State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA

North Carolina Department of Health and Human Services

Raleigh, North Carolina

Statewide Federal Compliance Audit Procedures

For the Year Ended June 30, 2014

NC OSA

The Taxpayers' Watchdog

STATE OF NORTH CAROLINA

Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
Members of the North Carolina General Assembly
Dr. Aldona Wos, Secretary
North Carolina Department of Health and Human Services

As part of our audit of the State of North Carolina's compliance with requirements applicable to its major federal programs, we have completed certain audit procedures at the North Carolina Department of Health and Human Services for the year ended June 30, 2014. We conducted the audit 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*. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes.*

Our audit objective was to render an opinion on the State of North Carolina's, and not the Department's, administration of major federal programs. However, the report included herein is in relation to our audit scope at the Department and not to the State of North Carolina as a whole. The State Auditor expresses an opinion on the State's compliance with requirements applicable to its major federal programs in the State's *Single Audit Report*.

The audit findings referenced in the report are also evaluated to determine their 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 OMB Circular A-133, these findings are 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.

Beth A. Wood, CPA
State Auditor

Beth A. Wood, CPA
State Auditor

Table of Contents

Article V, Chapter 147 of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.

INDEPENDENT AUDITOR'S REPORT

STATE OF NORTH CAROLINA
Office of the State Auditor

Beth A. Wood, CPA
State Auditor

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Dr. Aldona Wos, Secretary and the Audit Committee
and Management of the North Carolina Department of Health and Human Services

Report on Compliance for Each Major Federal Program

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 could have a direct and material effect on each of its major programs for the year ended June 30, 2014, we have performed audit procedures at the North Carolina Department of Health and Human Services. Our report on the State of North Carolina's compliance with requirements that could have a direct and material effect on 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 Department of Health and Human Services included the following:

- SNAP Cluster:
  - CFDA 10.551 – Supplemental Nutrition Assistance Program (SNAP)
  - CFDA 10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
- CFDA 10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
- CFDA 10.558 – Child and Adult Care Food Program (CACFP)
- CFDA 84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States
- Aging Cluster:
  - CFDA 93.044 – Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers
  - CFDA 93.045 – Special Programs for the Aging – Title III, Part C – Nutrition Services
  - CFDA 93.053 – Nutrition Services Incentive Program

- CFDA 93.074 – Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements:
    - CFDA 93.069 – Public Health Emergency Preparedness
    - CFDA 93.889 – National Bioterrorism Hospital Preparedness Program
- TANF Cluster:
    - CFDA 93.558 – Temporary Assistance for Needy Families (TANF)
    - CFDA 93.714 – ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs
- CFDA 93.658 – Foster Care – Title IV-E
- CFDA 93.659 – Adoption Assistance – Title IV-E
- CFDA 93.767 – Children's Health Insurance Program (CHIP)
- Medicaid Cluster:
    - CFDA 93.775 – State Medicaid Fraud Control Units
    - CFDA 93.777 – State Survey and Certification and Health Care Providers and Suppliers (Title XVIII) Medicare
    - CFDA 93.778 – Medical Assistance Program (Medicaid; Title XIX)
- CFDA 93.917 – HIV Care Formula Grants
- CFDA 93.959 – Block Grants for Prevention and Treatment of Substance Abuse

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

Management's Responsibility

Management is responsible for compliance with laws, regulations, contracts, and grants applicable to federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State of North Carolina's major federal programs based on our audit of the types of compliance requirements referred to above, which we issue in the State's *Single Audit Report*. 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. However, our audit does not provide a legal determination of the Department's compliance with those requirements.

Opinion on Each Major Federal Program

As stated above, our opinion on compliance for each of the State of North Carolina's major federal programs is included in the State's *Single Audit Report*.

Other Matters

The results of our audit procedures at the North Carolina Department of Health and Human Services disclosed instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and which are described in findings 2, 7, 9, 11, 13-14, 18-20, 22, 24-25, 28 in the Findings, Recommendations, and Responses section of this report.

Report on Internal Control Over Compliance

Management of North Carolina Department of Health and Human Services is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we consider the deficiencies described in findings 1, 7, 9, 11, 13, 19, 22 in the Findings, Recommendations, and Responses section of this report to be material weaknesses in internal control over compliance. Furthermore, we

consider the deficiencies described in findings 2-6, 8, 10, 12, 14-18, 20-21, 23-30 in the Findings, Recommendations, and Responses section of this report to be significant deficiencies in internal control over compliance.

North Carolina Department of Health and Human Services' Responses to Audit Findings

The Department's responses to the findings identified in our audit are included in the Findings, Recommendations, and Responses section of this report. The Department's responses were not subjected to the auditing procedures applied in the audit of compliance or consideration of internal control over compliance, and accordingly, we express no opinion on them.

Purpose of Report on Internal Control Over Compliance

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this communication is not suitable for any other purpose.

Beth A. Wood

Beth A. Wood, CPA
State Auditor
Raleigh, North Carolina

March 24, 2015

FINDINGS, RECOMMENDATIONS, AND RESPONSES

Management's responses are presented after each audit finding. We did not audit the responses, and accordingly, we express no opinion on them. However, *Government Auditing Standards* require that we add explanatory comments to the report whenever an audit finding response is inconsistent or conflicts with the finding or recommendation. In accordance with this requirement and to ensure that the nature and seriousness of the findings are not minimized or misrepresented, we have provided comments to the Department's responses for findings 18, 23, and 25.

MATTERS RELATED TO FEDERAL COMPLIANCE OBJECTIVES

1. Management Did Not Take Full Corrective Action on Prior Recommendations

The Department of Health and Human Services (Department) management did not take full corrective action on prior year audit findings for three major federal programs audited for the current fiscal year ended June 30, 2014.

Because management did not implement full corrective action, the following are findings in the current year:

Rehabilitation Services - Vocational Rehabilitation Grants to States

Errors in Claims Payment Process – The Department made payments to providers that did not comply with federal cost requirements for the program. As described in current year finding #7, audit tests indicated a continuation in payment errors.

Deficiencies in Participant Eligibility Documentation – The Department did not maintain documentation to support accurate and timely eligibility determinations for the program. As described in current year finding #8, audit tests indicated a continuation in documentation errors.

Medical Assistance Program

Deficiencies in Provider Enrollment and Termination Processes – The Department continued to inadequately monitor the contracted service provider to ensure eligible medical providers are enrolled and ineligible providers are terminated from the program. As described in current year finding #22, audit tests indicated an increase in enrollment and termination errors.

Deficiencies with Program Integrity Functions – As described in current year finding #23, the Department continued to inadequately track and review case investigations.

Block Grants For Prevention and Treatment of Substance Abuse

Monitoring Procedures Need Improvement – As described in current year finding #29, the Department did not ensure Local Management Entities complied with applicable laws and regulations.

Failure to implement corrective action in a timely way to ensure compliance allows federal funds to potentially be used for unallowable expenditures.

Although the Department identified corrective action plans to address these deficiencies in prior years, management did not follow through to ensure corrective actions were taken.

OMB Circular A-133 section .300 requires that state agencies maintain internal control over federal programs to ensure compliance with federal regulations. It further states that auditees are responsible for following up and taking corrective action for audit findings.

Federal Award Information

This finding affects the following programs and awards:

CFDA #84.126 – Rehabilitation Services - Vocational Rehabilitation Grants to States

This finding affects federal grant awards H126A120049, H126A120050, H126A130049, and H126A130050 for the federal fiscal years ended September 30, 2012, and 2013, respectively.

CFDA # 93.778 – Medical Assistance Program

This finding affects federal grant awards 05-1205NC5MAP and 05-1305NC5MAP for the federal fiscal years ended September 30, 2012, and 2013, respectively.

CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse

This finding affects federal grant awards TI010032-12 and TI010032-13 for the federal fiscal years ended September 30, 2012, and 2013, respectively.

Recommendations

The Department should ensure corrective action plans are finalized by planned completion dates.

Management should hold responsible individuals accountable to ensure corrective action is taken.

Agency Response

The Department has partially resolved most of the referenced prior year audit findings and full resolution is anticipated during 2015. Corrective action plans were developed in response to the referenced findings and are being implemented.

Departmental management and the Office of the Internal Auditor have and will continue to monitor the implementation of corrective actions in a timely manner.

The Department's response to this finding is included in its response to each of the referenced findings.

SNAP CLUSTER – SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP)

2. SNAP Eligibility Determinations Not Performed Accurately

The Department had numerous deficiencies in SNAP eligibility determination procedures that resulted in noncompliance with federal regulations. During state fiscal year 2014, the SNAP eligibility system (NC FAST) processed benefit payments for 1.2 million households. The identified overpayments and questioned costs totaled $12,671. Where sampling was used, the results identified only $12,090 in questioned costs. If tests were extended to the entire population, questioned costs could be significant to the program.

