Child Welfare Representatives (CWR) to provide training to county staff on policies and procedures for documenting proper eligibility determination. The CWR's will review cases to assure proper eligibility determination. Monthly written reports will be provided to the CWR supervisor as well as the county department of social services. In addition, a "Dear County Director" letter will be sent to the 100 counties informing them of the audit findings, reminding them of the policies for documenting proper eligibility as well as encouraging them to consider implementing local case review processes.

Each finding will be evaluated and any questioned costs will be recouped.

CFDA 93.659 – ADOPTION ASSISTANCE – TITLE IV-E

25. MONITORING PROCEDURES NOT PERFORMED FOR THE ADOPTION ASSISTANCE PROGRAM

Subrecipient monitoring was limited for the Adoption Assistance program during our audit year. The Division of Social Services initiated more comprehensive monitoring procedures effective July 1, 2007.

OMB Circular A-133 provides that a pass-through entity is responsible for monitoring subrecipients' use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the Federal awards are administered in compliance with laws, regulations, and the provisions of contracts or grant agreements.

This finding impacts grants #0601NC1407 and #0701NC1407.

Recommendation: The Division of Social Services should take appropriate action to ensure that its implemented monitoring procedures complies with OMB Circular A-133 requirements and ensures subrecipient compliance with Federal guidelines governing the Adoption Assistance grant.

Department Response: The Division began monitoring the Adoption Assistance Title IV-E program effective July 1, 2007. This finding has been fully corrected.

26. IDENTIFIED LOCAL COUNTY ELIGIBILITY ISSUES WITH THE ADOPTION ASSISTANCE PROGRAM

We identified three ineligible recipients of assistance from the Adoption Assistance program. As a result, we question $10,940 in costs for this federal program. In addition, the counties where the errors were noted should review for additional costs that may be related to the prior years.

In North Carolina, each county is responsible for determining eligibility for the Adoption Assistance program. The Office of the State Auditor randomly selected 60 case files from across the state for testing of the local eligibility process. Of the 60 tested case files, deficiencies were identified in three cases as identified below:

- Two errors were noted where the adoption Assistance Agreement was dated after the formal Adoption Decree. The total amount paid during the 2007 audit year was $7,550.
- One error was noted where the eligibility checklist confirmed eligibility for Title IV-B Adoption Assistance; however, the child was being paid from the Title IV-E Adoption Assistance program. Total payment for this ineligible child during the 2007 audit year was $3,390.

A contributing factor to the errors noted in participant eligibility is the lack of monitoring procedures performed by the State. We noted that standardized forms that assist in the eligibility determination process were not consistently maintained or uniformly completed to support compliance with the eligibility criteria.

This finding impacts grants #0601NC1401 and #0701NC1401.

Recommendation: The Division of Social Services should enhance its monitoring and training activities for county intake personnel to ensure proper determination for Title IV-E funding occurs. Counties should provide additional training to staff to ensure documentation of the eligibility determination process. Follow-up procedures should be performed to verify corrective action takes place for the identified cases.

Department Response: The Division of Social Services has developed a monitoring tool and has begun the process of monitoring Adoption Assistance eligibility requirements. This review has been added to the Division's monitoring plan. Training is offered by the

Division regarding IV-E eligibility. Counties will be reminded of this training by field staff.

Each case with errors will be evaluated and any questioned costs will be recouped.

CFDA 93.667 - SOCIAL SERVICES BLOCK GRANT

27. DEFICIENCIES IN THE SOCIAL SERVICES BLOCK GRANT MONITORING PROCEDURES

We identified deficiencies in the monitoring procedures for the Social Services Block Grant (SSBG) program. As a result, there was an increased risk of noncompliance with federal requirements.

The Division's monitoring plan establishes a minimum number of SSBG cases to be monitored during each site visit. In seven of the 20 sample counties examined, the minimum number of cases was not reviewed.

We also noted instances where the monitoring tool was not sufficiently completed to support compliance with the eligibility requirements for reimbursement from SSBG funds. We identified six cases from our 20 sample counties population where the monitoring tool was either not completed to indicate that monitoring activities were performed or the tool was unclear relative to TANF participant income eligibility requirements. The deficiencies in the documentation of the monitoring process resulted in the performance of additional procedures to verify the eligibility of these TANF participants and the subsequent reimbursement with SSBG funds.

The guidelines for monitoring activities are established in regulations for the Social Services Block Grant program as well as the Monitoring Plan (Plan) created by the Division of Social Services' Family Support and Child Welfare Services Section. Per the Plan, minimum sample sizes are established based on individual county criteria. The Program Compliance Monitors are responsible for monitoring the eligibility determination process including the child and family income requirements applicable to TANF recipients that are reimbursed from SSBG fund transfers. The failure to perform monitoring procedures in accordance with the established Plan could result in payments being made to ineligible participants.

This finding impacts grants #G0601NCSOSR and #G0701NCSOSR.

Recommendation: The Division of Social Services should review its current Plan to ensure that it adequately addresses its planned monitoring activities. Emphasis should be placed on ensuring monitors review and document critical elements that support the appropriate use of SSBG funds and the overall monitoring results.

Department Response: In response to the minimum number of SSBG cases not monitored in 7 of 20 counties examined, cases were listed as SSBG on the query but upon arrival, the monitor found they were listed in error. Additional cases were not

requested or available. To prevent a repeat of this issue, the monitoring plan has been updated to include in the process of sample selection that an over sample of cases be drawn in all monitoring categories to have potential substitutes in the event that a case pulled for monitoring is found not applicable. The plan shall reflect that if a county's caseload does not include sufficient cases with active service provision within the over sample, then the monitoring shall be limited to those cases with active services. Counties are also required to verify cases selected for the program being monitored prior to the onsite monitoring.

The monitor failed to complete a portion of the SSBG monitoring tool that assigns points and percentages earned for applicable items on the tool in one of 20 sample cases. Both monitors have been instructed to pay closer attention to detail when completing all monitoring tools to prevent a repeat of this issue. The Division has also secured another monitoring position to alleviate the extreme volume of work associated with Child Welfare monitoring that contributed to this error.

