

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, 2016



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



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State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Dr. Mandy K. Cohen, 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, 2016. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 major federal programs 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 in this 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*, 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.

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

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

Table of Contents

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
FINDINGS, RECOMMENDATIONS, AND RESPONSES	8
SNAP CLUSTER – SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM	10
REHABILITATION SERVICES – VOCATIONAL REHABILITATION GRANTS TO STATES	14
TANF CLUSTER - TEMPORARY ASSISTANCE FOR NEEDY FAMILIES	18
LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP)	23
CHILDREN’S HEALTH INSURANCE PROGRAM (CHIP)	27
MEDICAID CLUSTER – MEDICAL ASSISTANCE PROGRAM.....	31
HIV CARE FORMULA GRANTS	35
ORDERING INFORMATION	38

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



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State Auditor

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**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 THE UNIFORM GUIDANCE**

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

Report on Compliance

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major programs for the year ended June 30, 2016, 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is included in the State's *Single Audit Report*. Our federal compliance audit scope at the 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 84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States
- CFDA 93.268 – Immunization Cooperative Agreements
- TANF Cluster:
 - CFDA 93.558 – Temporary Assistance for Needy Families (TANF)
 - CFDA 93.714 – ARRA – Emergency Contingency Fund for TANF State Programs
- CFDA 93.568 – Low-Income Home Energy Assistance Program (LIHEAP)
- Child Care Development Fund (CCDF) Cluster:
 - CFDA 93.575 – Child Care and Development Block Grant

- CFDA 93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF)
- CFDA 93.667 – Social Services Block Grant (SSBG)
- 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 (Ryan White HIV/AIDS Program Part B)
- CFDA 93.958 – Block Grants for Community Mental Health Services
- CFDA 93.959 – Block Grants for Prevention and Treatment of Substance Abuse
- Disability Insurance/SSI Cluster:
 - CFDA 96.001 – Social Security – Disability Insurance (DI)
 - CFDA 96.006 – Supplemental Security Income (SSI)

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 federal statutes, regulation, and the terms and conditions of its federal awards applicable to its 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*. The State of North Carolina arranges with local government social services agencies to perform the “intake function” to determine eligibility for the following major programs: Temporary Assistance for Needy Families Cluster, Children’s Health Insurance Program, and Medicaid Cluster. Local government auditors audited the eligibility determination “intake function” for these major programs at the local government level. The results of these audits were furnished to us, and our opinion, insofar as it relates to the “intake function” for these programs, is based on the other auditors’ results.

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 and the work of other auditors 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 the Uniform Guidance. As described in the Findings, Recommendations, and Responses section of this report, this includes the following findings:

Finding Number	Type of Compliance Requirement	CFDA	Major Federal Program
4	Activities Allowed or Unallowed / Allowable Costs / Cost Principles	84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
7	Matching, Level of Effort, Earmarking	84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
8	Eligibility	93.558	Temporary Assistance for Needy Families
11	Matching, Level of Effort, Earmarking	93.568	Low-Income Home Energy Assistance Program
12	Reporting	93.568	Low-Income Home Energy Assistance Program
13	Subrecipient Monitoring	93.568	Low-Income Home Energy Assistance Program
14	Activities Allowed or Unallowed / Allowable Costs / Cost Principles / Eligibility	93.767	Children's Health Insurance Program
15	Eligibility	93.767	Children's Health Insurance Program
16	Activities Allowed or Unallowed / Allowable Costs / Cost Principles / Eligibility	93.778	Medical Assistance Program

Finding Number	Type of Compliance Requirement	CFDA	Major Federal Program
17	Eligibility	93.778	Medical Assistance Program
18	Eligibility	93.917	HIV Care Formula Grants

Report on Internal Control Over Compliance

Management 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 the Uniform Guidance, 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, as described in the accompanying Findings, Recommendations, and Responses section, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

We consider the deficiencies for the following findings described in the Findings, Recommendations, and Responses section of this report to be material weaknesses in internal control over compliance.

Finding Number	Type of Compliance Requirement	CFDA	Major Federal Program
5	Activities Allowed or Unallowed / Allowable Costs / Cost Principles / Eligibility	84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States

Finding Number	Type of Compliance Requirement	CFDA	Major Federal Program
7	Matching, Level of Effort, Earmarking	84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
11	Matching, Level of Effort, Earmarking	93.568	Low-Income Home Energy Assistance Program
12	Reporting	93.568	Low-Income Home Energy Assistance Program
13	Subrecipient Monitoring	93.568	Low-Income Home Energy Assistance Program
15	Eligibility	93.767	Children's Health Insurance Program
17	Eligibility	93.778	Medical Assistance Program

Furthermore, we consider the deficiencies for the following findings described in the Findings, Recommendations, and Responses section of this report to be significant deficiencies in internal control over compliance.

Finding Number	Type of Compliance Requirement	CFDA	Major Federal Program
1	Subrecipient Monitoring	10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
		93.558	Temporary Assistance for Needy Families
		93.568	Low-Income Home Energy Assistance Program
		93.575 93.596	Child Care and Development Fund Cluster
		93.667	Social Services Block Grant
		93.767	Children's Health Insurance Program
		93.778	Medical Assistance Program
		93.917	HIV Care Formula Grants
		93.558	Block Grants for Community Mental Health Services

Finding Number	Type of Compliance Requirement	CFDA	Major Federal Program
		93.959	Block Grants for Prevention and Treatment of Substance Abuse
2	Special Tests and Provisions	10.551	Supplemental Nutrition Assistance Program
3	Subrecipient Monitoring	10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
4	Activities Allowed or Unallowed / Allowable Costs / Cost Principles	84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
6	Activities Allowed or Unallowed / Allowable Costs / Cost Principles / Eligibility	84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
8	Eligibility	93.558	Temporary Assistance for Needy Families
9	Matching, Level of Effort, Earmarking	93.558	Temporary Assistance for Needy Families
10	Reporting	93.558	Temporary Assistance for Needy Families
14	Activities Allowed or Unallowed / Allowable Costs / Cost Principles / Eligibility	93.767	Children's Health Insurance Program
16	Activities Allowed or Unallowed / Allowable Costs / Cost Principles / Eligibility	93.778	Medical Assistance Program
18	Eligibility	93.917	HIV Care Formula Grants

Reporting Sensitive Information


We noted certain deficiencies in information systems controls that were only generally described in this report. Details about these deficiencies, due to their sensitive nature, were communicated to management in a separate letter.

North Carolina Department of Health and Human Services' Response to 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, and accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 16, 2017



FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Federal Compliance Audit Objectives

1. INADEQUATE SUBRECIPIENT MONITORING INCREASED RISK OF WASTED FUNDS

The Department did not adequately monitor \$1 billion in federal funds passed to counties, non-profits, and other organizations (collectively called subrecipients). Specifically, the Department did not timely obtain subrecipient annual audit reports, review for problems, or communicate expected corrective actions to subrecipients.

Subrecipients used the funds from the Department for federal assistance programs such as Medicaid (\$228.7 million), Temporary Assistance for Needy Families (\$186.3 million) and the Children's Health Insurance Program (\$7.4 million). Subrecipients were required to obtain an annual audit if they spent more than \$500,000 in federal funds within a year.

Out of a sample of 44 entities to which the Department passed federal funds, there were 16 (36%) instances where the Department did not complete the monitoring process. Specifically, for:

- 13 (30%) subrecipients, there was no evidence that audit reports were reviewed or that management decisions were issued
- 2 (5%) subrecipients, no audit reports were on file
- 1 (2%) subrecipient, the audit report was reviewed, but a management decision¹ was issued 13 days after the six-month regulatory time limit

Lack of adequate and timely monitoring increased the risk that federal funds would be wasted due to uncorrected errors and deficiencies. For example, audit reports that lacked evidence of Department review reported deficiencies such as a:

- 28% error rate in eligibility documentation for the Medicaid program in one county
- 27% error rate in eligibility income verification and budget calculations for the Medicaid program in a second county
- 15% error rate in eligibility income verification and budget calculations for the Children's Health Insurance Program in a third county

The Department did not have adequate procedures in place to ensure audits were reviewed and management decisions issued. According to Department management, the responsibility for reviewing the audit reports shifted to the Office of Internal Audit (OIA) just before the beginning of the audit period. The OIA was drafting procedures for the review of the audit reports; however, OIA had turnover in positions designated to do this task. Since there was not a procedure in place to ensure compliance, the audit reports were not monitored timely.

¹ Management decisions clearly communicate to subrecipients whether or not the results of the audit are sustained, the reasons for the decision, and the expected subrecipient action (i.e. repay disallowed costs, make financial adjustments, or other actions).