- Income certification periods exceeded the 12 month period required by federal guidelines for 1,899 households.
- Four of 13 (31%) inactive cases were not closed out in NC FAST as required by federal guidelines. In addition, two of the four cases identified were inappropriately reopened by case workers. Total identified questioned costs were $581.
- Auditors tested a sample of 96 out of 20,741 cases changed from a closed status and found 10 (10%) cases inappropriately reopened by case workers. Under federal guidelines, new cases should have been created. Total identified questioned costs were $3,060.
- Auditors tested a sample of 48 out of 3,250 payment authorizations made outside the households' certification period and found 34 (71%) errors. Exceptions included failure to prorate benefits, missing income documentation, and households with two active cases. Total identified questioned costs were $8,030.
- Auditors tested a sample of 60 out of 1,221,208 households and identified 12 (20%) instances where notices were inaccurate, blank, or not generated by NC FAST. Notices are sent to households to inform them of case disposition, adverse action, mass change, and expiration. One of the instances noted above was for payments made to a household when it did not have a certification period and no notices were sent. Total identified questioned costs were $1,000.

As a result, the Department made at least $12,671 of benefit overpayments to households, increasing the overall costs to the program.

According to the Department, case workers struggled to process cases in the first full year operating NC FAST. Based on audit work performed on the quality control review program, the Department did not use results from those reviews to ensure effective system operation.

Federal regulations for the SNAP program include:

- Federal regulation 7 CFR 273.10(f): "The state agency must certify each eligible household for a definite period of time. The certification period cannot exceed 12 months."

- Federal regulation 7 CFR 272.10(b)(iii): “Provide for an automatic cutoff of participation for households which have not been recertified at the end of their certification period.”
- Federal regulation 7 CFR 273.10(a)(2): “If a household submits an application after the household's certification period has expired, that application shall be considered an initial application and benefits for that month shall be prorated.”
- Federal regulation 7 CFR 272.10(b)(1)(iv) requires the system to generate notices to households for: “(A) Case Disposition, (B) Adverse Action and Mass Change, and (C) Expiration.”
- Federal regulation 7 CFR 273.18 requires state agencies to establish claims against households for intentional program violations, inadvertent household errors, and agency errors.

Similar aspects of this finding were reported in the prior year.

Federal Award Information

This finding affects the Supplemental Nutrition Assistance Program for the federal fiscal years ended September 30, 2013, and September 30, 2014.

Recommendations

The Department should ensure certification periods for households are accurate.

The Department should monitor NC FAST to ensure inactive cases automatically close.

The Department should monitor NC FAST to investigate reopened cases.

The Department should ensure participants only receive benefit authorizations for eligible periods.

The Department should ensure notices are properly sent to participants.

The Department should ensure claims are established to recoup identified overpayments.

Agency Response

The Department’s Food and Nutrition Services (SNAP) Policy Manual specifically addresses each of the topics described in the findings and recommendations and provides appropriate guidance to the county departments of social services prior to and post-implementation of NC FAST functionality. NC FAST was operating in accordance with the business rules implemented. The Department reviewed the business rules in accordance with policy and made revisions where necessary.

Accuracy of Certification Periods: The Department monitors the accuracy of the certification periods by randomly sampling case files during the Food and Nutrition Services Management (SNAP) Evaluation of county departments of social services.

On December 6, 2013, the certification periods were updated in NC FAST and the clients were sent a recertification form.

Monitor Inactive Cases: The Department's Food and Nutrition Services (SNAP) Policy Manual permits county departments of social services' caseworkers to reopen cases in certain defined circumstances. Sections 425.04 PROCESSING TIMELY DSS-2435 RECERTIFICATION FORMS and 425.05 PROCESSING UNTIMELY DSS-2435 RECERTIFICATION FORMS describe the policies in effect prior to and post-implementation of NC FAST functionality.

The Department has evaluated the batch closure process and will implement changes in NC FAST by the end of May 2015 to ensure that all cases are closed according to policy guidelines. Also, measures will be taken to prevent inappropriate reopening of cases by the end of April 2015. Until the change is fully implemented, a report will be generated to identify any cases not closing as per the guidelines. Monitors will select a random sample of case files for accuracy, and review reopened cases at that time.

Monitor Reopened Cases: The Department's Food and Nutrition Services (SNAP) Policy Manual permits county departments of social services' caseworkers to reopen cases in certain defined circumstances. Sections 425.04 PROCESSING TIMELY DSS-2435 RECERTIFICATION FORMS and 425.05 PROCESSING UNTIMELY DSS-2435 RECERTIFICATION FORMS describe the policies in effect prior to and post-implementation of NC FAST functionality.

The Department has evaluated the reopened process and will add an additional warning message to alert the county departments of social services' caseworker before the reopen action can be taken in NC FAST by the end of April 2015. Also, monitors will select a random sample of reopened case files to ensure accuracy.

Benefit Authorizations for Eligible Periods: Based on our review of the referenced cases, it was determined that the caseworker modified the certification period after one or more payments had been issued, giving the impression that the system issued the payments outside of the certification period. The Department has evaluated the modifications of certification periods and, by end of May 2015, the Department will add several validations to prevent users from changing certification periods as indicated below.

1. Restrict user from updating any prior certification periods (for which payments have been issued), and allow updates to only the current certification period.
2. Restrict user from updating the start date of a certification period and only allow the change to the end date.
3. Restrict user from updating the certification period if the period is in the past.
4. Restrict the certification period from being more than 12 months for FNS cases.
5. Restrict the certification period if a payment has been issued for any month within the certification period.

On December 21, 2014, additional system changes were made to prevent two active cases from paying at the same time.

Notices Sent to Participants: On December 22, 2014, the Department revised all the denial notices to include the specific reason for denial and the specific actions that a client must take. On February 13, 2015, NC FAST communicated specific actions that must be taken by the county departments of social services eligibility workers to ensure that the notices will print with the required statements. A statewide webinar was conducted on March 18, 2015 to address the issues regarding correct actions needed to ensure correct notices are generated by NC FAST.

Recoupment of Overpayments: The cases with questioned cost will be researched to determine the overpayment amounts and recoupments will be established. The anticipated completion date is June 30, 2015.

3. Deficiencies in Eligibility System Access Controls

The Department did not conduct server and database access reviews of the eligibility system (NC FAST). Performance of access reviews ensure that individuals are limited to access needed to accomplish job functions in NC FAST.

The lack of access reviews could result in payment of erroneous participant benefits.

According to the Department, the close working environment of staff makes the addition or removal of individuals apparent; therefore, there was no need to perform formal access reviews.

The Statewide Information Security Manual (2013) section 020101 requires a "documented review of privileged user accounts every 3 months."

Federal Award Information

This finding affects the Supplemental Nutrition Assistance Program for the federal fiscal years ended September 30, 2013, and September 30, 2014.

Recommendation

The Department should perform server and access reviews in accordance with the Statewide Information Security Manual.

Agency Response

The Department disagrees in part.

The Department has procedures in place to approve and revoke access to production servers and databases per the Statewide Information Security Manual.

The Department is instituting a standardized reporting process to monitor and review server and database access in accordance to the Statewide Information Security Manual, which was updated in January 2015.

Office of Information Technology Services (ITS) and North Carolina Families Accessing Services through Technology (NC FAST) have recently changed the way that staff authenticates to the servers. This change aligned NC FAST servers to a centralized authentication process. The Department is working with ITS staff to develop reports that will include the level of user access to each server. The Department is also working to develop a similar level of reports for production database access. The anticipated completion date to finalize the reports and processes is September 30, 2015.

4. Subaward Obligations Were Not Reported Timely

The Department filed one Federal Funding Accountability and Transparency Act (FFATA) report three months late. The report contained 100 subawards totaling $84.4 million.

As a result, the federal awarding agency and the public did not have timely and accurate notification of subawards issued by the Department. The Federal Funding Accountability and Transparency Act was enacted to inform citizens about how federal funds were spent in their communities.

While there were initial problems with the federal filing system, once the problems were fixed the Department should have been able to submit the majority of the subawards on time.

The FFATA requires states to report any subawards issued for more than $25,000 in the federal reporting system by the end of the month following the month when the subaward is issued.

Similar aspects of this finding were reported in the prior year.

Federal Award Information

This finding affects the State Administrative Matching Grants for the Supplemental Nutrition Assistance Program federal grant award 14145NC406S2514 for the federal fiscal year ended September 30, 2014.

Recommendation

The Department should develop and implement procedures to ensure that FFATA reports are prepared accurately and submitted timely.

Agency Response

The Department has implemented procedures and provided training to ensure that all subawards and contracts subject to the Federal Funding Accountability and Transparency Act (FFATA) are prepared accurately and submitted timely in accordance with federal guidelines.

In addition, subsequent notification of the completion of the FFATA reports, including amendments, will be submitted by divisions each month to the Department's Office of the Controller for monitoring purposes. The anticipated completion date is June 30, 2015.

5. Counties Not Properly Monitored

Auditors tested eight of 38 county monitoring reports and identified two (25%) that did not include participant eligibility determinations. Also, the Department did not request corrective action on deficiencies identified for lack of trafficking procedures at three of the eight (38%) counties. Trafficking of benefits is the buying or selling of food stamps. The Department relies on all 100 counties for participant eligibility determinations, which are to be monitored on a three-year cycle.

In addition, two of 100 (2%) counties were not monitored over a three-year period.

As a result, funds could be paid to ineligible participants increasing the overall costs of the program.

The federal awarding agency threatened to eliminate administrative funding due to a backlog of applications that needed to be entered into the new eligibility system (NC FAST). According to the Department, management made a decision to temporarily relocate program monitor positions to assist in processing applications.