In response to five of 20 sample cases with the issue around whether or not the child/parent was eligible for funding in regard to the income requirement for TANF eligibility, the monitor inadvertently checked the wrong item on the tool or failed to check items required to be checked on the tool to determine eligibility. The monitor did; however, secure the required information for each of the cases in question during the auditing process that showed each case did indeed meet TANF funding eligibility requirements. The additional monitoring position secured by the Division will also alleviate errors of this sort. The monitors have also been instructed to pay more attention to details when completing this tool to prevent a repeat of this issue.

CFDA 93.767 – STATE CHILDREN'S INSURANCE PROGRAM

28. DEFICIENCIES IN CALCULATION OF KEY ELIGIBILITY INFORMATION

Adequate controls are not in place to ensure that the applicant's budget amount for the State Children's Health Insurance program, a key element in the initial determination of applicant eligibility, is properly calculated. Thus, there is an increased risk of payment to ineligible participants.

Currently, county caseworkers are either manually calculating the budget amount or using excel spreadsheets to determine the budget amount. The calculation is complex, which makes it prone to error. Our tests of five randomly selected counties found significant errors in the budget calculations.

This finding impacts grants 05-0605NC6101, #05-0605NC5021, and #05-0705NC5021.

Recommendation: The Department should take appropriate action to enhance the control procedures over the budget calculation process. One solution may be to have the Eligibility Information System perform the budget calculations to implement more control over the accuracy of budget calculations and minimize the risk of error from

manual budget calculations. This would also provide for consistency in the calculations across all North Carolina counties.

Department Response: The Department of Health and Human Services concurs with this finding. However, it would not be cost effective to modify the EIS to include this calculation at this time. This weakness will be resolved with the implementation of the DHHS North Carolina Families Accessing Services through Technology (NC FAST) automation initiative.

29. LACK OF SEGREGATION OF DUTIES FOR PROCESSES WITHIN THE ELIGIBILITY INFORMATION SYSTEM

We noted weaknesses in the segregation of duties performed by county caseworkers in the performance of their intake and eligibility approval functions within the Eligibility Information System (EIS). There are no application controls in the EIS to prevent the same caseworker from recording and approving the program eligibility application. Therefore, a county caseworker could incorrectly add applicants to the program with little or no detection.

This finding impacts grants 05-0605NC6101, #05-0605NC5021, and #05-0705NC5021.

Recommendation: The Department should take appropriate action to address the identified segregation of duties weakness. A possible solution could be implementing an application change to the Eligibility Information System that would result in the proper segregation of the recording and authorizing functions for eligibility applications at the county level. Consideration should also be given to increasing the Quality Assurance activities that should be performed at the County level.

Department Response: The Department of Health and Human Services concurs with the finding in principle. However, to impose this mandate on the 100 county departments of social services at this time could have negative consequences for our program applicants, State and federal program error rates, and county and state administrative costs. While we are aware that state staff need to closely monitor the county staff regarding errors in application processing, we feel that we have existing safeguards in place that are outlined below.

Existing Safeguards That Would Detect Fraud:

State monitors pull approximately 450 to 800 county records per month and check for errors and improper actions in application processing.

On an annual basis, Quality Control (QC) consultants pull approximately 700 county records for Medicaid QC, 1416 county records for PERM (includes Medicaid and NCHC), and 2000 county records for CARR (Case Action Record Review).

State program representatives visit counties on a monthly basis and pull case records for many different purposes throughout the year. The results of these reviews are shared with both county and State managers for corrective action purposes.

Each county has some type of second party review process where records are pulled internally and checked by a supervisor or lead worker. The number of records checked varies by county.

There are reports (i.e., Caseworker Supervisor Activity Report, the weekly and monthly Report Cards, and the Application Included Report) that are generated for use by county managers that indicate the case actions completed each month. The caseworker that keyed the action is associated on the report with the applicable case action.

Medicaid Program Representatives have also recommended that county management pull application logs on a regular basis to check for discrepancies by comparing the logs to the EIS reports of applications taken.

Future Actions That Will Detect Fraud:

The State is currently seeking a new case management automation solution that will replace EIS. This Information Technology initiative is called North Carolina Families Accessing Services through Technology (NC FAST). The NC FAST automation solution will have a role base security that will enable the separation of duties based on role(s) within the system. NC FAST also has a requirement that states the vendor must provide a method to automatically append a case unit action for second party review based on policy and worker profile.

State management will continue to emphasize to county directors the importance of second party review procedures especially in areas where the same caseworker registers and disposes of the application.

30. IDENTIFIED LOCAL COUNTY ELIGIBILITY ISSUES WITH THE STATE CHILDREN'S HEALTH INSURANCE PROGRAM

We identified deficiencies in the eligibility documentation for participants of the State Children's Health Insurance (Health Choice) program. We believe that questioned costs are likely to exceed $10,000 in the population.

In North Carolina, each county determines eligibility for the Health Choice program. The Office of the State Auditor randomly selected 5 local counties for testing the local eligibility process with our sample selection consisting of 25 participants for each selected county. We identified weaknesses related to the determination of client eligibility and the completion of the financial documentation. Of the 125 tested case files, deficiencies were identified in 33 case files as noted below:

- Twenty-four case files did not have appropriate documentation of the individual's financial status. Without proper documentation and calculation of the client's

income, it can not be determined that the client appropriately met the financial thresholds for eligibility. In one of these cases, the income calculation error resulted in the child being ineligible for Health Choice, but rather should have been deemed eligible under Medicaid.

- Three case files did not contain properly completed on-line verifications. These verifications are used to ensure that the clients do not have undisclosed income, such as child support payments. These are also used to ensure that the applicant does not have any vehicles registered to them at the Division of Motor Vehicles.
- One case file did not have the applicant's state residency adequately documented. This documentation ensures that the State is not making payments for individuals who are not residents of the State of North Carolina.
- Three case files did not contain a properly completed on-line verification. These also did not contain appropriate documentation of the individual's financial status.
- Two case files were not properly documented as there were no files for these individuals.