The Department is required to monitor subrecipients' use of federal awards by reviewing their audit reports. Specifically, federal regulations² charge the pass-through entity with:

- Reviewing financial and performance reports
- Issuing a management decision for audit findings pertaining to the Federal award within six months of receipt of the audit report
- Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means

Similar aspects of this finding were reported in the 2015 Statewide Single Audit as finding numbers 2015-004, 2015-011, 2015-009, 2015-061, 2015-062, 2015-063, 2015-064, 2015-069, 2015-070, 2015-073, 2015-074, 2015-080, 2015-085, and 2015-095.

Federal Award Information: This finding affects the following federal programs:

- CFDA 10.561: State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
 - Federal Awarding Agency: U.S. Department of Agriculture
 - Grant Award Number: 15155NC406S2514, 16165NC416Q3903
- CFDA 93.558: Temporary Assistance for Needy Families (TANF)
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: 1502NCTANF, 1601NCTANF
- CFDA 93.568: Low-Income Home Energy Assistance (LIHEAP)
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: 15B1NCLIEA, 16B1NCLIEA
- CFDA 93.575 and 93.596: Child Care and Development Fund (CCDF) Cluster
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: G1501NCCCDF, G1601NCCCDF
- CFDA 93.667: Social Services Block Grant (SSBG)
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: G-1401NCSOSR, G-1501NCSOSR

² 2 CFR 200.331(d) and 2 CFR 200.521(d)

- CFDA 93.767: Children’s Health Insurance Program (CHIP)
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: 05-1505NC5021, 05-1605NC5021
- CFDA 93.778: Medical Assistance Program (Medicaid)
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: 05-1505NC5MAP, 05-1605NC5MAP, 05-1505NC5ADM, 05-1605NC5ADM
- CFDA 93.917: HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: X07HA00051-25-00, X08HA16859-07-00
- CFDA 93.958: Block Grants for Community Mental Health Services
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: SM010032-14, SM010032-15
- CFDA 93.959: Block Grants for Prevention and Treatment of Substance Abuse
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: TI010032-14, TI010032-15

Recommendation: Department management should develop and use a tracking mechanism to ensure that all required subrecipient audits are reviewed, management decisions are communicated timely, and follow-up is completed.

Agency Response: The Department agrees that the annual sub-recipient monitoring reports and audit reports were not consistently reviewed in a timely manner due to excessive employee turnover. Sub-recipient monitoring is performed throughout the life cycle of the grant award by multiple teams and includes activities in the onboarding process followed by onsite and desk reviews during the grant period and culminates in the review of annual reports and audits as noted in this finding. The Department will implement additional monthly management review procedures and temporarily reassign duties to ensure the timely completion of the review of sub-recipient annual reports and audits. Recruiting is in process to re-staff the annual report review function.

SNAP CLUSTER – SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

2. ERRORS IN SNAP NOTIFICATIONS, BENEFIT CALCULATIONS, AND ELIGIBILITY DETERMINATIONS

The Department’s automated system for the Supplemental Nutrition Assistance Program (SNAP) did not accurately and completely generate notifications, calculate

benefits, and determine eligibility. During state fiscal year 2016, the Department used NC FAST³ to process \$2.3 billion in benefits for 1.3 million households.

From a statistical sample⁴ of 287 SNAP cases totaling \$88,592 in benefit payments, auditors identified the following errors:

- In 32 (11.1%) cases, NC FAST either did not generate the required notice or did not generate an accurate notice. Notices communicate changes in eligibility, certification periods, benefit allotments, and adverse actions.
- In 11 (3.8%) cases, NC FAST did not accurately or completely process information such as updated rates, deductions for housing costs, and child support payments. However, the errors did not affect the benefit amount.
- In 10 (3.5%) cases, NC FAST incorrectly calculated benefits. Errors included using the wrong rates and not properly calculating deductions for housing costs, resulting in overpayments of \$125 and underpayments of \$211.
- In 2 (0.7%) cases, NC FAST incorrectly determined eligibility. In one case, an ineligible participant received an overpayment of \$122. In the other case, an eligible participant was excluded, resulting in an underpayment of \$146.

When the net underpayment of \$110 found in the sample is projected to the entire population of benefit payments, the likely total error is a \$3.9 million underpayment.⁵

As a result of the errors, some SNAP participants did not receive all of the benefits for which they were eligible and some received more. In both cases, additional program administrative costs will be incurred to correct the errors. The Department made improper payments to households which must be reprocessed to ensure correct benefits are paid.

The Division of Social Services (DSS)⁶ and NC Fast staff do not know why the errors occurred and are in the process of researching the causes. In some cases, they believe there are system design flaws. For example, NC FAST is not designed to include some of the required elements in the generated notices for some recertifications and expedited cases. In other cases, DSS and NC FAST staff are trying to determine whether the problem is a system flaw or a user error. However, Department staff continue to research the errors.

Federal regulations⁷ require state automated systems to generate notifications, calculate benefits, and determine eligibility. Automation is required for cost effective reductions in errors and improvements in management efficiency, such as decreases in program administrative costs.

Specifically, federal regulations require the automated system to:

³ North Carolina Families Accessing Services through Technology

⁴ The statistical sampling method used was stratified statistical variable sampling.

⁵ Projections indicate that the most likely total error would be underpayments of \$3.9 million. When evaluated at a 90% confidence interval, the results are unlikely to be more than a \$17.7 million underpayment or more than a \$9.8 million overpayment.

⁶ DSS is the division of the Department that is responsible for administering SNAP.

⁷ 7 CFR 272.10(b)

- “Notify the certification unit (or generate notices to households) of cases requiring Notices of (A) Case Disposition; (B) Adverse Action and Mass Change, and (C) Expiration.”
- “Determine eligibility and calculate benefits or validate the eligibility worker’s calculations by processing and storing all casefile information.”

Similar aspects of this finding were reported in the 2015 Statewide Single Audit as finding number 2015-007.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA (title): 10.551 (Supplemental Nutrition Assistance Program); Federal Award Period: October 1, 2014 – September 30, 2015 and October 1, 2015 – September 30, 2016

Recommendations: Department management should correct identified benefit payment errors.

Department management should ensure priority is given to identifying the root cause of the errors.

Agency Response: The Department is committed to administering the SNAP program in accordance with the applicable federal and State requirements. The Department concurs with the findings with respect to benefits and eligibility errors, processing errors, and most notification errors.

- The Department reviewed the 11 cases related to processing errors, which resulted in no financial impact to beneficiaries. After the review, the Department determined that 5 cases were related to rates that were not updated for valid reasons and 2 cases related to child support payments in which display issues did not affect the processing of the case. The remaining cases are attributed to user error. The Department will provide additional training to address these types of errors.
- The Department reviewed the 12 cases related to benefits and eligibility errors. Eleven cases were benefit payment errors that will be reprocessed and corrected according to policy. Training will be reviewed to address these issues. The Department is investigating a potential system defect related to the final case and will correct any systems errors identified.
- The Department reviewed the 32 cases regarding notification errors, which resulted in no financial impact to beneficiaries. This review resulted in investigations that determined the root cause of the errors. The Department will ensure system updates are prioritized for completion and required training is provided.

3. COUNTIES WERE NOT ADEQUATELY MONITORED

The Department did not adequately monitor subrecipients (counties) that administered the Supplemental Nutrition Assistance Program (SNAP). The State provided \$87.5 million in SNAP funds to counties to administer to participants during the year.

A random sample of 21 (50%) of the 42 counties that were required to be monitored during the audit period showed deficiencies for all 21 counties. Specifically:

- In 21 of 21 (100%) counties sampled, monitors did not test the timeliness of recertifications⁸. Further inquiry showed that this test was not performed at any of the 42 counties monitored during the audit period.
- In 4 of 21 (19%) counties sampled, the county submitted a Performance Improvement Plan (PIP)⁹ that did not address all of the SNAP findings that monitors identified.
- In 1 of the 21 (5%) counties sampled, monitors did not communicate all of the SNAP findings to the county.
- In 1 of the 21 (5%) counties sampled, monitors did not review the required number of cases. Nine initial approval case files were reviewed when the monitor should have reviewed 10. Participant case files are reviewed to check the eligibility determinations made by the county staff.

Inadequate monitoring increased the risk that the Department would not detect payments to ineligible participants, detect delays in recertification, and ensure that corrective action was completed timely.

According to Department management, there were two factors that led to the monitoring deficiencies. The lack of timeliness testing existed because monitors could not access the necessary reports in NC FAST¹⁰. A system change was requested in March 2015 that would allow the system to produce the necessary reports, but the change was not implemented. Department staff said that the remaining monitoring deficiencies were due to inadequate supervisory review of the monitoring documentation.

