State of North Carolina

Office of The State Auditor

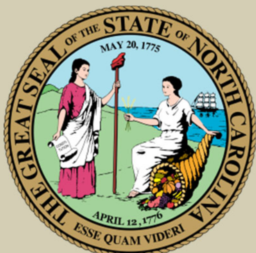
Beth A. Wood, CPA

North Carolina Department of Health and Human Services

Raleigh, North Carolina

Statewide Federal Compliance Audit Procedures

For the Year Ended June 30, 2020



Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

PAGE

AUDITOR'S TRANSMITTAL .... ……….1

FINDINGS, RECOMMENDATIONS, AND VIEWS OF RESPONSIBLE OFFICIALS OF THE AUDITEE

MARYLEE ALLEN PROMOTING SAFE AND STABLE FAMILIES 4

ADOPTION ASSISTANCE 5

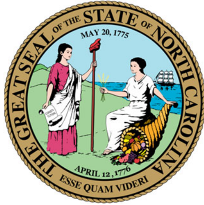
CHILDREN'S HEALTH INSURANCE PROGRAM 6

MEDICAID CLUSTER – MEDICAL ASSISTANCE PROGRAM........................... 6

ORDERING INFORMATION 14

Chapter 147, Article 5A 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.

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
https://www.auditor.nc.gov

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 the types of requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of 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, 2020.

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. However, the results included herein are 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*.

Our federal compliance audit scope at the North Carolina Department of Health and Human Services included the following:

- SNAP Cluster:
  - CFDA 10.551 – Supplemental Nutrition Assistance Program (SNAP)
  - CFDA 10.561 - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
- CFDA 84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States
- CFDA 93.556 – MaryLee Allen Promoting Safe and Stable Families
- CFDA 93.658 – Foster Care – Title IV-E
- CFDA 93.659 – Adoption Assistance
- 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 of Health Care Providers and Suppliers (Title XVIII) Medicare
  - CFDA 93.778 – Medical Assistance Program (Medicaid; Title XIX)

Our audit was performed by authority of Chapter 147, Article 5A of the *North Carolina General Statutes*.

We conducted our audit of compliance in accordance with the 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 consider necessary in the circumstances.

Other Matters

Compliance

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 and which are described in findings 2 and 5 in the Findings, Recommendations, and Views of Responsible Officials of the Auditee section.

Internal Controls

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 the Department's 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. Therefore, material weaknesses and significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we consider the deficiencies described in the Findings, Recommendations, and Views of Responsible Officials of the Auditee section to be significant deficiencies in internal control over compliance.

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 Views of Responsible Officials of the Auditee section of this transmittal. 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 responses.

Purpose of This Transmittal

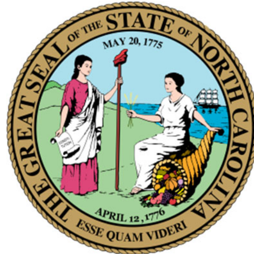
The purpose of this transmittal is solely to describe the scope of our testing of internal control over compliance and testing of compliance and the results of that testing at the North Carolina Department of Health and Human Services based on the requirements of the Uniform Guidance. Accordingly, this transmittal is not suitable for any other purpose.

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 transmittal.

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 22, 2021



Findings, Recommendations, and Views of Responsible Officials of the Auditee

Matters Related to Federal Compliance Audit Objectives

CFDA 93.556 – MARYLEE ALLEN PROMOTING SAFE AND STABLE FAMILIES

1. INADEQUATE MONITORING OF PROGRAM EXPENDITURES

The Department did not monitor counties that received funds for family reunification services for the Promoting Safe and Stable Families grant. During the audit period, the Department provided $3.4 million in family reunification service funds to counties.

Inadequate monitoring increased the risk that the Department would not detect if funds intended to be spent reuniting separated families were not used in accordance with federal regulations. As a result, families otherwise eligible for assistance may not have been served.

According to Department management, they did not have procedures in place to ensure that the funds spent for family reunification services were in compliance with federal regulations.