Federal regulation 2 CFR 200 requires pass-through entities to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements.

Federal Award Information

This finding affects the State Administrative Matching Grants for the Supplemental Nutrition Assistance Program federal grant awards 13135NC406S2514 and 14145NC406S2514 for the federal fiscal years ended September 30, 2013, and 2014, respectively.

Recommendation

The Department should monitor participant eligibility determinations and trafficking procedures at all 100 counties over a three-year period.

Agency Response

The backlog of applications that needed to be entered in the new eligibility system (NC FAST) was a result of implementation of the Affordable Care Act, increased SNAP and Medicaid caseloads, county departments of social services staffing levels, and transitioning from the old legacy SNAP system to the new eligibility system. In order to ensure the timely provision of SNAP benefits, the Department temporarily reallocated program monitor positions to assist in entering SNAP applications. As a result, the backlog was eliminated in March 2014 as directed by the USDA.

The Department developed a schedule to ensure that all required monitoring visits will be completed by September 30, 2015. The Department will focus on county monitoring efforts related to participant eligibility determination and corrective actions noted for trafficking deficiencies. The two counties not previously monitored will be reviewed in April 2015.

CFDA 10.558 – CHILD AND ADULT CARE FOOD PROGRAM

6. Facilities Not Properly Monitored

The Department did not monitor for noncompliance at 10 of the 763 (1.3%) facilities within three years as required. The program provides healthy meals and snacks to children and adults receiving day care.

These facilities received approximately $88 million during state fiscal year 2014. The 10 facilities not monitored received approximately $586,000.

Undetected or uncorrected noncompliance with federal guidelines could result in excess spending and increase the overall cost of the program.

The database used to generate annual monitoring schedules does not interface with the facility reimbursement system. Therefore, database updates require manual entries when facilities join or leave the program. The Department did not compare the database to the reimbursement system to ensure all facilities were included.

In accordance with 7 CFR 226, “Independent centers and sponsoring organizations of 1 to 100 facilities must be reviewed at least once every three years.”

Federal Award Information

This finding affects the Child and Adult Care Food Program federal grant awards 13125NC300N2020 and 141235NC300N2020 for the federal fiscal years ended September 30, 2013, and 2014, respectively.

Recommendation

The Department should enhance controls over its scheduling database to ensure all facilities are monitored at least once every three years.

Agency Response

The Department has developed procedures to ensure all facilities are monitored for noncompliance at least once every three years. The Department will compare the database to the reimbursement system to ensure all facilities are included for monitoring purposes. The anticipated completion date is March 31, 2015.

CFDA 84.126 - REHABILITATION SERVICES – VOCATIONAL REHABILITATION GRANTS TO STATES

7. Errors In Claims Payment Process

The Department processed more than 127,000 payments for services totaling more than $44 million during state fiscal year 2014. Thirty-two out of a sample of 100 (32%) payments contained errors. The total errors identified resulted in net overpayments of $4,557 and federal question costs of $3,586.

OMB A-133 Section .510(a)(3) requires auditors to report known questioned costs when likely questioned costs are greater than $10,000. Even though sample results identified

only $3,586 in questioned costs, if tests were extended to the entire population, questioned costs would likely exceed $10,000 and could be material to the program.

Examples of some of the errors noted included:

- Provided service was not on the individual's plan of employment
- Service provided was unnecessary to obtain or retain employment
- Payment amount was calculated incorrectly and/or paid at the wrong amount
- Payment amount did not apply available third party benefits first

In addition, clients' third party benefits were not verified for 32 out of the sample of 100 (32%) payments.

As a result, the Department made at least $4,557 of improper payments of program funds that could have been used to provide services to other eligible clients or reduce the cost of the program.

The benefit determinations made by counselors and the supporting documentation receive only a limited supervisory review. In addition, the Department did not make the appropriate changes to its current program benefits system for current Medicaid rates; therefore, causing payments to be made at incorrect rates.

OMB Circular A-87 requires costs to be adequately documented, authorized by and consistent with regulations, in conformity with conditions of the federal award, necessary, and reasonable.

Similar aspects of this finding were reported in previous years.

Federal Award Information

This finding affects the Rehabilitation Services – Vocational Rehabilitation Grants to States federal grant awards H126A120049, H126A120050, H126A130049, H126A130050, H126A140049, and H126A140050 for the federal fiscal years ended September 30, 2012 to 2014.

Recommendations

The Department should implement procedures to ensure the rates in the program benefit system are consistently updated with the most current rates.

The Department should ensure payments are calculated accurately and are supported.

Agency Response

The sample of claims reviewed were processed by the legacy CATS and ESS claims processing systems, which were replaced effective July 1, 2014 with BEAM.

As planned prior to the audit, the Department will form a work group in April 2015 to review the casework service policy to determine a need for any programmatic changes. The Department will also utilize the work group to review contracts to address the payment rate inconsistencies cited in the finding. Based on the work group's

recommendations, agreements will be revised as necessary to ensure they are consistent with the allowable rates established in casework policy. In addition, payment deficiencies identified in the finding will be corrected by October 15, 2015.

The Department updated its policy to clarify requirements and procedures for waiving comparable benefits for diagnostic services. The policy change will ensure compliance with federal regulations and strengthen the maintenance of required documentation regarding the waiver of comparable benefits. The policy update is anticipated to be implemented April 15, 2015.

The Department will enhance its processing of claims based on the current Medicaid rate when applicable by implementing a web service between the BEAM system and NCTracks to provide current Medicaid pricing information for medical, pharmacy, and institutional claims. The Change Service Request for the web service project has been approved and implementation is currently scheduled for July 1, 2015.

The Department will ensure that timely follow up occurs for the collection or payment of the identified over and underpaid claims. The anticipated completion date is June 30, 2015.

8. Deficiencies In Participant Eligibility Documentation

Twenty-nine client files out of a sample of 100 (29%) contained documentation errors. Although auditors found documentation errors, all clients tested met the key eligibility requirements for the program. Examples of errors include:

- Missing parental / guardian signature on minors' application
- Clients' assets related to the financial need not verified
- Eligibility decisions not made within 60 days or within the documented extension period

In addition, clients' identity verification was insufficiently documented for 44 out of the sample of 100 (44%) payments.

As a result, there is an increased risk that federal funds could be provided to an ineligible recipient or that an eligible recipient could be denied needed funds.

The eligibility determination process is a complex manual process and there is a limited supervisory review of counselors' determinations. In addition, there was no consistent organization of the information maintained in the clients' case files.

OMB Circular A-87 requires that costs be adequately documented. Also, federal regulation 34 CFR 361 requires designated state units to maintain, for each applicant determined to be eligible, documentation to support that eligibility determination.

The Department's program policies and procedures require that an eligibility determination be made within a reasonable time not to exceed 60 days from the date the individual submitted an application for services.

Similar aspects of this finding were reported in previous years.

Federal Award Information

This finding affects the Rehabilitation Services – Vocational Rehabilitation Grants to States federal grant awards H126A120049, H126A120050, H126A130049, H126A130050, H126A140049, and H126A140050 for the federal fiscal years ended September 30, 2012 to 2014.

Recommendations

The Department should strengthen the review of counselors' eligibility determinations to ensure that determinations are accurate and documented.

Also a consistent structure should be established for the information maintained in client case files to ensure that all required information is acquired, verified, and documented. Counselor training should be conducted to ensure the structure is consistently applied.

Agency Response

The Department has established the following procedures to ensure eligibility determinations are accurate, well-documented, and address other deficiencies cited in the finding:

Signature Issues: In previous years, a "parental letter" was sent home to the parent/guardian of the applicant before initiating the application process to explain the vocational rehabilitation (VR) program and obtain their signed consent for their child to apply for services. On July 1, 2014, the Department's Division of Vocational Rehabilitation (DVR) strengthened this process whereby the actual "VR Application" is sent home to the parent along with the "parental letter". Both forms must be signed and returned to the Division before a staff member meets with the minor child for intake.

Client Assets/Financial Need: The Department's new automated case management system (BEAM), effective as of July 1, 2014, is programmed to ensure that cases cannot progress to the plan development phase without completing a financial need survey (FNS) form and establishing the appropriate financial determination. The system ensures that all proper financial documentation, signatures, and forms are in place prior to any status change to the Individualized Plan of Employment (IPE). Additionally, the Department strengthened the verification of client financial resources by updating policy to require 3 months of banking account statements for all bank accounts for individuals determined to be part of the "net family unit." Any excess resources determined from the banking statements must be accounted for on the "financial needs" form.

Timely Eligibility Determinations: Effective December 1, 2014, the Department initiated statewide monitoring procedures of applicant VR files. A consolidated regional report of all applicant VR files that are exceeding sixty days is submitted to DVR by the 15th of each month. The report allows field staff and management to monitor the timeliness of eligibility determinations on a daily/weekly basis.

Client Identification/Verification – Current policy indicates that identity must be verified before eligibility and service delivery; but has not required copies to be

maintained in the case record. The Department previously provided guidance that copies of documents with personal identifying information should not be maintained in the case record due to the risks associated with identity theft. The BEAM intake form allows the counselor to document that the client has a North Carolina Driver's License. The Department will explore other options within the BEAM system to document that identity has been verified.