Federal regulations¹¹ require the pass-through entity to:

“Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.”

Furthermore, the pass-through entity is responsible for:

“Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award...detected through audits, on-site reviews, and other means.”

⁸ Recertifications – the re-determination of eligibility

⁹ The PIP is prepared by the county to show how it will correct the deficiencies identified during the monitoring visit.

¹⁰ NC FAST – System used to determine participant eligibility.

¹¹ 2 CFR Part 200.331(d)

Additionally, the Department's "Subrecipient Monitoring Plan" for SNAP for state fiscal year 2015-2016 requires a minimum number of case files to be reviewed for small, medium, and large¹² counties during monitoring visits.

Federal Award Information: U.S. Department of Health and Human Services; CFDA Number (title): 10.561 (State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)); Federal Award Number (award period): 15155NC406S2514 (October 1, 2014 – September 30, 2015); 16165NC416Q3903 (October 1, 2015 – September 30, 2016)

Recommendations: Department management should coordinate with NC FAST administrators to ensure the system is generating the necessary reports to review the timeliness of recertifications for the counties that are monitored.

Department management should develop a review process to ensure that all findings identified during the monitoring visit are communicated to the county, that the Performance Improvement Plans address all findings identified during the monitoring visit, and that monitors examine the minimum number of cases consistent with the monitoring plan.

Agency Response: The Department agrees with the finding and will enhance the subrecipient monitoring process to ensure all required number of cases are examined and any findings identified during the monitoring visit are communicated to the county and addressed in the appropriate documents. The Department will strengthen the supervisory review over the monitoring process.

The Department's NC FAST System reporting capabilities have been enhanced to produce a report to be utilized by monitors in testing the timeliness of recertifications by counties being monitored.

CFDA 84.126 - REHABILITATION SERVICES – VOCATIONAL REHABILITATION GRANTS TO STATES

4. ERRORS IN MEDICAL CLAIMS PAYMENT PROCESS

The Department made an estimated net overpayment of \$219,000 to providers. During state fiscal year 2016, the Department processed more than 33,000 claims for vocational rehabilitation medical services totaling over \$9 million.

Auditors reviewed a statistical sample of 132 claims totaling \$598,274. The review showed that 8 of 132 (6%) claims were calculated incorrectly and/or paid at the wrong rate, resulting in net overpayments of \$12,089 and federal questioned costs of \$9,513.

¹² Small County (less than 6000 cases) – monitors should review a total of 40 cases (10 initial approvals / 10 initial denials / 10 ongoing terminations / 10 recertifications)
 Medium County (less than 15,000 cases) – monitors should review a total of 60 cases (15 initial approvals / 15 initial denials / 15 ongoing terminations / 15 recertifications)
 Large County (over 15,000 cases) – monitors should review a total of 80 cases (20 initial approvals / 20 initial denials / 20 ongoing terminations / 20 recertifications)

Specifically,

- 6 (4.5%) claims totaling \$17,429 were overpaid
- 2 (1.5%) claims totaling \$5,340 were underpaid

When the net overpayment of \$12,089 (federal share \$9,513) found in the sample is projected to the entire population, the likely total errors are a net overpayment of \$219,000 (federal share of \$172,000)¹³.

Department personnel stated that these errors occurred due to staff errors such as using the wrong rates and codes. Also, there was no supervisory review of the claims calculation and pricing.

As a result, program costs were unnecessarily increased and resources that could have been used to provide rehabilitation services to other eligible clients were unavailable.

Federal regulations¹⁴ require the Department to “establish and maintain written policies to govern the rates of payment for all purchased vocational rehabilitation services.” Also, the Department’s vocational rehabilitation policy manual prescribes that Medicaid or Medicare rates and methodology will be used to process medical claims.

For nine of the past 10 years, the Department made payments to providers that did not comply with the rates and claims processing methodology in its policy manual. This was most recently reported in the 2015 Statewide Single Audit as finding number 2015-043.

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.126 (Rehabilitation Services – Vocational Rehabilitation Grants to States: Federal Award Number (award period): H126A140049, H126A140050, H126A150049, H126A150050, H126A160049, H126A160050 (federal fiscal years ended September 30, 2014 to 2016)

Recommendations: Department management should evaluate the claims processing personnel and determine whether additional training is needed.

In addition, Department management should develop and implement a secondary review process to ensure claims are calculated and paid correctly.

Agency Response: The Department agrees with the finding. During the first quarter of SFY 2016, the Division acquired access to NTRACKS and began to price claims manually as necessary until the NTRACKS/BEAM interface was completed. Effective November 2015, the NTRACKS/BEAM interface became fully functional. Correct rates are now being paid for medical, pharmaceutical, and institutional goods and services. As a result, the 6% error rate (8 errors) noted for SFY 2016 is a significant decrease from the 47% error rate (104 errors) noted for SFY 2015. Of the eight errors identified, six were processed prior to the completion of the NTRACKS/BEAM interface.

¹³ 2 CFR 200.56 requires auditors to report known questioned costs when likely questioned costs are greater than \$25,000. When the net overpayment of \$12,089 (federal share \$9,513) found in the sample is projected to the entire population, the likely total errors are \$219,000 (federal share of \$172,000), +/- 4%. The statistical sampling method used was classical variable sampling. Auditors evaluated their results at the 90% confidence interval.

¹⁴ 34 CFR 361.50

As part of ongoing training efforts and to address the potential that some rates will not get priced through the system, the DHHS Controller's Office provided refresher training during SFY 2017 to the claims processing staff on manual claims processing. Beginning in SFY 2017, a secondary review process was implemented to ensure claims are calculated and paid correctly. Designated reviewers select a random sample of all manually priced claims that do not have a Medicaid rate to check for accuracy.

5. TESTING OF CHANGES TO THE VOCATIONAL REHABILITATION ELIGIBILITY SYSTEM UNABLE TO BE VERIFIED

The Division of Vocational Rehabilitation Services (DVRS) and Division of Services for the Blind (DSB) failed to document testing of system changes for the vocational rehabilitation eligibility system (BEAM). Therefore, the Divisions could not provide evidence that successful testing occurred prior to changes being introduced to the BEAM system.

DVRS and DSB implemented 65 change requests for enhancements or new components during state fiscal year 2016. A random sample of 13 (20%) change requests was tested. Documentation of user acceptance testing (UAT) verification was not available for six (46%) of the 13 change requests sampled.

A disciplined process for testing is essential to ensure the system operates as intended and that no unauthorized changes are introduced that may negatively impact operations or security.

At the beginning of the fiscal year, the BEAM change management procedure was not specific about documentation requirements for user acceptance testing. Therefore, documentation of that testing was not present for all changes. During the year, DVRS and DSB implemented a new change management procedure that outlines testing documentation requirements for changes to the BEAM application.

The Statewide Information Security Manual, standard 040405, requires successful testing of updates and new programs prior to their introduction into a system.

This finding was reported in the 2015 Statewide Single Audit as finding number 2015-044.

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.126 (Rehabilitation Services – Vocational Rehabilitation Grants to States: Federal Award Number (award period): H126A140049, H126A140050, H126A150049, H126A150050, H126A160049, H126A160050 (federal fiscal years ended September 30, 2014 to 2016)

Recommendation: DVRS and DSB should ensure it follows the new BEAM change management procedure.

Agency Response: The Department agrees with the finding and has completed implementation of corrective actions. In March 2016, in immediate response to the FY 2015 similar finding, the DSB-DVRS cross-divisional BEAM management team adopted operating procedures and controls processes for user acceptance testing and

documentation. The team continues to utilize these BEAM change management procedures to ensure user acceptance approvals are in place. No additional corrective actions are required.

6. DEFICIENCIES IN SYSTEM ACCESS CONTROLS

The results of our audit disclosed security deficiencies considered reportable under generally accepted *Government Auditing Standards*. These deficiencies are reported to the Department by separate letter in accordance with these standards. These items should be kept confidential as provided by *North Carolina General Statute 132-6.1(c)*.

This finding was reported in the 2015 Statewide Single Audit as finding number 2015-045.

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.126 (Rehabilitation Services – Vocational Rehabilitation Grants to States: Federal Award Number (award period): H126A140049, H126A140050, H126A150049, H126A150050, H126A160049, H126A160050 (federal fiscal years ended September 30, 2014 to 2016)

Agency Response: The Department is committed to maintaining adequate information security and system access controls. The Department has designed and/or implemented corrective actions to address the risks identified in this audit. These corrective actions have been detailed in a response separately submitted to the State Auditor. Security risks are given the highest priority by the Department and corrective actions will be monitored by senior leadership.

