

STATE OF NORTH CAROLINA

NORTH CAROLINA STATE HEALTH PLAN FOR TEACHERS AND STATE EMPLOYEES

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

**NORTH CAROLINA STATE HEALTH PLAN FOR TEACHERS AND
STATE EMPLOYEES**

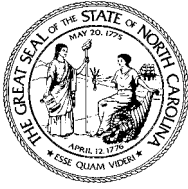
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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue, Governor
Members of the North Carolina General Assembly
Members of the Board of Trustees
Mr. Jack W. Walker, PhD, Executive Administrator
North Carolina State Health Plan for Teachers and State Employees

We have completed certain audit procedures at the North Carolina State Health Plan for Teachers and State Employees (Plan) related to the State of North Carolina reporting entity as presented in the *Single Audit Report* for the year ended June 30, 2009. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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 major federal 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.

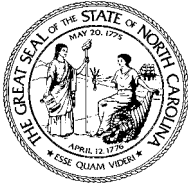
Our audit objective was to render an opinion on the State of North Carolina's administration of major federal programs and not the Plan's administration of major federal programs. However, the report included herein is in relation to our audit scope at the Plan and not to the State of North Carolina as a whole.

The audit finding referenced in the report is also evaluated to determine its impact on the State's internal control and the State's compliance with rules, regulations, contracts, and grants. If determined necessary in accordance with *Government Auditing Standards* or the Single Audit Act, the finding is reported in the State's *Single Audit Report*.

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.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board of Trustees and Management of the North Carolina State Health Plan for Teachers and State Employees

Compliance

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major programs for the year ended June 30, 2009, we have performed audit procedures at the North Carolina State Health Plan for Teachers and State Employees. Our report on the State of North Carolina's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 is included in the State's *Single Audit Report*. Our federal compliance audit scope at the North Carolina State Health Plan for Teachers and State Employees included the following:

- 93.767 – Children's Health Insurance Program

The audit results described below are in relation to our audit scope at the Plan and not to the State of North Carolina as a whole.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of compliance with those requirements.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONCLUDED)**

The results of our audit procedures at the North Carolina State Health Plan for Teachers and State Employees disclosed instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and which are described in the finding in the Audit Findings and Responses section of this report.

Internal Control Over Compliance

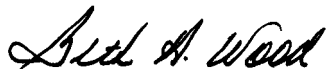
Management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as described above.

Management's response to the finding identified in our audit is included in the Audit Findings and Responses section of this report. We did not audit the response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, the Governor, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Beth A. Wood, CPA
State Auditor

March 17, 2010

AUDIT FINDINGS AND RESPONSES

Matter Related to Federal Compliance Objectives

The following finding and recommendation was identified during the current audit and discusses conditions that represent noncompliance with laws, regulations, contracts, or grants.

INCORRECT HEALTH INSURANCE CLAIMS PAID

The North Carolina State Health Plan for Teachers and State Employees (Plan) paid erroneous claims in the Children's Health Insurance Program. As a result, we are questioning federal costs in the amount of \$13,906.

The Plan contracts with private accounting firms to audit health insurance claims paid by its contracted claims processor. The firms examined a sample of 449 Children's Health Insurance Program medical claims and identified six errors, four overpayments and two underpayments. The erroneous overpayments totaled \$18,477, with the federal share of the costs totaling \$13,898. The two underpayments identified totaled \$16,241. The projected gross payment error amount, based on the absolute value of the errors, was \$4.5 million.

A firm also examined a sample of 200 Children's Health Insurance Program pharmacy claims and identified one error, an overpayment of \$11, with the federal share of the costs totaling \$8. The projected payment error for the Children's Health Insurance Program pharmacy claims was \$7,000.

The errors noted were due to the incorrect pricing of claims.

Federal Award Information: The review for Children's Health Insurance Program claims included federal grant awards 05-0805NC5021, 05-0905NC5021, and 05-0805NCMSEA for the federal fiscal years ending September 30, 2008 and 2009.

Recommendation: Plan management should continue its efforts to ensure that the claims processing contractor accurately processes all health insurance claims. Additionally, the Plan should ensure the appropriate actions are taken to correct the claim payment errors identified above.

Plan Response: The Plan will continue to work with its Claims Processing Contractor (CPC) and Pharmacy Benefit Manager to ensure claims are processed accurately and in accordance with federal and state regulations, guidelines and procedures. The Plan's contractors have taken action to correct the processing and payments errors identified in the audit for the Children's Health Insurance Program.

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