Federal regulations for the State Children's Health Insurance program establish income requirements that should be considered when determining eligibility. Other key criteria that are required to be verified in determining Health Choice eligibility include North Carolina residency and completion of on-line verification.

This finding impacts grants 05-0605NC6101, #05-0605NC5021, and #05-0705NC5021.

Recommendation: The Division of Medical Assistance should enhance its monitoring and training activities for county intake personnel to ensure proper eligibility determination for the State Children's Health Insurance program. Counties should provide additional training to staff to ensure documentation of the eligibility determination process. Follow-up procedures should be performed to verify corrective action takes place for the identified cases.

Department Response: The Department concurs with the finding. The Division of Medical Assistance will implement corrective action through our Medicaid Program Representatives (MPR) and conduct other monitoring as well as reinforce to the county DSS personnel the importance of appropriate verification and documentation in the enrollment.

In addition DMA will continue to regularly conduct reviews of case files through:

- Quality Control Reviews - Statistical case sampling is performed to test compliance with the State's eligibility policies and instructions.
- Applications Monitoring - Evaluate county records to assure benefits are issued in a timely and accurate manner, and that individuals are not discouraged from applying for benefits.

- Medicaid Program Representative Evaluation - Provide policy training, case consultation and technical assistance, perform targeted monitoring of selected program components and conduct special reviews of case records for appropriate eligibility determination.

Each finding will be evaluated and any questioned costs will be recouped.

MED - MEDICAID CLUSTER

31. FINAL COST-SETTLEMENTS NOT SETTLED

As reported in prior years, the Division of Medical Assistance has not completed the final cost-settlement for Disproportionate Share Hospital (DSH) payments to State-owned and non-State owned hospitals. The DSH program is a program designed to provide additional payments to hospitals that serve a large number of Medicaid recipients and uninsured patients. Subsequent to State Fiscal Year 2007, the North Carolina Department of Health and Human Services, on behalf of the Division of Medical Assistance, entered into a $151.5 million settlement agreement with the United States Department of Justice, on behalf of the Center for Medicare and Medicaid Services (CMS). An initial payment of $106.5 million was made in September 2006, with the balance to be paid over the next three fiscal years. A portion of the amount due to CMS represents a recoupment from the hospitals. This settlement covers SFYs 1997-2002. Resolution has not occurred for SFY 2003.

The Department has proposed a settlement for SFY 2003 DSH payments; however it is awaiting final approval from CMS. The Division of Medical Assistance continues to contract with two vendors who are performing hospital cost report audits to address the issue of cost settlements.

This finding impacts multiple open grants.

Recommendation: The Division of Medical Assistance should continue to establish and maintain an internal control system designed to reasonably ensure compliance with federal laws, regulations, and the Medicaid State Plan. Also, the Division of Medical Assistance should continue its efforts to cost-settle DSH payments with all hospital providers for SFY 2003 as required by the approved State Plan in effect prior to January 1, 2004.

Department Response: The Division concurs with the audit finding. The settlement for DSH payments made under the payment plan for FFY 2003 is currently being completed.

32. PROVIDER BILLING AND PAYMENT SYSTEM ERRORS

Our tests disclosed several weaknesses with the processing of claims payments. Errors were noted in 39 claims from a sample of 270 Medicaid claims tested. The actual

sampled claims errors totaled $38,676, of which the federal share of $24,890 is considered to be questioned costs.

a. One error was due to there being no medical records to support the services provided. The claim totaled $102, the total amount being unallowable. The federal share of $65 is questioned costs.

b. Three claims were found to be in error due to insufficient documentation to support the actual services rendered. The claims totaled $2,180 of which $351 was found to be unallowable. The federal share of $225 is questioned costs.

c. Thirteen claims were found to be in error due to the documentation provided not meeting the requirements set forth by the North Carolina Medicaid policy. The claims totaled $29,723 of which $19,032 was found to be unallowable. The federal share of $12,264 is questioned costs.

d. Two claims were found to have improper coding based on medical records or other evidence provided. The claims totaled $266 of which $82 was found to be unallowable. The federal share of $53 is questioned costs.

e. Four claims were found to be in error for both a lack of proper documentation and for improper coding based on medical records and other evidence provided. The claims totaled $19,209 of which $7,623 was found to be unallowable. The federal share of $4,879 is questioned costs.

f. Two claims were found to be in error due to services not being medically necessary based on the medical records or other evidence provided. The claims totaled $4,153 of which $2,568 was found to be unallowable. The federal share of $1,657 is questioned costs.

g. Two claims were found to be in error due to the failure to obtain the required prior approval of services. The system edit check designed to prevent this error from occurring was removed from the system due to a technical problem; however, no suitable review or replacement edit check was implemented to address the error. The claims totaled $1,219, the total amount being unallowable. The federal share of $787 is questioned.

h. One error was caused by the prior approval being erroneously input in the system. Based on a review of the medical records, the prior approval should not have been granted for the recipient of these services. The claim totaled $2,820, the total amount being unallowable. The federal share of $1,820 is questioned.

i. Three errors were found due to both the failure to obtain the required prior approval of services and insufficient documentation for the approved services rendered. The prior approval errors were caused by the removal of the system edit check. The claims totaled $9,997 of which $3,170 was found to be unallowable. The federal share of $2,038 is questioned.

j. Five claims were found to be in error due to retroactive rate changes not being recouped/repaid in the system in a timely manner. The claims totaled $16,867. The

net amount found to be unallowable was ($1,442). The federal share of ($931) is questioned.

k. Three claims were found to be in error due to unauthorized services being rendered. For two claims, the approval by the appropriate case manager was not obtained prior to the services being rendered. For one claim, the provider was not authorized to provide the services rendered. The claims totaled $3,151, the total amount being unallowable. The federal share of $2,033 is questioned.

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. Title 42 CFR section 431.107 and State Regulation 10 NCAC 26G.0107 require that medical records disclose the extent of services provided to Medicaid recipients.

This finding impacts multiple open grants.