7. \$10.5 MILLION IN PRE-EMPLOYMENT TRANSITION SERVICES NOT SPENT ON STUDENTS WITH DISABILITIES

The Department did not spend a total of \$15.9 million (15%) of the \$106 million received for the Vocational Rehabilitation Grant for pre-employment transition services (PETS)¹⁵ for students with disabilities as required by federal regulations. Only \$5.4 million was spent toward these services for the 2015 federal fiscal year.

Because the Division of Vocational Rehabilitation did not spend the entire \$15.9 million set aside for students with disabilities as required, \$10.5 million is being relinquished to the federal government.

According to Department personnel, the Division of Vocational Rehabilitation did not comply with the spending requirements because they did not have final guidance about which services would meet the grant criteria. Division of Vocational Rehabilitation

¹⁵ Pre-employment transition services (PETS) promotes greater emphasis on transition services for students with disabilities. In general, transition refers to the period of time during which a student transitions from secondary education to either a post-secondary program at an institution of higher learning or into employment. PETS include job exploration counseling, work-based learning experiences (e.g., in-school or after school opportunities including internships), counseling on post-secondary educational opportunities, workplace readiness training, and instruction in self-advocacy.

personnel did not seek out the available guidance related to PETS when it was not included with the original grant award document sent from the Department's Office of the Secretary.

Federal regulations¹⁶ require the state to reserve and expend at least 15% of its vocational rehabilitation allotment for the provision of pre-employment transition services to students with disabilities who are eligible, or potentially eligible, for vocational rehabilitation services.

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.126 (Rehabilitation Services – Vocational Rehabilitation Grants to States); Federal Award Number (award period): H126A150049 and H126A150050 (Federal Fiscal Years ended September 30, 2014 to 2016)

Recommendations: Division of Vocational Rehabilitation management should ensure all documentation is obtained to administer the grant funds.

Further, Division of Vocational Rehabilitation management should seek guidance from all means necessary.

Agency Response: The Department agrees that \$5.4 million was spent on allowable Pre-Employment Transition Services and that the remaining unspent funds were relinquished to the federal funding agency. Using the final federal regulations issued July 2016, the Department is developing expanded service requirements and increasing its capacity to provide and track Pre-Employment Transition Services.

The Department continues to take advantage of training opportunities and technical assistance provided by our federal partner, Rehabilitation Services Administration. The Department reached out to Workforce Innovation Technical Assistance Center, an organization that works with State Vocational Rehabilitation Agencies to implement the new requirements of the Workforce Innovations and Opportunity Act including Pre-Employment Transition Services. The Department is committed not only to achieve full compliance with the pre-employment transition services earmarking requirement, but also to provide efficient and effective services to the targeted population.

CFDA 93.558 – TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF)

8. DEFICIENCIES IN COUNTY ELIGIBILITY DETERMINATION PROCESSES

The Department made some Temporary Assistance for Needy Families (TANF) payments based on inaccurate and inadequately documented eligibility determinations. During the audit period, approximately 40,600 families received \$47.4 million in assistance from the federal TANF program.

The task of determining eligibility for the TANF program has been delegated to the county department of Social Services¹⁷. Therefore, Certified Public Accountant (CPA)

¹⁶ Sections 110 and 113 of the Rehabilitation Act of 1973, as amended by the Workforce Innovation and Opportunity Act (WIOA)

¹⁷ North Carolina General Statute §108A-27.6(a)(2)

firms audited county offices and tested 1,344 TANF client files. CPAs found one or more errors in 36 (2.7%) client files. Specifically:

- 26 (1.9%) client files did not contain all required eligibility documentation. Missing documentation included county-participant agreements, online verification documentation, and explanations for benefit overpayments.
- 4 (0.3%) client files were missing eligibility determination calculations or contained inaccurate calculations for data such as income.
- 4 (0.3%) client files contained ineligible recipients during the coverage period. Three files showed that eligibility was not terminated within the timeframe required by the program manual. The remaining client file was ineligible because of increased earnings.
- 3 (0.2%) client files were missing and the eligibility determinations could not be substantiated.

As a result, the Department paid at least \$18,316¹⁸ in error that could have been used to provide services to eligible participants. The total likely error for the State's TANF program could not be statistically determined since each county was tested as a separate population by the CPA firms.

According to Department management, two factors contributed to the errors.

First, the Department did not have adequate staff to effectively monitor eligibility determinations performed by the county departments of social services. As a result, the Department could not ensure that the counties made accurate eligibility determinations and maintained proper documentation in the case files.

Second, the county departments of social services were understaffed. As a result, supervisors at the county offices did not consistently perform quality assurance reviews.

In accordance with federal regulations¹⁹, recipients are only eligible if they meet the requirements of a financially needy family with children. Additionally, state eligibility manuals²⁰ require adequate documentation to support eligibility determinations.

This finding was reported in the 2015 Statewide Single Audit as finding number 2015-067.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA number (title): 93.558 (Temporary Assistance for Needy Families); Federal Award Number (award period): 1502NCTANF (fiscal year ended September 30, 2015) and 1601NCTANF (fiscal year ended September 30, 2016)

¹⁸ In accordance with 2 CFR 200.516(a)(3), auditors must report known questioned costs when likely questioned costs are greater than \$25,000. Even though sample results identified only \$18,316 in questioned costs, if tests were extended to the entire population, questioned costs could be greater than \$25,000.

¹⁹ 42 USC 601

²⁰ North Carolina Work First Manual

Recommendation: Department management should analyze the types of errors and the locations where they occurred. Then Department management should prioritize and focus its limited monitoring resources on areas where they will have the greatest impact.

Agency Response: The Department agrees with the finding and will continue to provide training, guidance and monitoring through desk reviews and onsite visits to the county department of social services (DSS) to ensure the adequacy of eligibility determinations.

The Department will review case specific information relating to each finding and require the relevant counties to implement corrective action plans to address all reported issues to ensure compliance.

The Department will reinforce its policies and procedures at the counties to ensure required documentation is obtained and maintained in the case file and strengthen the supervisory review over the monitoring process.

9. FIVE-YEAR LIMIT NOT MONITORED FOR THE TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) PROGRAM

The Department did not monitor compliance with the federal five-year limit on TANF assistance²¹. The limit was established to ensure that TANF recipients move into work and self-sufficiency and to ensure that assistance is short-term and transitional.

During the audit period, approximately 40,600 families received \$47.4 million in federal cash assistance from the program.

Because the Department did not monitor compliance with the five-year limit, the Department may not have detected and corrected instances when it failed to achieve the program objective of moving families toward self-sufficiency. Additionally, failure to detect and correct excessive noncompliance²² with the five-year limit could have resulted in the State being penalized with a 5% reduction in funding for the next fiscal year²³.

According to Department management, it was not able to monitor the five-year limit because of the implementation of a new computer system. During the previous fiscal year, TANF information was moved into NC FAST²⁴. Department staff were unable to obtain the federal time limit data from the new system to generate the necessary reports to monitor the TANF five-year limit.

²¹ 45 CFR 264.1(a)(1): Subject to the exceptions in this section, no state may use any of the federal TANF funds to provide assistance to a family that includes an adult head-of-household or a spouse of a head-of-household for a total of five years (i.e. 60 cumulative months whether or not consecutive).

²² 45 CFR 264.1(c): States have the option to extend assistance beyond the five-year limit for federally funded assistance for a maximum of 20 percent of their average monthly number of cases.

²³ 45 CFR 264.2: If a State has not complied with the requirements listed above, the payable to the State for the immediately succeeding fiscal year can be reduced by five percent unless the State satisfactorily demonstrates that it had reasonable cause, or it corrects and discontinues the violation under and approved corrective action plan.

²⁴ NC FAST stands for North Carolina Families Assessing Services through Technology

Federal regulations²⁵ require the Department to “establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.” Monitoring the five-year limit would be an effective control over compliance.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA number (title): 93.558 (Temporary Assistance for Needy Families); Federal Award Number (award period): 1502NCTANF (October 1, 2014 – September 30, 2015)

Recommendation: Department management should obtain the necessary assistance from staff responsible for NC FAST to run the required reports to monitor the TANF five-year limit.

Agency Response: The Department agrees with the finding. The Department will implement a system to store the five-year limit on Federal assistance data in Client Services Data Warehouse (CSDW). Queries using this data will run in CSDW to track the five-year limit. The work effort for implementation began in January 2017.

Pursuant to 45 CFR 264.1(c), North Carolina opted to extend TANF assistance beyond the five-year limit for a maximum of 20 percent of their average monthly number of cases. The Department has examined the number of individuals granted an extension for the two prior fiscal years as compared to the 20% federal limit. For each of the last two years, extensions were granted for less than one percent of average caseload.