Federal regulations[1] require the Department to "establish and maintain effective internal control over the federal award that provides reasonable assurance that the Department is managing the program in compliance with federal statutes, regulation, and the terms and conditions of the federal award." Monitoring the funds sent to the counties would be an effective control over compliance.

This finding was previously reported in the 2019 Statewide Single Audit as finding number 2019-054.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.556 (MaryLee Allen Promoting Safe and Stable Families); Federal Award Identification Numbers (award periods): G-1801NCFPSS (October 1, 2017 – September 30, 2019), G-1901NCFPSS (October 1, 2018 – September 30, 2020), and 2001NCFPSS (October 1, 2019 – September 30, 2021).

Recommendation: Department management should prioritize the implementation of procedures to ensure that the funds spent for family reunification services are in compliance with federal regulations.

Views of Responsible Officials of the Auditee: The Department agrees with the finding. In 2020, the NC Division of Social Services (DSS) convened a Family Reunification Monitoring Steering Committee that developed procedures, devised the monitoring plan, and updated the Family Reunification Services Policy and the Service Information System (SIS) Code Definitions to reflect the new monitoring procedures. Implementation of the monitoring activities was delayed by the COVID-19 Pandemic.

[1] 2 CFR 200.303 - Internal controls

CFDA 93.659 – ADOPTION ASSISTANCE

2. DEFICIENCIES IN THE ADOPTION ASSISTANCE TITLE IV-E ELIGIBILITY DETERMINATION PROCESS

The North Carolina Department of Health and Human Services (Department) made Adoption Assistance Title IV-E payments based on inaccurate eligibility determinations. During the audit period, approximately 13,000 families received $59.2 million in Adoption Assistance Title IV-E benefits.

The task of determining eligibility for the Adoption Assistance Title IV-E program has been delegated to the county departments of social services (DSS).[2] However, the Department was responsible for ensuring compliance with the eligibility requirements.

Auditors reviewed the client case files for a sample of 60 families that received Adoption Assistance Title IV-E payments during the audit period and found one (1.7%) beneficiary that was not eligible. The child was not eligible to receive Title IV-E subsidy assistance because they did not meet any of the categorial eligibility requirements for a non-applicable child.[3] The Department paid $7,608 ($5,338 federal share) on behalf of this beneficiary during the audit period.

Even though the test identified only $5,338 in questioned costs, if tests were extended to the entire population, questioned costs could be greater than $25,000.[4]

As a result, there is an increased cost for the Adoption Assistance Title IV-E program for the federal government and the federal share could have been used to provide other services.

According to the Department, the eligibility error occurred because of inaccurate application of established eligibility policies by the county DSS staff. The county DSS staff are responsible for collecting documentation and making the eligibility determinations, however, the Department is responsible for establishing the eligibility determination policies and training the county DSS staff.

Federal regulations[5] require that under any adoption assistance agreement entered into by a State with parents who adopt a child with special needs, the State may make adoption assistance payments to such parents...in amounts so determined, if the child meets the eligibility requirements of the program.[6]

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.659 (Adoption Assistance) Federal Award Identification Numbers (award periods): 1901NCADPT (October 1, 2018 - September 30, 2019); 2001NCADPT (October 1, 2019 - September 30, 2020).

---

[2] *North Carolina General Statute* §108A-25(b).

[3] A non-applicable child would be categorically eligible if: (1) they were eligible or would have been eligible for the former Aid to Families with Dependent Children (AFDC) program; or (2) the child is eligible for Supplemental Security Income (SSI); or (3) the child is a child whose costs in a foster family home or childcare institution are covered by the foster care maintenance payments made with respect to his/her minor parent.

[4] 2 CFR 200.516(a)(3) requires auditors to report known questioned costs when likely questioned costs are greater than $25,000 for a type of compliance requirement for a major program.

[5] 42 USC 673(a)(1)(B)(ii)

[6] 42 USC 673(a)(2)(A)

Recommendation: Department management should provide adequate training and retraining as necessary to ensure that county DSS staff perform Adoption Assistance Title IV-E eligibility determinations correctly.