Recommendation: The Division of Medical Assistance should evaluate and strengthen internal controls and procedures to ensure the accuracy of the claims payment process. Management should ensure that payment edits and/or audits are working appropriately; that system changes are properly implemented; that providers are educated on the proper coding and documentation for medical services being provided; and that over or underpaid claims are identified and appropriate collection or payment procedures are performed.

Department Response: The Department concurs with the finding. The status of claim errors has been reviewed by Program Integrity and the status as of 3/4/08 is summarized as follows: 39 claims cited in error:

- 32 recoupments were set up as accounts receivable
  - 28 recoupments have been collected (either paid by the providers or recouped by EDS);
  - 2 recoupments have been appealed and are still in dispute status;
  - 1 recoupment was modified (to $0.00) on appeal; and
  - monies have not been collected on one (1) recoupment.
- 7 claims did not involve recoupment
  - 1 provider was sent an educational letter, and
  - There was no action taken on 1 (the provider is no longer providing services)
  - 5 claims cited as errors were the result of retroactive hospital rate changes not having been applied at the time of the auditor's review.

33. REQUIRED DISCLOSURES NOT OBTAINED AT ENROLLMENT OF PROVIDERS AND LACK OF CONTROLS IN THE PROVIDER ELIGIBILITY ENROLLMENT PROCESS

The Division of Medical Assistance failed to collect all required information from provider-applicants when they were enrolled into the Medicaid program and collected

federal matching funds for these providers contrary to what is permitted in the regulations. The Division of Medical Assistance lacks the type of internal control policies and procedures needed to identify and exclude ineligible providers from participating in the Medicaid program.

Test Results for Provider Files

From a sample of 50 providers, our tests revealed providers' files that were missing disclosure documentation, manager's signature of approval, or articles of incorporation. Details of the errors are as follows:

- Two missing the Division of Medical Assistance manager signature of approval
- One missing ownership, business transaction, and criminal offense disclosures
- Four missing provider's articles of incorporation

Existing providers were not required to periodically re-enroll thereby providing an opportunity to detect changes in eligibility status. In addition, other than for physicians and practitioners, criminal background checks are not conducted for providers prior to enrollment.

Test of Provider Sanctions

We also reviewed the Division of Medical Assistance's actions taken in regard to identified provider sanctions. We tested 12 monthly sanction reports from the Center for Medicaid and Medicaid Services (CMS) and noted a total of 48 active providers that had been identified as receiving a sanction. We noted that the Division of Medical Assistance failed to take appropriate action to sanction one of these identified providers. The error was brought to management's attention and the provider's eligibility information was updated in the Medicaid Management Information System (MMIS) as of November 2007. However, the original sanction occurred in February 2007, a period for which the provider remained active within the system.

In addition, we also reviewed 10 sanctions made by the North Carolina Dental Board to determine if the agency had received notification from the Board and whether appropriate action had been taken to update the MMIS in accordance with the sanctions. We noted one instance where Provider Services did not receive the Notification of Disciplinary Action for a license suspension; however, the MMIS had been updated to show the suspension. Documentation should be maintained to support the action taken against the provider.

The lack of adequate internal control policies and procedures increases the risk that improper payments will be made to unqualified providers or that appropriate action may not be taken by the Division of Medical Assistance to recoup payments made in error.

Similar deficiencies have been reported in prior year audits and the Division of Medical Assistance's Provider Services section has been working to implement changes to bring the system into compliance with the applicable criteria. Provider Services updated

several of its enrollment packages to include new enrollment applications that address the disclosure requirements. As part of the development of the new Medicaid Management Information System, providers will be re-enrolled and periodic re-enrollment or re-verification of credentials will be established to detect changes in eligibility status.

This finding impacts multiple open grants.

Recommendation: The Division of Medical Assistance should continue with its efforts to improve and implement adequate internal controls over the provider enrollment process to ensure that only eligible medical providers are allowed participation in the Medicaid program. In addition, the Division of Medical Assistance should work to enhance controls related to provider sanctions to ensure that provider status is updated timely and supported by adequate documentation.

Department Response: The Department concurs with the finding. Corrective action is being implemented through monitoring and reinforcing the importance of appropriate documentation to prevent ineligible provider participation in the NC Medicaid program. DMA Provider Services will ensure sanctions are received; information is updated in MMIS in a timely manner and documentation is maintained in provider files.

Provider Services continues to improve and implement internal controls to address missing approval signatures and proper documentation through:

1) training of Enrollment Specialists on auditing of the provider enrollment packets;
2) developing more comprehensive Desk procedures describing the enrollment process; and
3) checking all enrollment packets for completeness and accuracy.

Routines will be strengthened to ensure that appropriate actions are taken on all providers identified on the monthly CMS sanction report. Documentation will be maintained to support actions taken against providers.

Provider Services is taking additional action to access the Healthcare Integrity and Protection Data Bank (HIPDB) and Office of Inspector General Database. Incorporating access to these databases into our ongoing operations will enhance our overall sanctioning process.

34. IDENTIFIED LOCAL COUNTY ELIGIBILITY ISSUES WITH THE MEDICAID PROGRAM

We identified deficiencies in the eligibility documentation for participants of the Medicaid program. We believe that questioned costs are likely to exceed $10,000 in the population.

In North Carolina, each county determines eligibility for Medicaid benefits. The Office of the State Auditor randomly selected 5 local counties for testing of the local eligibility process with our sample selection consisting of 25 participants for each selected county.