Client Case File Structure - In April 2015, DVR's Quality Development Specialists will collaborate with management to establish procedures that provide a consistent structure for maintaining information in the non-electronic case file. Once the guidelines are established, Quality Development Specialists will train and provide feedback to counselors during routine case reviews. Managers will also routinely reinforce the guidelines.

AGING CLUSTER – SPECIAL PROGRAMS FOR THE AGING

9. Subaward Obligations Were Not Reported Timely

The Department filed one Federal Funding Accountability and Transparency Act (FFATA) report nine months late. Subawards totaling $30.4 million were spent during state fiscal year 2014.

As a result, the federal awarding agency and the public did not have timely and accurate notification of subawards issued by the Department. The Federal Funding Accountability and Transparency Act was enacted to inform citizens how federal funds were spent in their communities.

While there were initial problems with the federal filing system, once the problems were fixed the Department should have been able to submit the report on time. The Department lacked procedures to ensure FFATA reports were completed timely.

The FFATA requires states to report any subawards issued for more than $25,000 in the federal reporting system by the end of the month following the month the subaward is issued.

Federal Award Information

This finding affects the Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers federal grant award 14AANCT3SS, Special Programs for the Aging – Title III, Part C – Nutrition Services federal grant award 14AANCT3CM, and Nutrition Services Incentive Program federal grant award 14AANCNSIP for the federal fiscal year ended September 30, 2014.

Recommendation

The Department should develop and implement procedures to ensure that FFATA reports are prepared accurately and submitted timely.

Agency Response

The Department has implemented procedures and provided training to ensure that all subawards and contracts subject to the Federal Funding Accountability and

Transparency Act (FFATA) are prepared accurately and submitted timely in accordance with federal guidelines.

In addition, subsequent notification of the completion of the FFATA reports, including amendments, will be submitted by divisions each month to the Department's Office of the Controller for monitoring purposes. The anticipated completion date is June 30, 2015.

93.074 – HOSPITAL PREPAREDNESS PROGRAM (HPP) AND PUBLIC HEALTH EMERGENCY PREPAREDNESS (PHEP) ALIGNED COOPERATIVE AGREEMENTS

10. Required Level of Service Not Reported Accurately

Public Health Emergency Preparedness

The Department did not identify or report any state funds for maintaining the federally required level of service for the program.

As a result, the Department could fail to maintain public health security at minimum levels deemed necessary by federal requirements.

According to the Department, the inaccurate reporting was due to unclear guidance from the federal oversight agency.

The Notice of Grant Award requires that the awardee maintain expenditures at a level that is not less than the average level of the preceding two years. Level of service is a requirement for a specified level of expenditures from non-federal sources for specified activities/services to be maintained from period to period.

Federal Award Information

This finding affects Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements federal grant award 5U90TP000538-02 for the fiscal year ended June 30, 2014. This award consists of CFDA 93.069 Public Health Emergency Preparedness.

Recommendation

The Department should implement procedures based on clarified federal guidance to track state fund expenditures to ensure compliance with the required level of service.

Agency Response

The Hospital Preparedness Program (HPP) was not affected by this finding.

The Department implemented procedures on May 9, 2014 to track the maintenance of expenditures for the Public Health Emergency Preparedness program based on federal guidelines as the result of clarifying guidance provided during the federal oversight agency's site visit.

The Department will continue to track, calculate and report the Maintenance Of Funding in subsequent periods to ensure compliance with the required level of service.

11. Subaward Obligations Were Not Reported Timely and Reports Contained Errors

Public Health Emergency Preparedness

The Department was four months late filing two Federal Funding Accountability and Transparency Act (FFATA) reports. The two reports totaled $1.6 million and included 20 contracts. However, nine contracts were duplications, resulting in a $657,775 overstatement. The Department also did not report on 93 additional subawards and contracts totaling $4.5 million.

Hospital Preparedness Program

The Department did not file required FFATA reports for 34 subawards and contracts totaling $8.3 million.

As a result, the federal awarding agency and the public did not have timely and accurate notification of subawards issued by the Department. The Federal Funding Accountability and Transparency Act was enacted to inform citizens how federal funds were spent in their communities.

The Department's lack of understanding of the FFATA reporting requirements resulted in an incomplete list of subawards or contracts being filed accurately and timely.

The FFATA requires states to report any subawards issued for more than $25,000 in the federal reporting system by the end of the month following the month the subaward is issued.

Federal Award Information

This finding affects Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements federal grant award 5U90TP000538-02 for the fiscal year ended June 30, 2014. This award consists of two different programs:

- CFDA 93.069 Public Health Emergency Preparedness
- CFDA 93.889 Hospital Preparedness Program

Recommendation

The Department should develop and implement procedures to ensure that all subawards and contracts subject to FFATA are prepared accurately and submitted timely.

Agency Response

The Department has implemented procedures and provided training to ensure that all subawards and contracts subject to the Federal Funding Accountability and Transparency Act (FFATA) are prepared accurately and submitted timely in accordance with federal guidelines.

In addition, subsequent notification of the completion of the FFATA reports, including amendments, will be submitted by divisions each month to the Department's Office of the Controller for monitoring purposes. The anticipated completion date is June 30, 2015.

CFDA 93.659 – ADOPTION ASSISTANCE – TITLE IV-E

12. Monitoring of Child Abuse Registry Not Being Performed

The Department did not monitor that the child abuse registry was checked before a child was placed for adoption. The Department has the responsibility to monitor the county to ensure adoption placements at the county are occurring within federal guidelines. Each county has the responsibility to ensure a safe environment for children placed for adoption that are in the custody of the State.

As a result, children could be placed in an unsafe environment.

The monitoring tool used by the Department omitted the federal requirement to check the child abuse and neglect statewide registry. According to the Department, they assumed the check was being performed at the same time another state agency performed the criminal background check.

In accordance with 42 USC 671, the state shall check any child abuse and neglect registry maintained by the state for information before the prospective parent or any other adult living in the home may be finally approved for placement of a child**.**

Federal Award Information

This finding affects the Adoption Assistance Title IV-E federal grant awards 1301NC1407 and 1401NC1407 for the federal fiscal years ended September 30, 2013, and 2014, respectively.

Recommendation

The Department should ensure that counties are performing a check of the child abuse and neglect statewide registry.

Agency Response

The Department's monitoring of county departments of social services Title IV-E Adoption Assistance eligibility does check to ensure that an extensive national criminal background check has been completed. The Responsible Individuals List (RIL) was implemented in October 2013, during the audit period. The RIL is used to identify parents, guardians, caretakers, or custodians that have been named as responsible individuals in all substantiated cases of abuse and/or serious neglect. The Department conducts monitoring of Title IV-E Adoption Assistance by utilizing a structured paper form as a monitoring tool. The monitoring tool will be revised to include an indicator field for the state program monitor to complete and verify that the RIL check has been performed and the date on which the name check was verified. The anticipated date to begin using the revised tool is April 1, 2015.

CFDA 93.767 CHILDREN'S HEALTH INSURANCE PROGRAM

13. Errors in Children's Health Insurance Provider Billing and Payment Process

The Department processed over 10 million payments for services totaling over $413 million during state fiscal year 2014. Sixteen claims of a sample of 126 (13%) tested had errors. The total errors identified resulted in net overpayments of $245 and federal questioned costs of $186.

OMB A-133 Section .510(a)(3) requires auditors to report known questioned costs when likely questioned costs are greater than $10,000. Even though sample results identified only $186 in questioned costs, if tests were extended to the entire population, questioned costs would likely exceed $10,000 and could be material to the program.

Three of the erroneous claims were related to no documentation provided to support the claim and represents $111 (45%) of the overpayments.

The remaining 13 errors contained the following types of errors:

- Application of payment methodology that was inconsistent with the effective North Carolina Children's Health Insurance Program State Plan or policies.
- Documentation provided was insufficient or improper support for the services rendered.

  Claims impacted by retroactive rate changes were not voided and replaced prior to the end of the fiscal year.
- The payment of an ineligible recipient based on eligibility category documented in the claims processing system (NCTracks).

As a result, the Department made at least $245 of improper payments of program funds for erroneous claims that could have been used to fund additional claims or reduce the overall cost of the program.

A significant portion of these errors were caused by providers not submitting necessary documentation or submitting inaccurate data upon request. Because industry practices do not require documentation prior to payment, providers do not have an incentive to respond timely and accurately. The Department is unable to sanction providers for lack of submission as they lack legislative authority to do so. They instead must rely on the hearing process which is costly in both time and funding to the program.

Other errors were the result of timing issues concerning state legislation mandated rate changes that must be approved by the federal oversight agency prior to implementation.

In accordance with the 42 CFR 431, providers sign an agreement to participate in the program that requires them to maintain records disclosing the extent of services furnished to recipients and, on request, furnish the records to the Department.

OMB Circular A-87 dictates standards for determining allowable costs for federal awards. The principles specifically require costs to be adequately documented,

authorized by and consistent with regulations, in conformity with conditions of the federal award, necessary, and reasonable.

Similar aspects of the finding were reported in previous years.