Specifically, during FFY 2014, the average TANF caseload was 16,554. The maximum number of individuals who could be granted the 20% hardship extension to the five-year federal time limit was 3,311. The number of individuals granted the extension were 93 (0.6%). During FFY 2013, the average TANF caseload was 20,149. The maximum number of individuals who could be granted the 20% hardship extension to the five-year federal time limit was 4,030. The number of individuals granted the extension were 153 (0.8%).

10. INACCURATE TANF DATA ON FAMILIES WAS SUBMITTED TO THE FEDERAL GOVERNMENT

The Department submitted incomplete and inaccurate data in the Temporary Assistance for Needy Families (TANF) ACF-199 report to the Administration for Children and Families (ACF). During the audit period, approximately 40,600 families received \$47.4 million in assistance from the federal TANF program.

Out of a random sample of 120 cases from all quarterly reports submitted during the audit period, 21 (18%) cases from the quarter ended September 30, 2015, had one or more errors. Examples of data elements in which errors were found are:

- Work participation status
- Number of countable months the participant received assistance
- Relationship to the head of household

²⁵ 2 CFR 200.303

In addition, the Department under-reported the total number of families receiving assistance for the quarter ended September 30, 2015, by approximately 12,000 (30%) families.

The Department's failure to submit complete and accurate data could lead to penalties. A penalty of 4%²⁶ of the adjusted State Family Assistance Grant (SFAG)²⁷ can be imposed for each quarter the State fails to submit an accurate, complete, and timely report. Based on the fiscal year 2016 SFAG, the penalty could be up to \$8.7 million.

Additionally, inaccurate data could impact the State's Work Participation Rate (WPR)²⁸ calculation. The data collected in the ACF-199 quarterly performance report is used by ACF to determine whether the State met its WPR and other program purposes. Failure to achieve the WPR could also result in penalties.

According to Division of Social Services (DSS)²⁹ management, they were not able to file complete and accurate reports because of a change in procedures. Prior to TANF data being moved to NC FAST³⁰, DSS Performance and Reporting section staff would have county level employees provide the data for each case being reported. (The county level employees work with the participants to intake and monitor participant information.) With the transition to NC FAST, it was determined that DSS would no longer request the data from the county but would rely on NC FAST for the data needed to prepare the report. DSS staff were unable to identify where the correct data was located in NC FAST for some data elements to generate the necessary queries³¹ to populate the ACF-199 report. DSS management has requested assistance from NC FAST staff, but it was not timely enough to identify the data and modify the query so correct data could be submitted to ACF during the audit period.

Federal regulations³² require each state to timely file the TANF Data Report. Specifically, regulations state:

"Each State must collect on a monthly basis, and file on a quarterly basis, the data specified in the TANF Data Report and the TANF Financial Report (or, as applicable, the Territorial Financial Report)."

Furthermore, federal regulations³³ require the reports to be accurate and complete. Specifically, regulations state:

"We will assess fiscal penalties against States under circumstances defined in parts 261 through 265 of this chapter. The penalties are... A penalty of four

²⁶ 45 CFR 262.1 (a)(3)

²⁷ The SFAG is the fixed amount of the TANF funding for the State. The adjusted SFAG for federal fiscal year 2016 was \$219,083,849 per the September 30, 2016 TANF financial report (form ACF-196R).

²⁸ The WPR is a measure of how well a state succeeds in helping work eligible individuals find work activities during a fiscal year. A state must meet an overall and a two-parent participation requirement.

²⁹ DSS is the division within the Department that is responsible for administering TANF.

³⁰ NC FAST is the eligibility system used in the TANF program. It stands for North Carolina Families Accessing Services through Technology.

³¹ A query is used as a reporting tool to retrieve a visual representation of the information from the system database.

³² 45 CFR 265.3

³³ 45 CFR 265.3

percent of the adjusted SFAG for each quarter a State fails to submit an **accurate, complete** and timely required report.” (*Emphasis added*)

This finding was reported in the 2015 Statewide Single Audit Report as finding number 2015-068.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.558 (Temporary Assistance for Needy Families); Federal Award Number(s) (period): 1502NCTANF (October 1, 2014 – September 30, 2015) and 1601NCTANF (October 1, 2015 – September 30, 2016).

Recommendation: The Division should continue working with NC FAST staff to identify the correct data for the required elements so that necessary modifications can be made to the queries used to generate the ACF-199 report.

Agency Response: The Department agrees with the finding and is programming its systems to enhance its production of the ACF-199 report.

CFDA 93.568 – LOW-INCOME HOME ENERGY ASSISTANCE (LIHEAP)

11. WEATHERIZATION FUNDS WERE OVERSPENT

The Department overspent Low-Income Home Energy Assistance Program (LIHEAP)³⁴ weatherization funds by \$8.8 million.

The Department provided \$21.8 million (25%) of the \$86.7 million received for the LIHEAP to the Department of Environmental Quality (DEQ) to provide residential weatherization³⁵ and other home repairs to low-income families. However, federal regulations only allowed them to use 15% (\$13 million) for these activities.

As a result, \$8.8 million were not available to assist low-income households pay their monthly home energy costs. In addition, subsequent funding could be withheld by the federal government for failure to comply with federal requirements.

According to Division of Social Services Management, they were unaware of the 15% spending limit for weatherization and other energy related home repairs. Therefore, the Division provided more than the maximum amount allowed to DEQ for those activities.

Federal regulations³⁶ require that no more than 15% of the funds allotted or available to the grantee for a federal fiscal year be used for low-cost residential weatherization or other energy-related home repairs unless the federal awarding agency grants a waiver.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA number (title): 93.568 (Low-Income Home Energy Assistance); Award Number (award period): 14BNCLIEA (October 1, 2013 – September 30, 2015)

³⁴ The primary purpose of LIHEAP is to provide funds to assist eligible households to meet the immediate costs of heating and cooling their residences, including monthly utility bills for gas and electric services.

³⁵ Weatherization includes taking measures to make homes more energy efficient, such as weather stripping.

³⁶ 42 USC 8624(k)

Recommendation: Department management should ensure that the staff that oversees grant management have a clear understanding of weatherization spending requirements.

Agency Response: The Department applied the 15% federal requirement to the Weatherization Assistance Program (WAP); however, the requirement was not extended to the Heating Appliance and Replacement Program (HARRP), which permits a waiver from the federal agency for up to 25%.

The Department agrees with the finding and will revise its current practice for allocating and expending all Weatherization funds to comply with the federal guidance.

12. INACCURATE HOUSEHOLD INFORMATION REPORTED TO THE FEDERAL GOVERNMENT

The Department submitted an inaccurate Household Report for the Low Income Home Energy Assistance Program (LIHEAP)³⁷ to the Administration for Children and Families (ACF). During the audit period, the Department provided \$87.5 million in LIHEAP assistance to eligible households.

Auditors obtained the supporting data and recalculated the amounts included in the annual *LIHEAP Household Report*. The report includes the number and income levels of households that applied for or received LIHEAP assistance during the fiscal year³⁸. The submitted annual report:

- Over-reported households that applied for crisis assistance by approximately 42,700 (38%) households. It should have reported 111,825 households.
- Under-reported households that received heating assistance by approximately 15,400 (11%) households. It should have reported 141,582 households.
- Under-reported households that applied for heating assistance by approximately 7,000 (5%) households. It should have reported 154,930 households.
- Under-reported households that received any type³⁹ of LIHEAP assistance by approximately 8,500 (4%) households. It should have reported 196,406 households.

Because of the errors noted above, there were additional errors in the reported number of assisted and applicant households by poverty level and the number of assisted households by vulnerable population.

Reporting errors could lead to reduced funding because the report provides information to ACF about the need for LIHEAP funding. Reporting errors could also lead to inaccurate state performance measures in the ACF's annual report to Congress.

³⁷ LIHEAP provides assistance to eligible households to help meet their immediate home energy costs, increase their energy self-sufficiency, and reduce their vulnerability from energy needs.

³⁸ The data submitted in the report was for households that received and applied for assistance during the period of October 1, 2014 – September 30, 2015.

³⁹ LIHEAP provides the following types of assistance: (1) heating (2) cooling (3) crisis, and (4) weatherization.

According to Division of Social Services management⁴⁰, the errors occurred because the reporting data was not reconciled for completeness and accuracy. There was no formal supervisory review and approval process for the report. Additionally, the preparer misunderstood the reporting instructions and did not use unduplicated⁴¹ counts of households that that applied for LIHEAP assistance.