In addition, Department management should determine if Title IV-E funds should be recouped.

Views of Responsible Officials of the Auditee: The Department agrees with this finding. The beneficiary was eligible for Adoption Assistance; however, the county department of social services (DSS) staff made an error in assigning the funding source as Title IV-E as opposed to Title IV-B. The State DSS notified the County of the inaccurate eligibility determination. In September 2020, the County paid back the Title IV-E share for the period the error applied and claimed any allowable Title IV-B funds for that period. The County DSS will continue to claim Title IV-B funds for this beneficiary going forward.

CFDA 93.767 – CHILDREN'S HEALTH INSURANCE PROGRAM (CHIP)

CFDA 93.778 – MEDICAL ASSISTANCE PROGRAM

3. DEFICIENCIES IN THE CHIP AND MEDICAID PROVIDER ENROLLMENT AND TERMINATION PROCESS

The North Carolina Department of Health and Human Services' (Department) contracted agent did not properly screen and enroll Children's Health Insurance Program (CHIP) and Medicaid providers. The Department paid approximately $12.1 billion in Medicaid funds and $631.8 million in CHIP funds to 19,094[7] providers during the fiscal year ended June 30, 2020.

The Division of Health Benefits[8] (DHB) contracts with General Dynamics Information Technology (GDIT) to screen and enroll providers. However, the Department is responsible for establishing the enrollment screening policies and procedures and monitoring GDIT's work.

Auditors examined the enrollment screening documentation maintained in NCTracks[9] for a sample of 93 providers that received CHIP or Medicaid payments during the audit period. Auditors found that one or more errors occurred in 34 (36.6%) provider records. Specifically:

- In 18 (19.4%) provider records, there was no evidence that GDIT checked credentials (licenses, accreditations or certifications) for organization providers when their enrollment[10] was re-validated.
- In 14 (15%) provider records, GDIT searches of the Centers for Medicare and Medicaid Services (CMS) Adverse Action Report[11] and the North Carolina Provider Penalty database were performed using incorrect Social Security Numbers (SSN),

---

7 Once a provider is enrolled they can provide services to participants in both the CHIP and Medicaid program.
8 The Division of Health Benefits is the division within the Department that is responsible for administering the CHIP and Medicaid program.
9 Providers use NCTracks to complete the enrollment application to become a licensed provider in North Carolina.
10 Providers must re-validate their enrollment every five years and terminated providers must re-enroll.
11 Formerly known as the Center for Medicare and Medicaid Services Medicaid and Children's Health Insurance Program State Information Sharing System (MCSIS) database.

Employer Identification Numbers (EIN) or National Provider Information (NPI)[12] and some searches excluded relevant information such as name and SSN.

- In 4 (4.3%) provider records, there was no evidence that GDIT performed background checks or performed searches of the CMS Adverse Action Report or the North Carolina Provider Penalty database for owners, office administrators, managing employee, and/or providers.
- In 3 (3.2%) provider records, there was no evidence that GDIT followed up on the results from background checks or North Carolina Penalty database searches to determine if the information would make the provider ineligible for enrollment.
- In 2 (2.2%) provider records, there was no evidence that a site visit was performed when the providers were designated as moderate categorical risk.

Effective provider enrollment screening is an important tool in preventing fraud. When providers are not screened and enrolled properly it increases the risk that ineligible providers will be paid for services provided to CHIP and Medicaid program recipients. Keeping ineligible entities and individuals from enrolling in the State's CHIP and Medicaid program as providers reduces the likelihood that extensive resources would be needed to identify and recover overpayments from fraudulent providers.

According to Department management, the errors occurred during the provider enrollment screening process for two reasons.

First, credentials were not checked for organization providers during re-validation because the Department's automated verification process they implemented in 2017 did not include checking credentials for all provider types, such as organization providers.