Federal Award Information

This finding affects the Children's Health Insurance Program federal grant awards 05-1305NC5021 and 05-1405NC5021 for the federal fiscal years ended September 30, 2013, and 2014, respectively.

Recommendations

The Department should continue to enhance its control procedures to improve the accuracy of the claims payment process:

- Management should ensure the proper and timely implementation of system changes, including effective payment edits and/or audits.
- Emphasis should be placed on educating providers as to proper coding and documentation standards necessary to support the medical services being provided.
- Updated legislation should be considered to empower the Department with the ability to sanction unresponsive providers.
- Identified over and underpaid claims should be followed up for timely and appropriate collection or payment.

Agency Response

The Department has established and adheres to control procedures that ensure the proper implementation of system changes and accuracy of claims payments.

The Department will continue to educate providers about proper documentation required to support the medical necessity and proper coding of services billed to the Children's Health Insurance Program (CHIP). The Department provides ongoing communications via Medicaid Bulletins and other communication venues.

The timeliness of the Department's implementation of legislatively mandated rate changes may be impacted by many factors that are not determined by the Department, e.g., the effective date of the rate change specified in the legislation, the date the rate change is approved by the federal oversight agency, etc. These factors may impact the Department's ability to make such rate changes prior to the end of the fiscal year in which it is effective.

The Department will review the sixteen (16) claim errors cited to determine which errors may be resolved by requiring additional documentation from the providers. Appropriate collection or payment will be made as necessary. The anticipated completion date is June 30, 2015.

14. Deficiencies with the Rate Change Process

Nineteen rate changes from a sample of 60 (32%) lacked proper supporting documentation to evidence the Department's timely review of the modification in the claims processing system (NCTracks).

Additional testing procedures identified the following errors:

- One rate modification was implemented prior to federal oversight agency approval and resulted in a net overpayment of $20,125, and $15,305 in questioned cost.
- One rate modification was not implemented as required by Session Law (SL) 2013-360 and resulted in a net overpayment of $8,196, and $6,233 in questioned cost.

The funds that paid improper payments could have been used for additional claims or to reduce the overall cost of the program.

The Department relied on documentation from the claims processing contractor instead of independently verifying the rate modifications in NCTracks. The overpayment errors were the result of timing issues for state legislation rate changes that must be approved by the federal oversight agency prior to implementation.

OMB Circular A-87 requires costs be consistent with policies, regulations, procedures, and state Medicaid plan and rates.

Federal Award Information

This finding affects the Children's Health Insurance Program federal grant awards 05-1305NC5021 and 05-1405NC5021 for the federal fiscal years ended September 30, 2013, and 2014, respectively.

Recommendations

The Department should update and follow existing policies for independent verification of rate modifications in NCTracks.

The Department should recoup identified overpayments.

Agency Response

The Department has reviewed its existing procedures and will ensure the appropriate documentation is reviewed and retained to support rate modifications in NCTracks.

The Department will initiate recoupment of amounts identified as overpayments/ underpayments. The anticipated completion date is June 30, 2015.

15. Deficiencies in NCTracks Program Change Controls

The Department lacked formal business user approval documentation for three program modification requests tested from a population of 12 completed during state fiscal year 2014.

Improper program changes could result in improper payments increasing the overall cost of the program.

When the Department converted to the new claims processing system (NCTracks) documented approval by the business user was not fully implemented.

Section BAI07 of the Cobit5 Manage Change Acceptance and Transitioning requires acceptance testing meets stakeholder approval and takes into account all aspects of the implementation and conversion plans.

Federal Award Information

This finding affects the Children's Health Insurance Program federal grant awards 05-1305NC5021 and 05-1405NC5021 for the federal fiscal years ended September 30, 2013, and 2014, respectively.

Recommendation

The Department should ensure that formal approval policies and procedures are adequate and operating for all program changes.

Agency Response

The Department has implemented more formal approval processes for NCTracks and will review these processes, make any necessary modifications to ensure that formal business user approval documentation is maintained, and communicate appropriate information to the business stakeholders by May 1, 2015. The Department will also periodically review system changes to ensure compliance with established policies and procedures, including the retention of formal business user approval documentation.

16. Deficiencies in Provider Enrollment and Termination Processes

The Department contracts with a service provider to perform enrollment, credentialing, and verification activities for provider participation in the Children's Health Insurance Program.

Twenty enrollment and re-enrollment applications tested from a sample of 70 (29%) identified errors including:

- No evidence that an accreditation check, background check, Office of Inspector General search, and/or North Carolina penalty search was conducted for owners, office administrators, and/or managing employees.
- No evidence that out-of-state/border providers were verified as eligible in their home states.
- Verifications performed included typographical errors. For example, searches were performed using incorrect social security numbers or misspelled names.
- Provider license number and/or name were incorrect in the claims processing system (NCTracks).

Some enrollment applications include multiple types of errors.

Twenty-two of 85 (26%) providers with licenses suspended, surrendered, or revoked were not properly terminated in NCTracks.

As a result, there is increased risk of payments to ineligible providers.

The Department did not have adequate monitoring procedures in place to ensure that the contractor was performing as contracted and delivering expected results.

In accordance with 42 CFR 455, the state agency must confirm the identity and determine the exclusion status of providers and any person with an ownership or control interest or who is an agent or managing employee of the provider through routine checks of federal databases. The state agency must also have a method for verifying providers' licenses and confirm that they have not expired or have no current limitations.

Federal Award Information

This finding affects the Children's Health Insurance Program federal grant awards 05-1305NC5021 and 05-1405NC5021 for the federal fiscal years ended September 30, 2013, and 2014, respectively.

Recommendation

The Department should develop and implement monitoring procedures over provider enrollment and termination processes to ensure that payments are made only to eligible medical providers.

Agency Response

The Department has processes in place to monitor provider eligibility. The Department's Division of Medical Assistance (DMA) Provider Services' staff routinely reviews enrollments, re-enrollments, terminations, and changes to enrollment as a result of provider phone calls, managerial referrals, and inquiries from the service provider and provides instruction to the service provider of necessary corrective action via NLIs (non-live interaction forms) and numbered memos as necessary as a result of the routine review.

In September 2013, the Department implemented a new monitoring plan. The Department has updated the existing monitoring tool that is being tested by the Department's monitors of the service provider. The tool will be adequately tested and fully implemented by April 15, 2015.

The Department is also working with the service provider on developing a quality assurance process to be performed by the service provider enrollment coordinators prior to enrolling providers to ensure enrollment accuracy. The anticipated completion date is June 30, 2015.

17. Deficiencies with Program Integrity Functions

The Department failed to ensure all required program integrity investigations were completed. Multiple deficiencies were noted in the tracking of program integrity investigations, including:

- Inadequate procedures to ensure case tracking data is accurate and reliable
- Inadequate procedures to track monitoring efforts over a contractor performing investigations

As a result, provider fraud could remain undetected and noncompliant providers could continue to receive payments.

The Department's tracking database has multiple users with unlimited access, making it difficult to control the accuracy of data. In addition, there is no mechanism to ensure the investigations were properly closed. Also, multiple program integrity sections review contractor performance with no consolidation to ensure all necessary reviews were completed.

In accordance with OMB Circular A-133 section .210(f), the state agency is responsible for ensuring compliance for vendor transactions which are structured such that the vendor is responsible for program compliance or the vendor's records must be reviewed to determine program compliance.

Federal Award Information

This finding affects the Children's Health Insurance Program federal grant awards 05-1305NC5021 and 05-1405NC5021 for the federal fiscal years ended September 30, 2013, and 2014, respectively.

Recommendations

The Department should create policies and procedures to ensure investigation tracking data is accurate and reliable.

The Department should develop policies and procedures to adequately monitor contractor performance.

Agency Response

The Department began utilizing a new program integrity case tracking database in May of 2014. The database will be fully functional to meet Program Integrity's case tracking needs by June 30, 2015.

The Department updated its policies and procedures to adequately monitor contractor performance in Fall 2014.

MEDICAID CLUSTER

18. Medicaid Disproportionate Share Hospital Payments Made Incorrectly

The Department made inaccurate Medicaid disproportionate share hospital payments. These payments provide financial assistance to hospitals that serve a large number of low-income patients.

Multiple errors were noted, including:

- Data entry errors in the payment models

- Failure to use prior payments in the calculation of current payments
- Incorrectly including specific providers and/or provider types in calculations
- Failure to incorporate an adjustment in the allotment amount used in a calculation model
- Use of incorrect information within a model to calculate payments
- Inclusion of ineligible providers in some payment calculations
- Failure to follow developed methodologies when calculating payment amounts
- Payment type for one provider was incorrect
- Inaccurate use of the federal medical assistance percentage

Some payments include multiple types of errors. The total errors identified resulted in a net overpayment of $12,898,388 from the total paid of $2,706,328,287 (.47%), resulting in federal questioned costs of $8,629,597.

As a result, the Department made $12,898,388 improper payments of Medicaid funds that could have been used to reduce the overall cost of the program.

The complex, manual nature of the calculations increases the likelihood of payment errors. According to the Department, there was a misunderstanding about which federal medical assistance percentage to apply.

OMB Circular A-87 requires that costs be necessary and reasonable for proper and efficient administration of the grant program and adequately documented.

Similar aspects of this finding were reported in the prior year.