Federal regulations⁴² require that each state receiving funds shall submit to the Department a report of “the number and income level of the households which apply and the number which are assisted with LIHEAP funds; and the number of households so assisted with one or more members who attained 60 years of age; one or more members who were disabled; and one or more young children.”

Additionally, the Governmental Accountability Office (GAO) states that government managers have a fundamental responsibility for “ensuring that management and financial information is reliable and properly reported.”⁴³

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services. CFDA (title): 93.568 (Low-Income Home Energy Assistance Program); Federal Award Number (period) 15B1NCLIEA (October 1, 2014 – September 30, 2016)

Recommendations: Department management should reconcile the data for completeness and accuracy before preparing the report.

Department management should establish a formal supervisory review and approval process for the report.

Agency Response: The Department agrees with the finding and will implement a procedure to reconcile the data for accuracy prior to submitting the report. This will be accomplished by segregating the duties among employees who abstract and compile the data and prepare and certify the report prior to submission.

13. COUNTIES WERE NOT ADEQUATELY MONITORED

The Department did not adequately monitor the subrecipients (counties) that administered the Low Income Home Energy Assistance Program (LIHEAP). The state provided \$75.8 million in LIHEAP funds to the counties to administer to participants during the year.

A random sample of 21 (50%) of the 42 counties that were required to be monitored during the audit period showed deficiencies at 12 (57%) counties. Specifically:

- In 11 of 21 (52%) counties, a monitor did not review the required number of LIHEAP participant case files. Monitors review participant case files to check the eligibility determinations made by the county staff. At four counties, the monitor

⁴⁰ The Division of Social Services is the division responsible for administering LIHEAP.

⁴¹ The concept of unduplicated counts means that an item, such as a household, is only counted once for a specific data variable. Unduplicated household data must be reported separately for “each type” of LIHEAP assistance and for “any” type of LIHEAP assistance.

⁴² 42 USC 8624(c)(1)(G)

⁴³ GAO, *Government Auditing Standards*, 2011 Revision

reviewed a total of 20 cases at each county when 40 cases should have been reviewed. At seven counties, the monitor reviewed a total of 10 cases at each of county when 20 cases should have been reviewed.

- In 1 of 21 (5%) counties, the county submitted a Performance Improvement Plan (PIP)⁴⁴ that did not address all deficiencies identified during the monitoring visit. Monitors obtain and review PIPs to ensure that the subrecipients have a plan to take timely and appropriate action on all deficiencies.

Inadequate monitoring, such as the failure to review the required number of case files and obtain complete PIPs, increases the risk that monitors will not detect ineligible program participants and ensure that deficiencies are corrected timely.

According to Department management, the monitor did not review the correct number of case files during the monitoring visit because the monitor did not fully understand the procedures in the approved monitoring plan. Also Department management stated that the incomplete PIP was due to inadequate supervisory review of the monitoring documentation.

Federal regulations⁴⁵ require the pass-through entity to:

“Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.”

Furthermore, the pass-through entity is responsible for:

“Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award... detected through audits, on-site reviews, and other means.”

Additionally, the Department’s monitoring plan for LIHEAP for state fiscal year 2015-2016, requires that a minimum number of case files be reviewed for small⁴⁶ and medium/large⁴⁷ counties during each monitoring visit.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.568 (Low-Income Home Energy Assistance); Federal Award Number (award period): 15B1NCLIEA (October 1, 2014 – September 30, 2016); 16B1NCLIEA (October 1, 2015 – September 30, 2017)

Recommendations: Department management should ensure each monitor understands the approved monitoring procedures.

⁴⁴ A PIP is prepared by the county to show how they will correct deficiencies found during the monitoring visit.

⁴⁵ 2 CFR Part 200.331(d)

⁴⁶ Small County (6000 cases) – monitors should review a total of 20 cases (10 approved / 10 denied)

⁴⁷ Medium/Large County (more than 6000 cases) - monitors should review a total of 40 cases (20 approved / 20 denied)

Department management should develop a review process that ensures monitors examine the required number of cases consistent with the Department’s monitoring plan and that Performance Improvement Plans (PIP) address all findings identified during the monitoring visit.

Agency Response: The Department agrees with the finding and will enhance the subrecipient monitoring process to ensure all required number of cases are examined and addressed in the appropriate documents.

The Department will reemphasize with the staff the execution of the monitoring procedures and strengthen the supervisory review over the monitoring process.

CFDA 93.767 CHILDREN’S HEALTH INSURANCE PROGRAM (CHIP)

14. ERRORS IN CHILDREN’S HEALTH INSURANCE PROVIDER BILLING AND PAYMENT PROCESS

The Department made an estimated \$6.7 million net overpayment to Children’s Health Insurance Program (CHIP) providers during state fiscal year 2016. During that period, the Department processed more than 13 million payments for services totaling \$437 million.

Auditors reviewed a statistical sample of 277 fee-for-service payments totaling approximately \$2.7 million and identified nine (3.3%) payments that contained errors. Specifically:

- 6 (2.2%) claims lacked sufficient documentation to support either the dates of service or the level of service rendered. The result was a net overpayment \$4,211 (federal share \$4,185).
- 3 (1.1%) claims lacked evidence that the patient’s third party insurance was considered in determining recipient eligibility. The result was an overpayment of \$1,525 (federal share \$1,485).

As a result, the Department overpaid an estimated \$6.7 million⁴⁸ that could have been used to provide additional services to other eligible beneficiaries or reduce overall program cost. Additionally, the overpayments of \$5,736 (federal share \$5,670) found in the sample are being questioned⁴⁹.

According to Department management, there were various reasons for the six documentation errors, including billing clerical errors, lack of proper record retention, and coding inconsistencies. However, the Department has not completed its evaluation of the errors.

⁴⁸ When the known overpayment of \$5,736 found in the sample is projected to the entire population, the likely total errors are \$6.7 million.

⁴⁹ In accordance with 2 CFR 200.516(a)(3), auditors must report known questioned costs when likely questioned costs are greater than \$25,000. When the errors are evaluated at a 90% confidence interval, the results are unlikely to be less than an underpayment of \$47.1 million or more than an overpayment of \$60.5 million.

Additionally, per the Department, the other errors were the result of a computer system defect. NC FAST⁵⁰ did not allow insurance information input directly into NCTracks⁵¹ to be interfaced back to NC FAST, where eligibility determinations are made.

Federal regulations⁵² require costs to be adequately documented; authorized; necessary and reasonable; and be consistent with program regulations that apply to the federal award.

Additionally, providers sign an agreement⁵³ that requires them to maintain records disclosing the extent of services furnished to recipients and, on request, furnish the records to the Department.

Further, recipients with third party insurance are not eligible for CHIP⁵⁴.

This finding was reported in the 2015 Statewide Single Audit as finding number 2015-075.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.767 (Children's Health Insurance Program); Federal Award Number (Award Period): 05-1505NC5021 (fiscal year ended September 30, 2015) and 05-1605NC5021 (fiscal year ended September 30, 2016)

Recommendations: Department management should analyze each error and take immediate and appropriate corrective action including, but not limited to, education of providers, on-site or focused reviews, and limit the amount of time for submitting the requested documentation.

Further, Department management should ensure the proper and timely implementation of system changes to correct interface concerns.

Identified over and underpaid claims should be followed up for timely and appropriate collection or payment.

Agency Response: The Department concurs with the findings. The Payment Error Measurement Rate (PERM) program administered by CMS, consistently identifies insufficient/improper documentation as the most prevalent error that providers make in Medicaid billing nationwide. The Department routinely provides education to providers which details compliance requirements for federal, state and local regulatory rules and/or laws.

The Department will reiterate to providers the requirement to maintain proper documentation to support the medical necessity and proper coding of services billed to the Children's Health Insurance Program (CHIP). The Department delivers ongoing education via the monthly Medicaid Bulletin, NC Tracks Provider Portal and other

⁵⁰ NC FAST is the eligibility determination system used for numerous programs at the Department, including CHIP.

⁵¹ NCTracks is the multi-payer Medicaid Management Information System for the Department.

⁵² 2 CFR 225.55

⁵³ In accordance with 42 CFR 431.107.

⁵⁴ 42 CFR 457.310 dictates that a targeted low-income child must not be covered under a group health plan or under health insurance coverage to be eligible to receive Children's Health Insurance Program coverage.

communication venues. The Department will review the claim errors cited in the report to determine which errors may be resolved by requiring additional documentation from the providers. Appropriate recoupment efforts will be made as necessary.

Program changes in the NC Fast system will be implemented to include Third Party Liability data received from NC Tracks to be used by the counties in making eligibility determinations.