Second, the other errors were caused by GDIT's failure to follow established procedures even though the information was available in NCTracks that would have allowed them to perform the enrollment screening procedures correctly.

Federal regulations require providers to be licensed in accordance with federal, state, and local laws and regulations. Additionally, providers are required to be screened and enrolled in accordance with 42 CFR part 455, subpart E. Specifically:

- Federal regulation[13] requires that the State Medicaid agency must have a method to verify that any provider purporting to be licensed in accordance with the laws of any State is licensed by such State and confirm that the provider's license has not expired and that there are no current limitations on the provider's license.
- Federal regulation[14] requires that the State Medicaid agency must confirm the identity and determine the exclusion status of providers and any person with an ownership or control interest or who is an agent or managing employee of the provider through routine checks of federal databases.
- Federal regulation[15] requires that the State Medicaid agency must require providers to consent to criminal background including fingerprinting checks when

[12] NPI is a unique 10-digit number used to identify health care providers.
[13] 42 CFR 455.412
[14] 42 CFR 455.436(a)
[15] 42 CFR 455.434(a)

required to do so under state law or by the level screening based on fraud, waste or abuse as determined for that category of provider.

- Federal regulation[16] requires the State Medicaid agency to conduct pre-enrollment and post-enrollment site visits for providers who are designated as “moderate” or “high” categorical risk for the Medicaid program.

The North Carolina State Plan[17] (Plan) also requires specific certification and accreditation credentials to be verified during the re-validation process. Additionally, the Plan also requires the Medicaid State agency to check any other databases as the Secretary may prescribe such as the online North Carolina Provider Penalty Tracking database that is maintained by the Department.

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 Identification Numbers (award periods): 1905NC5021 (October 1, 2018 – September 30, 2019) and 2005NC5021 (October 1, 2019 – September 30, 2020).

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.778 (Medical Assistance Program (Medicaid; Title XIX)); Federal Award Identification Numbers (award periods): 1905NC5MAP (October 1, 2018 to September 30, 2019) and 2005NC5MAP (October 1, 2019 – September 30, 2020).

Recommendation: Department management should make the necessary changes to the automated verification process to ensure that credentials are checked for all providers types.

Additionally, Department management should strengthen their monitoring procedures to ensure that GDIT is properly screening and enrolling providers. The Department should determine if GDIT's failure to follow established enrollment screening policies and procedures is an indicator that they are not meeting the terms and conditions of their contract/service agreement with the Department.

Views of Responsible Officials of the Auditee: The Department agrees with the screening errors noted in this finding and had taken steps to address some of the issues prior to the audit. The Department implemented automated background checks and automated site visit notifications and tracking in July 2017 and July 2018, respectively. In addition, the Department is working to implement an automated solution to conduct screening searches of the NC Provider Penalty Tracking database and the CMS Adverse Action Report in an effort to reduce the risk of human error in the provider screening process. Upon the ending of the public health emergency, the Department will implement primary source verification of provider license credentials during re-verification and enhance application monitoring procedures to include specific reviews of background check results when issues are noted.

---

[16] 42 CFR 455.432

[17] The State Plan is an agreement between a state and the federal government describing how that state administers its CHIP and Medicaid program.

4. CHIP AND MEDICAID PROVIDER ENROLLMENT SCREENING PROCESS NEEDS IMPROVEMENT

The North Carolina Department of Health and Human Services (Department) does not have procedures in place to verify the accuracy of some of the disclosures made by providers during the Children's Health Insurance Program (CHIP) and Medicaid enrollment[10] screening process.

While performing procedures to test the Department's provider eligibility enrollment screening process, auditors performed a search of the North Carolina Secretary of State's (SOS) Business Registration Database[18] to determine if providers omitted the name, address, date of birth and Social Security number of any person with an ownership or control interest or who is an agent or managing employee of the entity in their enrollment disclosures.