We identified weaknesses related to the determination of client eligibility and the completion of the financial documentation. Of the 125 tested case files, deficiencies were identified in 24 case files as noted below:

- Seven case files did not have appropriate documentation of the individual's financial status. Without proper documentation of the client's income, it can not be determined that the client appropriately met the financial thresholds for eligibility.
- Three case files did not contain properly completed on-line verifications. These verifications are used to ensure that the clients do not have undisclosed income, such as child support payments. These are also used to ensure that the applicant does not have any vehicles registered to them at the Division of Motor Vehicles.
- One case file did not have the applicant's state residency adequately documented. This documentation ensures that the State is not making payments for individuals who are not residents of the State of North Carolina.
- Seven case files did not have a signed transportation form or evidence that clients were notified of their transportation rights. It is required that applicants be notified of their transportation rights at time of application.
- One case file did not have medical documentation to support the deductible amount. The client was not eligible for Medicaid without meeting a deductible balance. There was no medical documentation to document that the client needed benefits.
- One case file did not contain documentation of the applicant's citizenship and it did not contain a signed transportation form.
- One case file did not contain a signed transportation form. It also did not contain a properly completed on-line verification.
- One case file did not contain a signed transportation form. It also did not contain appropriate documentation of the individual's financial status
- Two case files were not properly documented. Neither file had documentation of state residency, budget information, or a signed transportation form. One file did not have on-line verifications or verifications of real property or liquid assets. One file did not have documentation of third party insurance.

Federal regulations for the Medicaid program specify three types of resources that should be considered when determining eligibility - real property, personal property, and liquid assets - that must be verified during the intake process. In addition, several other key criteria such as North Carolina residency and U.S. citizenship also are required to be verified in determining Medicaid eligibility.

This finding impacts multiple open grants.

Recommendation: The Division of Medical Assistance should enhance its monitoring and training activities for county intake personnel to ensure proper determination for the Medicaid program. Counties should provide additional training to staff to ensure

documentation of the eligibility determination process. Follow-up procedures should be performed to verify corrective action takes place for the identified cases.

Department Response: The Department concurs with the finding. The Division of Medical Assistance will implement corrective action through our Medicaid Program Representatives (MPR) and conduct other monitoring as well as reinforce to the county DSS personnel the importance of appropriate verification and documentation in the enrollment.

In addition DMA will continue to regularly conduct reviews of case files through:

- Quality Control Reviews - Statistical case sampling is performed to test compliance with the State's eligibility policies and instructions.
- Applications Monitoring - Evaluate county records to assure benefits are issued in a timely and accurate manner, and that individuals are not discouraged from applying for benefits.
- Medicaid Program Representative Evaluation - Provide policy training, case consultation and technical assistance, perform targeted monitoring of selected program components and conduct special reviews of case records for appropriate eligibility determination.

Each finding will be evaluated and any questioned costs will be recouped.

35. DEFICIENCIES IN CALCULATION OF KEY ELIGIBILITY INFORMATION

Adequate controls are not in place to ensure that the applicant's budget amount for the Medicaid program, a key element in the initial determination of applicant eligibility, is properly calculated. Thus, there is an increased risk of payment to ineligible participants.

Currently, county caseworkers are either manually calculating the budget amount or using excel spreadsheets to determine the budget amount. The calculation is complex, which makes it prone to error. Our tests of five randomly selected counties found significant errors in the budget calculations.

This finding impacts multiple open grants.

Recommendation: The Department should take appropriate action to enhance the control procedures over the budget calculation process. One solution may be to have the Eligibility Information System perform the budget calculations to implement more control over the accuracy of budget calculations and minimize the risk of error from manual budget calculations. This would also provide for consistency in the calculations across all North Carolina counties.

Department Response: The Department of Health and Human Services concurs with this finding. However, it would not be cost effective to modify the EIS to include this

calculation at this time. This weakness will be resolved with the implementation of the DHHS North Carolina Families Accessing Services through Technology (NCFAST) automation initiative.

36. LACK OF SEGREGATION OF DUTIES FOR PROCESSES WITHIN THE ELIGIBILITY INFORMATION SYSTEM

We noted weaknesses in the segregation of duties performed by county caseworkers in the performance of their intake and eligibility approval functions within the Eligibility Information System (EIS). There are no application controls in the EIS to prevent the same caseworker from recording and approving the program eligibility application. Therefore, a county caseworker could incorrectly add applicants to the program with little or no detection.

This finding impacts multiple open grants.

Recommendation: The Department should take appropriate action to address the identified segregation of duties weakness. A possible solution could be implementing an application change to the Eligibility Information System that would result in the proper segregation of the recording and authorizing functions for eligibility applications at the county level. Consideration should also be given to increasing the Quality Assurance activities that should be performed at the County level.

Department Response: The Department of Health and Human Services concurs with the finding in principle. However, to impose this mandate on the 100 county departments of social services at this time could have negative consequences for our program applicants, state and federal program error rates, and county and State administrative costs. While we are aware that State staff need to closely monitor the county staff regarding errors in application processing, we feel that we have existing safeguards in place that are outlined below.

Existing Safeguards That Would Detect Fraud:

State monitors pull approximately 450 to 800 county records per month and check for errors and improper actions in application processing.

On an annual basis, Quality Control (QC) consultants pull approximately 700 county records for Medicaid QC, 1416 county records for PERM (includes Medicaid and NCHC), and 2000 county records for CARR (Case Action Record Review).

State program representatives visit counties on a monthly basis and pull case records for many different purposes throughout the year. The results of these reviews are shared with both county and state managers for corrective action purposes.

Each county has some type of second party review process where records are pulled internally and checked by a supervisor or lead worker. The number of records checked varies by county.

There are reports (i.e., Caseworker Supervisor Activity Report, the weekly and monthly Report Cards, and the Application Included Report) that are generated for use by county managers that indicate the case actions completed each month. The caseworker that keyed the action is associated on the report with the applicable case action.

Medicaid Program Representatives have also recommended that county management pull application logs on a regular basis to check for discrepancies by comparing the logs to the EIS reports of applications taken.

Future Actions That Will Detect Fraud:

The State is currently seeking a new case management automation solution that will replace EIS. This Information Technology initiative is called North Carolina Families Accessing Services through Technology (NC FAST). The NC FAST automation solution will have a role base security that will enable the separation of duties based on role(s) within the system. NC FAST also has a requirement that states the vendor must provide a method to automatically append a case unit action for second party review based on policy and worker profile.

State management will continue to emphasize to county directors the importance of second party review procedures especially in areas where the same caseworker registers and disposes of the application.