15. DEFICIENCIES IN COUNTY ELIGIBILITY DETERMINATION PROCESSES

The Department made some Children’s Health Insurance Program (CHIP) payments to recipients based on inaccurate and inadequately documented eligibility determinations. During the audit period, approximately 250,000 recipients received \$437 million in medical benefits from the CHIP program.

The task of determining eligibility for the CHIP program has been delegated to the county department of Social Services⁵⁵. Therefore, Certified Public Accountant (CPA) firms audited county offices and tested 1,532 case files. CPAs found one or more errors in 86 (5.6%) case files. Specifically:

- 60 (3.9%) client files did not contain all the required eligibility documentation. These case files were missing proof of citizenship, online verification documentation, support for eligibility calculations, etc.
- 18 (1.2%) client files were missing eligibility calculations or contained inaccurate calculations for data such as income.
- 9 (0.6%) client files contained ineligible recipients during the coverage period. These case files included inaccurate eligibility determination calculations and inaccurate program certifications.
- 8 (0.5%) client file was missing and the eligibility determination could not be substantiated.

As a result, the Department paid at least \$13,499⁵⁶ in error that could have been used to provide services to eligible participants. The total likely error for the State’s CHIP program could not be statistically determined since each county was tested as a separate population by the CPA firms.

According to Department management, two factors contributed to these errors.

First, the Department did not provide adequate, formal training to ensure all county departments of social services are determining eligibility correctly and consistently.

Second, the Department did not effectively monitor eligibility determinations performed by the county departments of social services. As a result, the Department could not

⁵⁵ North Carolina General Statute §108A-25(b)

⁵⁶ In accordance with 2 CFR 200.516(a)(3), auditors must report known questioned costs when likely questioned costs are greater than \$25,000. Even though sample results identified only \$13,499 in questioned costs, if tests were extended to the entire population, questioned costs could be greater than \$25,000.

ensure that the counties made accurate eligibility determinations and maintained proper documentation in the case file for the traditional cases⁵⁷.

Federal regulations⁵⁸ require documentation be obtained as needed to determine if a recipient meets the specific income standards and documentation must be maintained to support eligibility determinations.

This was reported in the 2015 Statewide Single Audit as finding number 2015-078.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.767 (Children's Health Insurance Program); Federal Award Number (Award Period): 05-1505NC5021 (fiscal year ended September 30, 2015) and 05-1605NC5021 (fiscal year ended September 30, 2016)

Recommendations: Department management should ensure eligibility determinations are performed accurately and are adequately documented. Specifically:

- Department management should develop and provide training to the county departments of social services on the requirements for eligibility determinations, including proper documentation.
- Department management should also monitor eligibility determinations of the county department of social services to ensure traditional eligibility determinations are completed accurately and supporting documentation is maintained in case files.

Agency Response: The Department is currently amid a focused review of the eligibility determination process administered by the county departments of social services. Effective June 1, 2016, the Department required each county DSS office to establish an approved quality assurance plan and conduct second party reviews of applications and re-certifications monthly. Additionally, the Department has engaged the Association of County Commissioners and the Association of Directors of Social Services to collaboratively develop a plan to improve the counties' accuracy in administering eligibility determination for the CHIP program.

The Department is implementing standardized training on CHIP Policy utilizing the Learning Gateway within the NC FAST system. The Department now requires all new and existing county DSS staff to complete the training via the Learning Gateway.

The Department is currently reviewing the errors noted and upon validation, will require the county DSS to submit a corrective action plan that addresses the maintenance of proper documentation in their file.

The Department will submit to the Secretary monthly updates on the progress of the corrective action plan.

⁵⁷ Auditors only tested eligibility determinations using the traditional method. The Affordable Care Act provides a new method for calculating income eligibility for CHIP. This new method calculates eligibility for all programs based on what is called modified adjusted gross income (MAGI). MAGI will replace the traditional process for calculating CHIP eligibility that is in place today, which uses income deductions that often differ by eligibility group.

⁵⁸ 42 CFR 435

MEDICAID CLUSTER**16. ERRORS IN MEDICAID PROVIDER BILLING AND PAYMENT PROCESS**

The Department made an estimated \$166.2 million net overpayment to Medicaid providers during state fiscal year 2016. During that period, the Department processed more than 127 million payments for services totaling \$11 billion.

Auditors reviewed a statistical sample of 437 fee-for-service payments totaling approximately \$12.6 million and identified 21 (4.8%) payments that contained errors. Specifically:

- 8 (1.8%) claims lacked sufficient documentation to support either the dates of service or the level of service rendered (most claims were paid for a higher level of service than actually provided and some were paid for a lower level of service than actually provided). The result was a net underpayment of \$4,620 (federal share \$3,072).
- 4 (0.9%) claims were not voided and reprocessed when a retroactive rate change was implemented. The result was net underpayment of \$11 (federal share \$7).
- 3 (0.7%) claims lacked evidence that the patient's third party insurance was applied prior to payment by Medicaid. The result was an overpayment of \$10,138 (federal share \$6,715).
- 3 (0.7%) claims did not have patient liability amounts applied to payments in NCTracks⁵⁹. The result was a net overpayment of \$501 (federal share \$331).
- 2 (0.5%) claims lacked evidence that the required approvals were attained before services were rendered. The result was an overpayment of \$634 (federal share \$418).
- 1 (0.2%) claim was calculated and paid using an incorrect Medicare⁶⁰ payment methodology. The result was overpayment of \$477 (federal share \$314).

As a result, the Department overpaid an estimated \$166.2 million⁶¹ that could have been used to provide additional services to other eligible beneficiaries or reduce overall program cost. Additionally, the overpayments of \$7,119 (federal share \$4,699) found in the sample are being questioned⁶².

According to the Department management, there were various reasons for the eight documentation errors, including billing clerical errors, lack of proper record retention, and coding inconsistencies. However, the Department has not completed its evaluation of the errors.

⁵⁹ NCTracks is the multi-payer Medicaid Management Information System for the Department.

⁶⁰ This particular claim is required to pay via the Medicare methodology due to the type of claim.

⁶¹ When the known overpayment of \$7,119 found in the sample is projected to the entire population, the likely total errors are \$166.2 million.

⁶² In accordance with 2 CFR 200.516(a)(3), auditors must report known questioned costs when likely questioned costs are greater than \$25,000. When the errors are evaluated at a 90% confidence interval, the results are unlikely to be less than \$29.9 million or more than \$302.6 million.

Additionally, per the Department, other errors were the result of the following: the Department did not implement payment rate and methodology changes timely and system edits that were supposed to verify prior approval and patient liability amounts did not function in NCTracks as originally planned.

Federal regulations⁶³ require costs to be adequately documented; authorized; necessary and reasonable; and be consistent with program regulations that apply to the federal award.

Additionally, providers sign an agreement⁶⁴ that requires them to maintain records disclosing the extent of services furnished to recipients and, on request, furnish the records to the Department.

This finding was reported in the 2015 Statewide Single Audit as finding number 2015-081.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.778 (Medical Assistance Program); Federal Award Number (Award Period): 05-1505NC5MAP (fiscal year ended September 30, 2015) and 05-1605NC5MAP (fiscal year ended September 30, 2016)

Recommendations: Department management should analyze each error and take immediate and appropriate corrective action including, but not limited to, education of providers, on-site or focused reviews, and limit the amount of time for submitting the requested documentation.

Further, Department management should ensure the proper and timely implementation of system changes, including effective payment edits.

Identified over and underpaid claims should be followed up for timely and appropriate collection or payment.

Agency Response: The Department concurs with the findings. The Payment Error Measurement Rate (PERM) program administered by CMS, consistently identifies insufficient/improper documentation as the most prevalent error that providers make in Medicaid billing nationwide. The Department routinely provides education to providers which details compliance requirements for federal, state and local regulatory rules and/or laws.

The Department will reiterate to providers the requirement to maintain proper documentation to support the medical necessity and proper coding of services billed to the Medicaid Program. The Department delivers ongoing education via the monthly Medicaid Bulletin, NC Tracks Provider Portal and other communication venues. The Department will review the claim errors cited in the report to determine which errors may be resolved by requiring additional documentation from the providers. Appropriate recoupment efforts will be made as necessary.

⁶³ 2 CFR 225.55

⁶⁴ In accordance with 42 CFR 431.107

The Department is continuing the reprocessing of claims previously mentioned in the SFY 2015 Single Audit to address the retroactive rate changes which were not recouped/repaid prior to the SFY 2015 fiscal year end. The correct payment methodology was implemented during SFY 2016 and the reprocessing of the claims will resolve the overpayment issues. Additionally, changes to the processing of crossover claims were implemented in September 2016 to ensure Medicare payment methodologies are correct.