Auditors performed the search on a sample of 93 providers that received CHIP and Medicaid payments during the audit period and found the following:

- Four (4.3%) providers included an owner in the business registration filings they provided to the SOS that they did not include in their provider enrollment disclosures.
- Twenty (21.5%) providers included an agent or managing employee (this includes Presidents, Vice Presidents, and Officers) in the business registration filings they provided to the SOS that they did not include in their provider enrollment disclosures.

These providers received $340,000 in CHIP payments and $9.2 million in Medicaid payments during the audit period.

When providers do not accurately disclose all individuals that have an ownership, or control interest or who is an agent or managing employee of the entity,[19] required screenings, such as credential verifications, background checks, and searches of federal and state penalty databases cannot be performed. This increases the risk that ineligible providers could be enrolled in the CHIP and Medicaid program.

According to Department management, the State's provider enrollment system, NCTracks[9] has been designed to make providers aware of all disclosures that are required under the federal regulations[19] however it is up to the provider to disclose any information that is relevant to them. Because there is no specific federal regulation that requires the Department to verify the accuracy of the ownership, control interest, agent or managing employee disclosures, they have not developed any procedures to verify this information.

Federal regulations[20] require the State Medicaid agency (Department) to terminate the provider's enrollment or deny enrollment of the provider if the provider or a person with an ownership or control interest or who is an agent or managing employee of the provider fails to submit timely or accurate information. And while not required, the Centers for

[18] The Secretary of State ensures uniform compliance with the statutes governing the creation of business entities, records the information required to be kept as a public record, and provides that information to the public. Link to the NC SOS Database - https://www.sosnc.gov/search/index/corp.

[19] 42 CFR 455.104(b)

[20] 42 CFR 455.416(d)

Medicare & Medicaid Services (CMS) recommends[21] as a best practice; screening the information disclosed by an organizational provider under 42 CFR 455.104 against any data available from state business licensure boards.

In addition, federal regulations[1] require the Department to "establish and maintain effective internal control over the federal award that provides reasonable assurance that the Department is managing the program in compliance with federal statutes, regulations, and the terms and conditions of the federal award" and using the Secretary of State's Business Registration Database to determine if a provider failed to include anyone with an ownership or control interest or who is an agent or managing employee of the entity in their enrollment disclosures, would be an effective internal control over compliance.

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 Identification Numbers (award periods): 1905NC5021 (October 1, 2018 – September 30, 2019) and 2005NC5021 (October 1, 2019 – September 30, 2020).

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.778 (Medical Assistance Program (Medicaid; Title XIX)); Federal Award Identification Numbers (award periods): 1905NC5MAP (October 1, 2018 to September 30, 2019) and 2005NC5MAP (October 1, 2019 – September 30, 2020).

Recommendation: Department management should develop procedures to verify the accuracy of the ownership, control interest, agent or managing employee disclosures made by the provider during the enrollment process, such as using the data available in the North Carolina Secretary of State's Business Registration Database.

Views of Responsible Officials of the Auditee: The Department agrees with the finding. While verification of ownership and control information is not required by CMS and any such omitted disclosure does not indicate an ineligible provider, the Department acknowledges that when the information is available to the Department, attempting such verification is a best practice and viable method of strengthening the integrity of the Medicaid program. The Department will evaluate the methods and information available to verify the accuracy of ownership and control information submitted by providers and implement appropriate policies and procedures to adequately screen providers in accordance with federal regulations.

CFDA 93.778 – MEDICAL ASSISTANCE PROGRAM

5. ERRORS IN MEDICAID PROVIDER BILLING AND PAYMENT PROCESS

The North Carolina Department of Health and Human Services (Department) made overpayments to Medicaid providers during state fiscal year 2020. During that period, the Department processed more than 125 million payments for fee-for-service claims totaling $8.95 billion.

[21] Medicaid Provider Enrollment Compendium - policy manual that contains sub regulatory guidance and clarifications regarding how state Medicaid agencies are expected to comply with 42 CFR 455 Subpart B "Disclosure of information by Providers and Fiscal agents," and Subpart E "Provider Screening and Enrollment."