37. FAILURE TO CONTRACT FOR TEMPORARY SERVICES

During the State Fiscal Year 2007, the Division of Medical Assistance (DMA) procured personal and/or consulting services totaling $2.5 million from four temporary employment service agencies without entering into formal contractual agreements. Division officials indicated that contractual agreements did not exist as the services being provided were considered to be personal services, which met one of the exemptions provided for in the Department of Administration Purchase and Contract guidelines. However, our analysis identified 21 temporary employees that were providing either personal, professional, or consulting services that would require a contract under purchasing and contract guidelines.

Guidelines for contracted services can be found in the State Budget Manual and the North Carolina Administrative Code and address consultant, service, and personal service contract activities. An exemption to the Purchase and Contract requirements is provided if the service being acquired meets the definition of a personal service. Per the Department of Administration, Division of Purchase and Contract agency manual, an exemption applies if the services obtained are “personal services provided by a professional individual (person) on a temporary or occasional basis,…; the exemption applies only if the individual is using his/her professional skills to perform a professional task.”

Our concerns with the DMA activities are two-fold: (1) the services are being obtained from temporary service organizations; therefore, the exemption can not apply as DMA is not contracting with individuals; and (2) the exemption speaks to the temporary or occasional basis of the service to be performed. Further analysis identified 145 temporary employees that worked for DMA during the 2006-07 fiscal year. Of the 145, 59 were employed for a period of time exceeding six months. Twenty-five of these 59 employees were employed for a time period exceeding 12 months. These employment timeframes appear to exceed the temporary definition of "three to six months" that is found in the State Personnel Manual applicable to temporary services.

Per federal guidelines, DMA's procurement of services using federal funds should follow the same State policies and procedures for procurement with non-federal funds. Noncompliance could result in the disallowance of costs and the payback of federal funds.

This finding impacts multiple open grants.

Recommendation: The Division of Medical Assistance should improve its control procedures for the procurement of temporary services to ensure compliance with applicable state and federal purchasing and contracting requirements.

Department Response: The Division of Medical Assistance is willing to make appropriate changes and corrections in the areas addressed in this finding, but an opinion from the Department of Administration Purchasing and Contracting section and the Office of State Personnel is needed. These agencies must provide the direction as to the definitions of what constitutes a "temporary employee", what needs to go on bid, whether there is a need to distinguish between a clerical verses a professional level "temporary employee," what are "professional level" services or employees, and to interpret pertinent paragraphs referenced in the State Personnel Manual, State Budget Manual and the North Carolina Administrative Code. DMA is not in a position to change its process without this guidance such that changes are in compliance with State and Federal guidelines. The Division will review all temporary contracts for compliance with State and Federal guidelines.

38. FEDERAL REIMBURSEMENT FOR UNALLOWABLE COSTS OF THE ALBEMARLE MENTAL HEALTH CENTER

A performance audit of the Albemarle Mental Health Center identified that federal funds were being drawn down by the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services for questionable and/or unallowable costs. Those costs included:

- The Area Program Director's base salary of $282,663 and the Special Assistant's base salary of $142,848 appeared to be excessive compared to their peers and duties performed. OMB Circular A-87 provides that compensation for employees reimbursed by federal funds should be reasonable. This is defined as consistent with

compensation paid for similar work within the governmental unit or comparable to compensation provided for similar work in the competing labor market. The salary amounts paid appear unreasonable based on these evaluation criteria as identified by the performance audit.

- The Area Program Director was paid $12,000 for an automobile depreciation allowance in addition to his mileage reimbursements. OMB Circular A-87 provides that transportation costs should be charged either on an actual cost basis or on a mileage basis. The automobile depreciation allowance does not appear to be a cost that would be reimbursed in the normal business activities of the Center and appears duplicative in nature.
- The Albemarle Mental Health Center contracted with a lobbyist to provide advice and counsel on State government issues. The lobbyist was paid $75,000 annually on a continuing contract that was first entered into in November 2003. OMB Circular A-87 provides that lobbying costs are an unallowable cost to federal funds.

In discussions with management for the Albemarle Mental Health Center, it was indicated that all of the above costs were being paid from local funds. However, it was determined that these expenditures were included in the Monthly LME Report of Expenditures submitted to the Division. The Division included these expenditures as support for the disbursement of State funds and the subsequent reimbursement with federal funds from the Medicaid grant. As such, these expenditures are considered to be questioned costs as they do not appear to be allowable costs per federal regulations and it is likely that questioned costs exceed $10,000.

This finding impacts multiple open grants.

Recommendation: The Division of Mental Health, Developmental Disabilities, and Substance Abuse Services should take appropriate action to address the identified unallowable activities. Division management should develop appropriate guidelines as to the appropriate use of federal funds. More effective monitoring should occur to ensure the allowability of expenditures used to support the drawdown of federal funds.

Department Response: The Department concurs with the finding. To address the issues identified the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services has already implemented the following:

1. On September 6, 2007, the Division and DHHS Controller's Office jointly issued revised LME Systems Management expenditure reporting instructions effective July 1, 2007. A key element set forth in the revised reporting instructions was the adoption of a maximum salary amount for Division reimbursement in accordance with the Level I Executive Schedule as published by the United States Office of Personnel Management. This change limits the allowable cost which the Division will participate in to the referenced Federal salary schedule for non-physician positions. This change requires LMEs to report the salary amounts they pay which are above the referenced maximum but it limits Division reimbursement to the

referenced maximum. This modification will specifically address the salary issue for the Area Program Director.

2. In order to improve fiscal monitoring oversight of LMEs the following actions have been taken:

   a. Prior to the additional positions described in item b. below, the Division had only 1.0 FTE for field based fiscal monitoring and oversight of LMEs and their providers. The SFY 08 work plan for this single position includes the following duties related to monitoring LME Systems Management expenditures, (i) Perform cost variance analysis of monthly LME expenditure reports and follow-up as necessary, (ii) Conduct desk audit of LME expenditure reports, (iii) Review quarterly fiscal monitoring reports submitted by the Office of the Controller and follow-up as needed, and (iv) Participate in one on-site audit of an LME each quarter to validate expenditure reports.

   b. The Division requested additional field-based budget positions via the SFY 08 expansion budget process and the General Assembly approved funding for 2.0 additional FTEs beginning in SFY 08. One position has been filled and the other position has been reposted and the Division is in the process of filling it. The purpose of these positions is to improve budget and fiscal oversight and monitoring of LMEs and providers as well as providing technical assistance with fiscal operations.