Federal Award Information

This finding affects the Medical Assistance Program federal grant awards 05-1305NC5MAP and 05-1405NC5MAP for the federal fiscal years ended September 30, 2013, and 2014, respectively.

Recommendation

The Department should develop policies and procedures to ensure that payments are made accurately, rely on correct information, and apply the correct federal medical assistance percentage.

Auditor Response

In the Department's response below, the Department asserted corrections were made in the last quarter of the federal fiscal year. All corrective transactions reported by the Department occurred after the end of the audit period. Auditors will review the corrective actions in the subsequent audit.

Agency Response

The MRI/GAP payment model is based upon a federal fiscal year; so therefore, the audit period covered the first three quarters of the FFY 2014 payment model and the last

quarter of the previous FFY 2013 model. For the FFY 2014 payment model, the audit of the payment model is based on the model in draft form and the auditor's review did not include the resolution of issues that occurred with the fourth quarter payments.

In fact, the Department corrected data errors, payment calculations, and changes to hospital classification and status in the fourth quarter of the FFY 2014 payment model.

Overpayments from the FFY 2013 fourth quarter payment model have been collected. The federal share has been returned to CMS via the CMS 64 quarterly report.

The Department also implemented policies and procedures to ensure that payments are made accurately, rely on correct information, and apply the correct federal medical assistance percentage. Payment memos are sent to the Department's Division of Medical Assistance (DMA) Budget Office for coding verification to draw the appropriate federal medical assistance percentages. Upon confirmation, the memos are sent for approval.

19. Errors in Medicaid Provider Billing and Payment Process

The Department processed over 119 million payments for services totaling over $10 billion during state fiscal year 2014. Sixty-six claims of a sample of 272 (24%) tested had errors. The total errors identified resulted in net overpayments of $464,942 and federal questioned costs of $303,169. Even though sample results identified only $303,169 in questioned costs, if tests were extended to the entire population, questioned costs could be material to the program.

Seventeen errors of the 66 were related to no documentation provided to support the claim and represents $456,612 (98%) of the overpayments.

Other types of provider errors identified in 23 of the sampled claims included:

- Documentation provided did not meet the requirements set forth by North Carolina Medicaid policy.
- Claims were not properly billed.
- Documentation provided was insufficient or improper support for the services rendered.

The Department was also responsible for 22 of the following types of errors:

- Application of payment methodology that was inconsistent with the effective North Carolina Medicaid State Plan or policies.
- Claims impacted by retroactive rate changes were not voided and replaced prior to the end of the fiscal year.
- Third party insurer data was not properly maintained causing the claims processing system (NCTracks) to process a recipient's claim without considering the potential other payer.

The remaining four erroneous claims were a combination of the errors listed above and were caused by both providers and the Department.

As a result, the Department made at least $464,942 of improper payments of Medicaid funds for erroneous claims that could have been used to fund additional claims or reduce the overall cost of the program.

A significant portion of these errors were caused by providers not submitting necessary documentation or submitting inaccurate data upon request. Because industry practices do not require documentation prior to payment, providers do not have an incentive to respond timely and accurately. The Department is unable to sanction providers for lack of submission as they lack legislative authority to do so. They instead must rely on the hearing process which is costly in both time and funding to the program.

Other errors were the result of timing issues concerning state legislation mandated rate changes that must be approved by the federal oversight agency prior to implementation costing additional administrative funds to reprocess claims.

In accordance with the 42 CFR 431, Medicaid providers sign an agreement to participate in the program that requires them to maintain records disclosing the extent of services furnished to recipients and, on request, furnish the records to the Department.

OMB Circular A-87 requires costs to be adequately documented, authorized by and consistent with regulations, in conformity with conditions of the federal award, necessary, and reasonable.

Similar aspects of the finding were reported in previous years.

Federal Award Information

This finding affects the Medical Assistance Program federal grant awards 05-1305NC5MAP and 05-1405NC5MAP for the federal fiscal years ended September 30, 2013, and 2014, respectively.

Recommendations

The Department should continue to enhance its control procedures to improve the accuracy of the claims payment process:

- Management should ensure the proper and timely implementation of system changes, including effective payment edits and/or audits.
- Emphasis should be placed on educating providers as to proper coding and documentation standards necessary to support the medical services being provided.
- Updated legislation should be considered to empower the Department with the ability to sanction unresponsive providers.
- Identified over and underpaid claims should be followed up for timely and appropriate collection or payment.

Agency Response

The Department has established and adheres to control procedures that ensure the proper implementation of system changes and accuracy of claims payments.

The Department will continue to educate providers about proper documentation required to support the medical necessity and proper coding of services billed to the Medicaid Program. The Department provides ongoing communications via Medicaid Bulletins and other communication venues.

The timeliness of the Department's implementation of legislatively-mandated rate changes may be impacted by many factors that are not determined by the Department, e.g., the effective date of the rate change specified in the legislation, the date the rate change is approved by the federal oversight agency, etc. These factors may impact the Department's ability to make such rate changes prior to the end of the fiscal year in which it is effective.

The Department will review the sixty-six (66) claim errors cited to determine which errors may be resolved by requiring additional documentation from the providers. Appropriate collection or payment will be made as necesary. Anticipated completion date is June 30, 2015.

20. Deficiencies with the Rate Process

Nineteen rate changes from a sample of 60 (32%) lacked adequate documentation to support the Department's timely review of modifications to the claims processing system (NCTracks).

Additional tests identified the following errors:

- One rate modification was implemented prior to federal oversight agency approval and resulted in a net overpayment of $575,235, and $380,545 in questioned cost.
- One rate modification was not implemented as required by Session Law (SL) 2013-360 and resulted in a net overpayment of $150,773, and $99,816 in questioned cost.

The funds that paid improper payments could have been used for additional claims or to reduce the overall cost of the program.

The Department relied on documentation from the claims processing contractor instead of independently verifying the rate modifications in NCTracks. The overpayment errors were the result of timing issues for state legislation rate changes that must be approved by the federal oversight agency prior to implementation.

OMB Circular A-87 requires costs be consistent with policies, regulations, procedures, and state Medicaid plan and rates.

Federal Award Information

This finding affects the Medical Assistance Program federal grant awards 05-1305NC5MAP and 05-1405NC5MAP for the federal fiscal years ended September 30, 2013, and 2014, respectively.

Recommendations

The Department should update and follow existing policies for independent verification of rate modifications in NCTracks.

The Department should recoup identified overpayments.

Agency Response

The Department has reviewed its existing procedures and will ensure the appropriate documentation is reviewed and retained to support rate modifications in NCTracks.

The Department will initiate recoupment of amounts identified as overpayments/ underpayments. The anticipated completion date is June 30, 2015.

21. Deficiencies in NCTracks Program Change Controls

The Department lacked formal business user approval documentation for three program modification requests tested from a population of 12 completed during state fiscal year 2014.

Improper program changes could result in improper payments increasing the overall cost of the program.

When the Department converted to the new claims processing system (NCTracks) documented approval by the business user was not fully implemented.

Section BAI07 of the Cobit5 Manage Change Acceptance and Transitioning requires acceptance testing meets stakeholder approval and takes into account all aspects of the implementation and conversion plans.

Federal Award Information

This finding affects the Medical Assistance Program federal grant awards 05-1305NC5MAP and 05-1405NC5MAP for the federal fiscal years ended September 30, 2013, and 2014, respectively.

Recommendation

The Department should ensure that formal approval policies and procedures are adequate and operating for all program changes.

Agency Response

The Department has implemented more formal approval processes for NCTracks and will review these processes, make any necessary modifications to ensure that formal business user approval documentation is maintained, and communicate appropriate information to the business stakeholders by May 1, 2015. The Department will also periodically review system changes to ensure compliance with established policies and procedures, including the retention of formal business user approval documentation.

22. Deficiencies in Provider Enrollment and Termination Processes

The Department contracts with a service provider to perform enrollment, credentialing, and verification activities for provider participation in the Medicaid program.

Twenty enrollment and re-enrollment applications tested from a sample of 70 (29%) identified errors including:

- No evidence that an accreditation check, background check, Office of Inspector General search, and/or North Carolina penalty search was conducted for owners, office administrators, and/or managing employees.
- No evidence that out-of-state/border providers were verified as eligible in their home states.
- Verifications performed included typographical errors. For example, searches were performed using incorrect social security numbers or misspelled names.
- Provider license number and/or name were incorrect in the claims processing system (NCTracks).

Some enrollment applications include multiple types of errors.

Twenty-two of 85 (26%) providers with licenses suspended, surrendered, or revoked were not properly terminated in NCTracks.

As a result, there is increased risk of payments to ineligible providers.

The Department did not have adequate monitoring procedures in place to ensure that the contractor was performing as contracted and delivering expected results.

In accordance with 42 CFR 455, the state Medicaid agency must confirm the identity and determine the exclusion status of providers and any person with an ownership or control interest or who is an agent or managing employee of the provider through routine checks of federal databases. The state Medicaid agency must also have a method for verifying providers' licenses and confirm that they have not expired or have no current limitations.

Similar aspects of the finding were reported in previous years.

Federal Award Information

This finding affects the Medical Assistance Program federal grant awards 05-1305NC5MAP and 05-1405NC5MAP for the federal fiscal years ended September 30, 2013, and 2014, respectively.