Program changes in the NC Fast system will be implemented to include Third Party Liability data received from NC Tracks to be used by the counties in making eligibility determinations.

The Department will continue to provide updates and training to county DSS offices regarding proper recording of patient monthly liability in NC Tracks.

17. DEFICIENCIES IN COUNTY ELIGIBILITY DETERMINATION PROCESSES

The Department made some Medical Assistance Program (Medicaid) payments to recipients based on inaccurate and inadequately documented eligibility determinations. During the audit period, approximately 1.9 million recipients received \$11 billion in Medicaid benefits.

The task of determining eligibility for the Medicaid program has been delegated to the county department of Social Services⁶⁵. Therefore, Certified Public Accountant (CPA) firms audited county offices and tested 5,990 case files. CPAs found one or more errors in 312 (5.2%) client files. Specifically:

- 221 (3.7%) client files did not contain all the required eligibility documentation. These case files were missing signed applications, proof of residency, proof of citizenship, and online verification documentation.
- 102 (1.7%) client files were missing eligibility determination calculations or contained inaccurate calculations for data such as income.
- 33 (0.6%) client files were missing, and the eligibility determinations could not be substantiated.
- 17 (0.3%) client files contained ineligible recipients during the coverage period. These case files included incorrect certification periods⁶⁶, inaccurate eligibility determination calculations, inaccurate program certifications, and untimely termination of cases.

As a result, the Department paid at least \$963,881 in error that could have been used to provide services to eligible participants. The total likely error for the State's Medicaid program could not be statistically determined since each county was tested as a separate population by the CPA firms.

⁶⁵ North Carolina General Statute §108A-25(b)

⁶⁶ The certification period is the continuous eligibility period for which the participant is considered eligible for services.

According to Department management, two factors contributed to these errors.

First, the Department did not provide adequate, formal training to ensure all county departments of social services were determining eligibility correctly and consistently.

Second, the Department did not effectively monitor eligibility determinations performed by the county departments of social services. As a result, the Department could not ensure that the counties made accurate eligibility determinations and maintained proper documentation in the case file for the traditional cases⁶⁷.

Federal regulations⁶⁸ require documentation be obtained as needed to determine if a recipient meets specific income standards and documentation must be maintained to support eligibility determinations.

This was reported in the 2015 Statewide Single Audit as finding number 2015-083.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.778 (Medical Assistance Program); Federal Award Number (Award Period): 05-1505NC5MAP (fiscal year ended September 30, 2015) and 05-1605NC5MAP (fiscal year ended September 30, 2016)

Recommendations: Department management should ensure eligibility determinations are performed accurately and are adequately documented. Specifically:

- Department management should develop and provide training to the county departments of social services on the requirements for eligibility determinations, including proper documentation.
- Department management should also monitor eligibility determinations of the county department of social services to ensure traditional eligibility determinations are completed accurately and supporting documentation is maintained in case files.

Agency Response: The Department is currently amid a focused review of the eligibility determination process administered by the county departments of social services. Effective June 1, 2016, the Department required each county DSS office to establish an approved quality assurance plan and conduct second party reviews of applications and re-certifications monthly. Additionally, the Department has engaged the Association of County Commissioners and the Association of Directors of Social Services to collaboratively develop a plan to improve the counties' accuracy in administering eligibility determination for the Medicaid program.

The Department is implementing standardized training on Medicaid Policy utilizing the Learning Gateway within the NC FAST system. The Department now requires all new and existing county DSS staff to complete the training via the Learning Gateway.

⁶⁷ Auditors only tested eligibility determinations using the traditional method. The Affordable Care Act provides a new method for calculating income eligibility for Medicaid. This new method calculates eligibility for all programs based on what is called modified adjusted gross income (MAGI). MAGI will replace the traditional process for calculating Medicaid eligibility that is in place today, which uses income deductions that often differ by eligibility group.

⁶⁸ 42 CFR 435

The Department is currently reviewing the errors noted and upon validation, will require the county DSS to submit a corrective action plan that addresses the maintenance of proper documentation in their file.

The Department will submit to the Secretary monthly updates on the progress of the corrective action plan.

CFDA 93.917 – HIV CARE FORMULA GRANTS

18. NO PROCEDURES TO IDENTIFY UNDISCLOSED INCOME FOR RECIPIENTS OF HIV SERVICES

The Department did not have procedures in place to identify unreported income for any of the 8,396 Ryan White HIV Formula Care Grant participants. They received \$22.7 million in services through the AIDS Drug Assistance Program (ADAP) during the audit period.

If participants reported income, the Department required documentation such as a recent paycheck stub, Form W-2, Form 1099, or a Social Security Benefits Letter (SA1099). The Department also required participants to complete documentation if they declared zero income.

However, the Department did not have procedures to independently verify that participants reported all income.

As a result, there was an increased risk that the Department would pay for HIV services for people who were ineligible when those services could have been provided to eligible recipients. Individuals were ineligible if they had a gross family income that exceeded 300% of the Federal Poverty Guidelines⁶⁹.

In fact, the lack of independent income verification caused the Department to pay at least \$6,569⁷⁰ in benefits for ineligible participants who failed to disclose all income. Auditors tested the eligibility determinations for a random sample of 120 participants and found three (2.5%) who were ineligible because their incomes exceeded program limits. Specifically:

- One participant reported no income, but auditors found \$51,836 in income for one certification period⁷¹. The federal limit for this person was \$35,640. The Department paid \$3,214 in benefits for this participant during the audit period.
- A second participant reported \$39,298, but auditors found \$51,660 in income for the certification period. The federal limit for this person was \$47,790. The Department paid \$2,571 in benefits for this participant during the audit period.

⁶⁹ The North Carolina AIDS Drug Assistance Program (ADAP) handbook states that “to be eligible for ADAP, individuals must... have a gross family income that is equal to or less than 300% of the Federal Poverty Guidelines.”

⁷⁰ The \$6,569 is considered questioned costs. Uniform Guidance 2 CFR 200.516(a)(3) - In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor must also report known questioned costs when likely questioned costs are greater than \$25,000 for a type of compliance requirement for a major program.

⁷¹ Participants are recertified for program eligibility in January and July of each year.

- A third participant reported \$33,192, but auditors found \$40,988 in income for the certification period. The federal limit for this person was \$35,310. The Department paid \$784 in benefits for this participant during the audit period.

According to the Department, staff did not have access to a system that could identify undisclosed income. The business office of the Division of Public Health (DPH), the Division that administers the program, has requested access to the Online Verification (OLV)⁷² system that auditors used to identify the unreported income. However, the Division of Social Services (DSS) has not granted DPH access. DSS provides access to the data and does not believe the data in OLV will assist DPH with income verification. DPH has not identified another source of data to use.

However, federal regulations⁷³ require the Department to “establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.” An independent search for unreported income would be an effective control over compliance.

Similar aspects of this finding were reported in the 2015 Statewide Single Audit as finding number 2015-088.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.917 (HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)); Federal Award Number (award period): X07HA00051-25-00 (April 1, 2015 – March 31, 2016), X08HA16859-07-00 (September 30, 2015 – September 29, 2016)

Recommendation: Department management should provide the Division of Public Health with OLV access or develop a process to verify whether participants have unreported income that would make them ineligible for the program.

Agency Response: The Department will evaluate options for independently verifying that Ryan White HIV Formula Care Grant participants report all their income when applying for benefits or when benefits are recertified and implement one if a cost-effective process is identified that is determined to be necessary to provide reasonable assurance that the award is managed in compliance with federal requirements.

Utilizing the Online Verification (OLV) system for the purpose of determining that a Ryan White HIV Formula Care Grant participant reported all his/her income is not permitted under the terms of the Information Exchange Agreement (IEA) between the Department and the Social Security Administration (SSA). The IEA specifically states that data in the OLV provided by the SSA is owned by the SSA and that “The State Agency will use each identified data exchange system only for the purpose of administering the specific program for which access to the data exchange system is provided. SSA data exchange systems are protected by the Privacy Act and Federal law prohibits the use of SSA data for any purpose other than the purpose of administering the specific program for which such data is disclosed.” The Ryan White HIV Formula Care Grant administered by the

⁷² OLV provides a single source for verifying data gathered during the eligibility determination process, and allows a caseworker to search for required information from various state and federal systems.

⁷³ 2 CFR 200.303

Division of Public Health is not listed as a program for which the SSA data provided pursuant to the IEA may be used.

Thus, the Department will evaluate other options.

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This audit required 20,646 hours of auditor effort at an approximate cost of \$2,126,538. The cost of the specialist's effort was \$159,108. As a result, the total cost of this audit was \$2,285,646.