3. To address the three specific areas of questioned cost, the Division has assigned one of the field-based budget positions to review on-site the cost reported by Albemarle related to salaries, automobile cost and payments to a lobbyist. This review will include reviewing all LME Systems Management expenditure reports submitted by Albemarle and tracing cost back to Albemarle's accounting records. Reported cost, in the categories identified by the Office of the State Auditor, which are deemed unallowable will be recouped, and this will also include the appropriate amount of disallowed Federal Medicaid reimbursement which will be refunded to the State Medicaid Agency.

4. In terms of fiscal oversight and monitoring, the Division also relies on the use of the annual Crosscutting Supplement by local certified public accountants (CPAs) in their annual audits of LMEs, including single and multi-county LMEs. The Crosscutting Supplement requires that the CPA sample at least one month's LME Systems Management cost which were reported and verify that such cost are substantiated in the LME's accounting records. As revisions in the Crosscutting Supplement are made for next year, the Division will consider the findings identified by the State Auditor herein in an effort to improve the scope and content that local CPAs review and sample related to LME Systems Management cost which are reported by LMEs.

CFDA 93.958 – BLOCK GRANTS FOR COMMUNITY MENTAL HEALTH

39. MONITORING PROCEDURES NEED TO BE IMPROVED FOR LOCAL MANAGEMENT ENTITIES

We identified deficiencies in the monitoring procedures for the Community Mental Health Block Grant. As a result, there was an increased risk of noncompliance with federal requirements by subrecipients.

The Division is responsible for monitoring the Local Management Entities (LMEs). Our review of monitoring procedures identified the following deficiencies:

- LME liaisons prepare monthly summary monitoring reports that are to be submitted to the Accountability section. Our review of submitted reports identified 21 instances where reports were missing or not on file.
- There was limited or no evidence to support the LME Liaison section's reported monitoring efforts. Supporting documentation is not maintained and there was no written evidence to support technical guidance or assistance that may have been provided by the section. The lack of documentation of monitoring efforts makes it difficult to support conclusions regarding LME performance and the reasonableness of expenditures.
- There are no written monitoring policies and procedures that define objectives, expected outcomes, and measurable results to be used in monitoring of LMEs.
- Our review of the state compliance supplement information, to be used by local auditors in their compliance work for LMEs, also identified deficiencies. The audit requirements for the Reporting and Special Tests sections did not appear to address areas that could have a significant impact on the Division's overall compliance with program requirements.

Federal and State guidelines require the monitoring of subrecipient activities to provide reasonable assurance that subrecipient comply with applicable laws and regulations.

This finding impacts grant numbers #05B1NCCMHS, #06B1NCCMHS, and #07B1NCCNHS.

Recommendation: The Division of Mental Health, Developmental Disabilities, and Substance Abuse Services should enhance its procedures to ensure that sufficient documentation is maintained to support its monitoring efforts. Consideration should be given to the development of comprehensive policies that address all aspects of the monitoring efforts, from the initial plan, the expected outcomes, and the directives to be provided through the state compliance supplement.

Department Response: The Department concurs with this finding. In addition to the current activities of the LME Team which include the field-based budget staff, the Division will establish a Local Management Entity subrecipient monitoring protocol and procedure to be carried out through annual site visits by members of the Accountability

Team. This protocol and procedure will be developed jointly by the Community Policy Management Section and the Accountability Team, and will provide standard written documentation of monitoring activities to ensure that LMEs are administering the MHBG in compliance with Federal requirements. The Compliance Supplement will be updated to ensure compliance with federal regulations.

40. MONITORING PROCEDURES FAILED TO DOCUMENT COMPLIANCE WITH INDEPENDENT PEER REVIEW REQUIREMENT

We identified deficiencies in the monitoring procedures for the Community Mental Health Block Grant. As a result, there was an increased risk of noncompliance with federal requirements by the Division and its subrecipients.

Federal guidelines state that independent peer reviews of service providers must be performed to assess the quality, appropriateness, and efficacy of treatment services provided to individuals. At least 5 percent of the entities providing services in the State shall be reviewed annually and the entities being reviewed must be representative of the entities providing the services. The responsibility for provider review has been delegated to the Local Management Entities (LMEs), but we were unable to determine the Division's compliance with this requirement. Provider monitoring reports are submitted by LMEs to the Quality Management section; however, there was not evidence to support the Quality Management sections review and assessment of these reports. In addition, the submitted provider monitoring reports only identify those providers where problems were noted. There is no summary information, such as a peer review plan, that identifies the providers to be reviewed, the methodology for their selection, or total providers monitored to meet the percentage requirement.

This finding impacts grant numbers #05B1NCCMHS, #06B1NCCMHS, and #07B1NCCNHS.

Recommendation: The Division of Mental Health, Developmental Disabilities, and Substance Abuse Services should take appropriate action to ensure that an overall provider monitoring plan is developed to ensure compliance with the independent peer review requirement.

Department Response: The Department concurs with the finding. The following steps will be taken to ensure compliance with the independent peer review requirement related to the Community Mental Health Block Grant that "…at least 5 percent of the entities providing services in the State shall be reviewed annually and the entities being reviewed must be representative of entities providing the services."

All LMEs will be directed to identify one provider of adult mental health services and one provider of child mental health services that will be eligible to receive reimbursement from Mental Health Block Grant funds by June 30, 2008. On an annual basis beginning in SFY 08-09, five percent of these providers will be subject to an

independent peer review, including a record review of the quality, appropriateness and efficacy of treatment services provided to individuals.