Recommendation

The Department should develop and implement monitoring procedures for provider enrollment and termination processes to ensure that payments are made only to eligible medical providers.

Agency Response

The Department has processes in place to monitor provider eligibility. The Department's Division of Medical Assistance (DMA) Provider Services' staff routinely reviews enrollments, re-enrollments, terminations, and changes to enrollment as a result of provider phone calls, managerial referrals, and inquiries from the service provider and provides instruction to the service provider of necessary corrective action via NLIs (non-live interaction forms) and numbered memos as necessary as a result of the routine review.

In September 2013, the Department implemented a new monitoring plan. The Department has updated the existing monitoring tool that is being tested by the Department's monitors of the service provider. The tool will be adequately tested and fully implemented by April 15, 2015.

The Department is also working with the service provider on developing a quality assurance process to be performed by the service provider enrollment coordinators prior to enrolling providers to ensure enrollment accuracy. The anticipated completion date is June 30, 2015.

23. Deficiencies with Program Integrity Functions

The Department failed to ensure all required program integrity investigations were completed. Multiple deficiencies were noted in the tracking of program integrity investigations, including:

- Inadequate procedures to ensure case tracking data is accurate and reliable.
- Inadequate procedures to track monitoring efforts over a contractor performing investigations.
- Insufficient documentation to substantiate a complete investigation for three of 72 (4%) investigations tested. If tests were extended to the entire population of 2,011 investigations, the results could be significant to the program.

As a result, provider fraud could remain undetected and noncompliant providers could continue to receive payments.

The Department's tracking database has multiple users with unlimited access, making it difficult to control the accuracy of data. In addition, there is no mechanism to ensure the investigations were properly closed. Also, multiple program integrity sections review contractor performance with no consolidation to ensure all necessary reviews were completed.

In accordance with OMB Circular A-133 section .210(f), the state agency is responsible for ensuring compliance for vendor transactions which are structured such that the vendor is responsible for program compliance or the vendor's records must be reviewed to determine program compliance.

In addition, 42 CFR 455 requires the state agency to conduct a full investigation if the findings of a preliminary investigation give the agency reason to believe that an incident of fraud or abuse has occurred.

Similar aspects of the finding were reported in previous years.

Federal Award Information

This finding affects the Medical Assistance Program federal grant awards 05-1305NC5MAP and 05-1405NC5MAP for the federal fiscal years ended September 30, 2013, and 2014, respectively.

Recommendations

The Department should create policies and procedures to ensure investigation tracking data is accurate and reliable.

The Department should develop policies and procedures to adequately monitor contractor performance.

The Department should review cases to determine if fraud is suspected and a full investigation is necessary prior to closing.

Auditor Response

In the Department's response below, it is asserted the Office of the State Auditor incorrectly drew a conclusion. This finding is related to fraud detection and not questioned costs. It is qualitatively significant to the program since it is dealing with fraud detection controls. In addition, OMB Circular A-133 does not establish a minimum threshold to justify the extrapolation of results.

Agency Response

The Department notes that the auditors' assertion that the errors detected likely would result in questioned costs that could be significant for the program are not supported by the fact that the error rate (4%) is below the minimum threshold to justify the extrapolation of results.

The Department began utilizing a new program integrity case tracking database in May of 2014. The database will be fully functional to meet Program Integrity's case tracking needs by June 30, 2015.

The Department updated its policies and procedures to adequately monitor contractor performance in Fall 2014.

CFDA 93.917 – HIV CARE FORMULA GRANTS

24. Deficiencies in Subrecipient Monitoring Procedures

The Department did not recoup funds paid for ineligible participants. The grant is used to provide medical assistance and support services to individuals diagnosed with Human Immunodeficiency Virus (HIV) and Acquired Immunodeficiency Syndrome (AIDS) related illnesses. Approximately $8.6 million of the grant funds are administered by 14 subrecipients. Eight of 14 (57%) subrecipients had monitoring visits that resulted in eligibility errors and $10,327 in questioned costs; in which, the Department did not recoup the funds paid on behalf of ineligible participants.

As a result, ineligible participants received $10,327 of benefits increasing the overall costs of the program.

There was no formal process for recouping funds expended on behalf of ineligible participants. According to the Department, subrecipients served individuals where eligibility documentation was incomplete at the time of service. The Department ensured these clients were not served again until proof of eligibility was obtained. However, the Department did not consider it cost effective to recoup the funds.

OMB Circular A-133 requires the state to monitor the activities of subrecipients as necessary to ensure federal awards are used in compliance with provisions of contracts and that performance goals are achieved. In addition, appropriate sanctions should be taken for subrecipient noncompliance.

Federal Award Information

This finding affects the HIV Care Formula Grants federal grant awards X07HA00051 for the fiscal years ended March 31, 2014, and 2015.

Recommendation

The Department should recoup payments made on behalf of ineligible participants.

Agency Response

The Department has initiated efforts to recoup the questioned costs identified by the auditors. In addition, the relevant monitoring manuals will be revised to include prescribed procedures that specifically identify recoupment of funds paid to ineligible participants. The anticipated completion date is June 30, 2015.

CFDA 93.959 – BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE

25. Errors in Substance Abuse Provider Billing and Payment Process

The Department processed over 94,000 payments for services totaling over $5 million during state fiscal year 2014. Four claims of 100 (4%) tested had errors that resulted in net underpayments of $56.

Retroactive third party insurance was not considered for one claim tested. This error resulted in an overpayment and questioned costs of $40. OMB A-133 Section .510(a)(3) requires auditors to report known questioned costs when likely questioned costs are greater than $10,000. Even though sample results identified only $40 in questioned costs, if tests were extended to the entire population, questioned costs would likely exceed $10,000 and could be significant to the program.

In addition, claims were paid using the incorrect rate for three claims. These errors resulted in an underpayment of $96.

Also, policy and rate changes to the claims payment system (NCTracks) are not formally approved and verified for timely update in NCTracks.

As a result, the Department made at least $40 of improper payments of program funds that could have been used to fund additional claims or reduce the overall costs of the program.

According to the Department, the edits in NCTracks were designed to ensure proper payments. However, the Department did not perform reviews of claims payments to ensure NCTracks was working appropriately.

OMB Circular A-87 require costs to be adequately documented, authorized by and consistent with regulations, in conformity with conditions of the federal award, necessary, and reasonable and net of applicable credits.

Federal Award Information

This finding affects the Block Grants for Prevention and Treatment of Substance Abuse federal grant awards TI010032-13 and TI010032-14 for the federal fiscal years ended September 30, 2013, and 2014, respectively.

Recommendations

The Department should continue to enhance its control procedures to improve the accuracy of the claims payment process:

- Management should ensure the proper and timely implementation of system changes, including effective payment edits and proper rates.
- Identified over and underpaid claims should be followed up for timely and appropriate collection or payment.

Auditor Response

In the response below, the Department's assertion that the Office of the State Auditor cannot draw the stated conclusions is incorrect. Specifically:

The Department is confusing the criteria for reporting findings and questioned costs with the thresholds used by federal agencies to seek reimbursement or other sanctions. The federal requirement for reporting questioned costs is based on the effect of the errors found as a result of tests performed on the population. If the errors detected are $10,000 or more or indicate errors of $10,000 or more exist in the population, the errors are required to be reported. The evidence obtained through the tests performed provided sufficient evidence that likely errors of $10,000 or more existed in the population.

Findings and questioned costs, as reported by auditors, are used by the federal agencies to determine whether to pursue the magnitude of the errors. Once the federal agency decides to perform their own audit/investigation, different thresholds are used than those required by auditors performing OMB Circular A-133 Single Audits.

Agency Response

The Department notes that the auditors' assertion that the errors detected likely would result in questioned costs exceeding $10,000 and could be significant for the program are not supported by the questioned costs identified and the fact that the error rate (4%) is below the minimum threshold to justify the extrapolation of results.

The Department did extensive testing of claims processing in NCTracks during our six months of User Acceptance Testing (UAT). The LME-MCOs were also given the

opportunity to participate in Provider Operations Preparedness (POP) by sending in claims for adjudication for three different cycles prior to the system going live. The UAT and POP testing procedures were instituted to ensure that claims would process correctly after implementation of NCTracks.

Prior to the establishment of each LME-MCO, the rates paid for services rendered were set by the Department. The LME-MCOs are responsible for setting rates for the services they pay their contract providers, upon approval by the Department. Rates may vary by provider, and the LME-MCO indicates the desired rate on the claim that is submitted to the Department. If a rate is not specified when a claim is submitted, then the Department's default rate is used. The LME-MCO gets rate reports from NCTracks and can change or modify a rate or ask for a retroactive adjustment by submitting the NCTracks Rate Request Form to the Department. Rate changes are loaded into NCTracks weekly by Financial Operations before the weekly checkwrite process.

The Department will reemphasize that LME-MCOs review all of their published NCTracks reports for accurate payment rates, recipient information, contract providers' information and claims processed in NCTracks.

The Department will research and recoup all questioned costs identified. The anticipated completion date is June 30, 2015.

26. Deficiencies in NCTracks Program Change Controls

The Department lacked formal business user approval documentation for three program modification requests tested from a population of 12 completed during state fiscal year 2014.