The responsibility for peer review will be shifted from the LMEs to the Division of MH/DD/SAS by 7/1/08. A five percent sample of providers that are receiving MHBG funds will be selected each year. One or more DMH/DD/SAS staff who have the appropriate clinical training and experience will go to the site of these providers and will pull ten (10) records for review. A standardized review tool will be used to review the quality, appropriateness, and efficacy of the services that were provided during a specific time period. Results will be reported to the provider, to the LME in which the provider delivered the services, and to DMH/DD/SAS by 6/30/09.

41. DEFICIENCIES IN USER ACCESS TO INTEGRATED PAYMENT AND REIMBURSEMENT SYSTEM (IPRS)

The Division of Mental Health, Developmental Disabilities, and Substance Abuse Services failed to remove a separated employee's access to the system. Our testwork identified that a former employee still had active access to IPRS after separation. Access to the system could have been achieved using an internet browser and the assigned IPRS user access.

We also noted that the Division did not require passwords to be changed by all users at least every 90-days as required by statewide information security policies. Three new employees did not have signed computer use policies in their files as required by departmental rules.

Improper access to computer systems can result in both intentional and unintentional security breaches. Maintaining proper access controls over computer systems helps to protect the confidentiality and integrity of information by preventing alteration, unauthorized use, or loss of data.

This finding impacts grant numbers #05B1NCCMHS, #06B1NCCMHS, and #07B1NCCNHS.

Recommendation: The Division of Mental Health, Developmental Disabilities, and Substance Abuse Services should conduct periodic security reviews to ensure that access is restricted to authorized users. Adherence to the statewide information security policies should be emphasized and documentation should be maintained to support compliance with all applicable security policies.

Department Response: The Department concurs with this finding. The Division of Mental Health, Developmental Disabilities, and Substance Abuse Services established Policy RRM-100 for systems (IPRS/R2W) access for new and separated employees. IPRS personnel will immediately enforce division policy that monitors the access controls of new and departing employees.

There is currently a CSR (Customer Service Request) for a 90-day IPRS password renewal which is pending with the vendor of IPRS. The CSR will follow the Statewide, DHHS, and Division Standards and Policies pertaining to passwords.

Regarding the three new employees who did not have signed computer use policies in their files as required by departmental rules, Human Resources has taken corrective action to secure the signed policies.

42. DEFICIENCIES NOTED IN THE PROCESSING OF COMMUNITY MENTAL HEALTH BLOCK GRANT EXPENDITURES

We identified deficiencies in the claims processing procedures for the Community Mental Health Block Grant. As a result, there was an increased risk of noncompliance with federal requirements and potential for payment of unallowable costs.

Deficiencies were noted from our review of claims payments including:

- There were no written procedures for the methodology used to determine non-Medicaid payment rates. Rates are established for specific procedure codes that differ across billing providers as well as between attending providers; however, there is no documentation to support the basis for the varying rates paid for essentially the same service type.
- We noted instances where the rates listed on the Integrated Payment and Reimbursement System (IPRS) for selected procedure codes were not the actual rates used in payment of the claim, making it difficult to determine the accuracy of IPRS payment information. Information is not accessible through the IPRS browser to document rate changes.
- Full recipient enrollment history is not maintained in an accessible format (viewable in the IPRS browser) and can be deleted or changed at any time creating difficulties in verifying service eligibility.
- The IPRS does not maintain information regarding a recipient's third party insurance, which should be billed for services before federal funds are used to reimburse for services.
- IPRS rates are provided to the fiscal agent for implementation into the payment system; however, we did not see documented evidence that the Division verified the accuracy of the implementation of, or subsequent changes to, the approved rates. The rate change history is not readily viewable in IPRS.
- The Division does not perform a reconciliation of the mental health services payments per the accounting records to the IPRS subsystems.

The Division also reimburses Local Management Entities (LMEs) for Community Mental Health Block Grant activities based on monthly Financial Status Reports (FSRs). Documentation is not submitted by the LME to support the reimbursement of these

expenditures and limited evidence exists to substantiate that the expenditures incurred are reasonable and allowable per grant compliance requirements.

OMB Circular A-87 provides that grant program costs must be reasonable and necessary for the proper and efficient administration of the program and that allowable costs must be adequately documented. Federal and State guidelines also require the monitoring of subrecipient activities to provide reasonable assurance that the subrecipient complies with applicable laws and regulations.

This finding impacts grant numbers #05B1NCCMHS, #06B1NCCMHS, and #07B1NCCNHS.

Recommendation: The Division of Mental Health, Developmental Disabilities, and Substance Abuse Services should enhance controls to ensure that service rates are set and disbursements of grant funds are in accordance with regulations. Consideration should be given to the development of written policies and procedures that document the rate-setting process and trac2.

Department Response: The Department concurs with the finding. The Division will work to enhance controls to ensure that service rates are set and disbursements of grant funds are in accordance with regulations. In addition, the Division will develop written procedures that document the rate-setting process and track historical changes to the rates as recommended.

Rates used for calculating reimbursement for services are accessible to LMEs in the following report available in IPRS: R2W which includes IPPR2414 rates by procedure code; IPPR2415 rates by population groups; IPPR2417 outpatient behavioral health code rates by specialty; PPR2419 rates by LME; and IPPR2414 a record of rates from current back to June 2002. Another key report is IPKR9002 (Client Eligibility Detail Update Report). This is the daily report that shows the changes and deletions in a client's enrollment history.

Some procedure code rates are calculated based upon the Medicaid reimbursable rate. Others are based upon a pricing action that pays the lesser of the billed amount versus the fee schedule.

During the initial design of the system, DMH decided that as a result of the extremely low percentage of third party billing for state funds, the effort of tracking third party liability (TPL) did not warrant the cost of this feature.

The Division does not restrict or limit the amount of changes that an LME is able to make to a consumer’s eligibility profile. Contractually, the LME is responsible for the accurate and compliant handling of all consumer data. LMEs are expected to review all consumer eligibility at least on an annual basis. Historical consumer profile information is retained at the LME and is accessible for review by Division staff and auditors upon request. The IPRS browser is just one resource for client data. The R2W report is a resource that is frequently utilized by the LME community and the Division to confirm client eligibility data and history.

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