Improper program changes could result in improper payments increasing the overall cost of the program.

When the Department converted to the new claims processing system (NCTracks) documented approval by the business user was not fully implemented.

Section BAI07 of the Cobit5 Manage Change Acceptance and Transitioning requires acceptance testing meets stakeholder approval and takes into account all aspects of the implementation and conversion plans.

Federal Award Information

This finding affects the Block Grants for Prevention and Treatment of Substance Abuse federal grant awards TI010032-13 and TI010032-14 for the federal fiscal years ended September 30, 2013, and 2014, respectively.

Recommendation

The Department should ensure that formal approval policies and procedures are adequate and operating for all program changes.

Agency Response

The Department has implemented more formal approval processes for NCTracks and will review these processes, make any necessary modifications to ensure that formal business user approval documentation is maintained, and communicate appropriate information to the business stakeholders by May 1, 2015. The Department will also periodically review system changes to ensure compliance with established policies and procedures, including the retention of formal business user approval documentation.

27. Deficiencies in Level of Effort and Earmarking Processes

The Department failed to spend $239,675 of the $1,980,076 (12%) earmarked for Human Immunodeficiency Virus (HIV) projects for the federal fiscal year 2012 award.

The result of this issue was a return of $239,675 in federal funding that could have been used to fund necessary programs and/or aid additional clients.

The Department did not adequately monitor level of effort and earmarking requirements. Although some documentation was provided, there was insufficient evidence that expenditures were tracked throughout the period to ensure compliance.

In accordance with 42 USC 300, designated states are required to obligate and expend five percent of the grant allotment to establish one or more projects designed to provide early intervention services for HIV at site(s) distributing substance abuse treatment.

Federal Award Information

This finding affects the Block Grants for Prevention and Treatment of Substance Abuse federal grant awards TI010032-12, TI010032-13 and TI010032-14 for the federal fiscal years ended September 30, 2012 to 2014.

Recommendations

The Department should develop and implement adequate monitoring control processes to track compliance with level of effort and earmarking requirements.

The Department should also ensure that expenditures are at a level that ensures compliance with federal requirements.

Agency Response

The Department will continue to strengthen current efforts by fiscal, IT, and program staff to monitor the level of effort and earmarking requirements as well as improve the timely expenditure and reporting of SAPTBG HIV funds by the Local Management Entities-Managed Care Organizations (LME-MCOs). The reported shortfall in HIV expenditures was primarily due to the under-expenditure of HIV funds allocated to LME-MCOs and contracted to eligible providers.

Enhanced tools and protocols will be put into place to better assist Financial Operations and Community Policy Management staff in closely monitoring the allocation, expenditure and reporting of funds by LME-MCOs throughout the fiscal year. Efforts will

also be strengthened to expedite timely analysis, communication, decision-making, and actions regarding shortfalls in expenditures, and timely recommendation for the reallocation of unused funds when necessary.

The Department consolidated all monitoring tools into an enhanced, single financial reporting tool that is required to be submitted by all LME-MCOs on a monthly basis with accurate, complete, and timely expenditure data. This financial reporting tool will be used by the Department and by the LME-MCOs to closely plan and monitor LME-MCO performance, as evidenced in required monthly reports of expenditures, in order to ensure compliance with expenditure levels as established by the SAPTBG.

The Department will de-allocate any unused funds, and reallocate those funds to LME-MCOs and providers who have demonstrated an enhanced capacity to fully expend these funds appropriately and timely. The anticipated completion date is June 30, 2015.

28. Improper Reclassification of Refunds

Auditors tested 15 out of 37 grant expenditure adjustments and identified eight (53%) improper reclassifications, resulting in $74,997 of questioned costs. In each case, refunds received for expired grants were applied incorrectly to the current year.

As a result, the Department used $74,997 of funding outside applicable grant periods in violation of federal guidelines.

The Department did not follow the federal guidelines for prior year refunds for the program.

Federal regulation 42 USC 300 requires that any amount paid to a state for a fiscal year shall be available for obligation and expenditure for only two federal fiscal years.

Federal Award Information

This finding affects the Block Grants for Prevention and Treatment of Substance Abuse federal grant awards TI010032-12, TI010032-13 and TI010032-14 for federal fiscal years ended September 30, 2012 to 2014.

Recommendation

The Department should develop and implement procedures to ensure that refunds received are accurately recorded and refunds received outside the applicable grant period are returned to the federal oversight agency.

Agency Response

Guidance will be requested from the federal funding agencies on returning and reporting refunds. Until then, the Department will apply refunds to the time period of the original payment. The anticipated completion date is June 30, 2015.

29. Monitoring Procedures Need Improvement

The objective of the program is to plan, carry out, and evaluate activities to prevent and treat substance abuse and other related activities. Twenty-five subrecipients receive and administer $29,311,203 of program funding.

The Department's procedures consist of many types of monitoring including:

- Annual system reviews used for programmatic monitoring of local management entities/ managed care organizations (LME/MCO)
- Cost settlement reviews used for fiscal monitoring of LME/MCOs
- Programmatic and fiscal monitoring of non-profit organizations

These monitoring procedures ensure subrecipients use federal and state funding in accordance with program guidelines.

One annual system review from a sample of three (33%) determined the Department did not properly complete the monitoring tool for several deficiencies identified.

In addition, the Department also did not independently select provider cases to examine during annual systems reviews. Instead, the Department relied on the LME/MCO to identify and select the cases to be reviewed.

The fiscal settlement review and the non-profit contract review processes do not adequately address corrective actions to remedy all deficiencies noted during the monitoring reviews.

As a result, program funds could be spent on unallowed activities and/or ineligible recipients increasing the overall costs of the program.

The issues noted were caused by a lack of policies and procedures to ensure monitoring procedures are accurately and completely performed and all identified issues are corrected. Also, the Department was unable to pull a sample due to complications with obtaining data from the new claims database (NCAnalytics).

OMB Circular A-133 states that the pass-through entity will monitor the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and performance goals are achieved.

OMB Circular A-123 states that corrective action plans should be developed and progress against plans should be periodically assessed and reported. Management should track progress to ensure timely and effective results.

Similar aspects of the finding were reported in previous years.

Federal Award Information

This finding affects the Block Grants for Prevention and Treatment of Substance Abuse federal grant awards TI010032-13 and TI010032-14 for the federal fiscal years ended September 30, 2013, and 2014, respectively.

Recommendation

The Department should develop and implement policies and procedures to adequately monitor and correct issues noted for all types of subrecipients.

Agency Response

The program review tools for the block grant reviews were automated for the first time for the FY2013/2014 annual systems review, reducing human error in completing the tools. Additional enhancements have been implemented for the FY2014/2015 systems review to alert the reviewer of incomplete fields and to ensure monitors independently select the provider cases to review. A three-level review process will also be implemented to ensure that all tools have been completed accurately.

The Department has revised its Plan of Correction Policy for settlements and review of non-profit contracts. The anticipated completion date is June 30, 2015.

30. Deficiencies in the Independent Peer Review Process

The Department did not adequately monitor the contractor hired to conduct the independent peer review process. Monitoring procedures were not formalized and results were not tracked and documented to ensure that a detailed review was performed of contractor performance until the final deliverable was received.

In addition, the Department could not substantiate the number of entities providing substance abuse services. The auditors were unable to determine if at least five percent of the entities were reviewed as federal guidelines require.

Failure to perform a sufficient number of independent peer reviews could lead to undetected substandard treatment services.

The Department failed to adequately document monitoring of the contractor due to a lack of formal policies and procedures. Also, the Department was unable to obtain accurate provider data making it difficult to determine the total number of entities to be reviewed.

In accordance with 45 CFR 96, the state shall provide for an independent peer review to assess the quality, appropriateness, and efficacy of treatment services provided in the state. This review should ensure that at least five percent of the entities providing services in the state are examined. Also, the reviews shall be representative of the total population.

Federal Award Information

This finding affects the Block Grants for Prevention and Treatment of Substance Abuse federal grant awards TI010032-13 and TI010032-14 for the federal fiscal years ended September 30, 2013, and 2014, respectively.

Recommendations

The Department should formalize policies and procedures to monitor the contractor responsible for conducting the independent peer review process.

The Department should continue efforts to update entities and designations in the claims processing system (NCTracks) and adequately track entities providing substance abuse services.

Agency Response

Extensive oversight and supervision of the contractor engaged to conduct the independent peer review process is performed by the Department through on-site visits, desk reviews, telephone and e-mail. The Department will develop written monitoring procedures to formalize the independent peer review process.

The Department will ensure all entities providing substance abuse services are identified and a sufficient number of reviews are performed. The anticipated completion date is June 30, 2015.

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

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

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: http://www.ncauditor.net/

To report alleged incidents of fraud, waste or abuse in state government contact the Office of the State Auditor Fraud Hotline: **1-800-730-8477**
or download our free app.

https://play.google.com/store/apps/details?id=net.ncauditor.ncauditor

https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745

For additional information contact:
Bill Holmes
Director of External Affairs
919-807-7513

NC OSA
The Taxpayers' Watchdog

This audit was conducted in 19,365 hours at an approximate cost of $1,820,310.