Auditors reviewed the medical documentation for a sample of 124 fee-for-service claims totaling approximately $33,536 and identified 2 (1.6%) claims that contained errors. Specifically:

- 1 (0.8%) claim contained medical coding errors which impacted the payment calculation.
- 1 (0.8%) claim lacked documentation to support the services rendered by the provider.

In addition, auditors recalculated the payment amount for a sample of 60 fee-for-service claims totaling approximately $8,596 and identified one (1.7%) claim that was reimbursed at the incorrect rate.

Even though the tests identified only $55 in overpayments (federal share $40), if tests were extended to the entire population, questioned costs could be greater than $25,000.[22]

As a result, there is an increased cost to the Medicaid Program for both the State and Federal government. The program is jointly financed by these two governments, and is administered by the State. Additionally, the overpaid funds could have been used to provide other services.

According to the Department, the documentation and coding errors were due to clerical errors and inadequate documentation being kept by the health care providers.

The other error occurred because of General Dynamics Information Technology (GDIT)[23] misunderstanding of the Division of Health Benefits[24] (DHB) instructions for reprocessing claims during the Coronavirus healthcare pandemic.

Federal regulations[25] 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 agreement[26] 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 previously reported in the 2019 Statewide Single Audit as finding number 2019-058.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.778 (Medical Assistance Program (Medicaid; Title XIX)); Federal Award Identification Number (award period): 2005NC5MAP (October 1, 2019 to September 30, 2020).

Recommendation: Department management should analyze each error and take immediate and appropriate corrective action including, but not limited to, education of providers and on-site or focused reviews.

---

22 2 CFR 200.516(a)(3) requires auditors to report known questioned costs when likely questioned costs are greater than $25,000 for a type of compliance requirement for a major program.
23 GDIT is the State's Medicaid claims processing contractor.
24 The Division of Health Benefits is the Division within the Department that is responsible for administering the Medicaid Program.
25 2 CFR 200.403
26 In accordance with 42 CFR 431.107

In addition, Department management should follow up with GDIT to determine if there are other claims that were not reprocessed correctly. Any identified overpaid claims should be followed-up for timely and appropriate collection.

Views of Responsible Officials of the Auditee: The Department agrees with this finding. The Department is dedicated to claims payment accuracy and continues to work with providers to minimize errors in the claims payment process. The Department is pleased that the error rates noted in the report are well below the Centers for Medicare and Medicaid Services Payment Error Rate Measurement (PERM) error rate goal for NC of 3.2%. The Department will analyze each error and take immediate and appropriate corrective action, including recouping any overpayments identified as questioned costs, emphasizing provider education where necessary and following up with the fiscal agent to clarify and correct any claims reprocessing issues.

6. LACK OF QUALITY ASSURANCE PROCEDURES INCREASED RISK OF UNDETECTED ERRORS

The North Carolina Department of Health and Human Services (Department) does not have written monitoring procedures in place for some contractors who help ensure that Medicaid services, products and procedures are medically necessary.

There are five contractors who help ensure that Medicaid services, products, and procedures provided to recipients are medically necessary. Auditors found that the Department does not have written quality assurance monitoring procedures for two of those contractors.

Because the Department did not have written monitoring procedures in place for these contractors, they cannot ensure that prior approval requests are accurately approved or denied which increases the risk that errors (i.e. services rendered that would have been denied) could have occurred and remained undetected. During the audit period these two contractors processed approximately $150.3 million in Medicaid claims for services that required a prior approval.

According to Department management, they were in the process of completing the monitoring plans, however they had to reallocate resources to meet the demands placed on the Division of Health Benefits[24]caused by the Coronavirus healthcare pandemic.

In accordance with Session Law 2010-194, the NC Department of Administration has established rules and regulations which specify the manner in which State agencies shall monitor and enforce the terms of contracts. The State's Contract and Procurement Office's Contract Administration Guide includes a Contract Monitoring Checklist which states that it is the responsibility of each agency to ensure all contractual obligations are met and that contract monitoring is documented which includes having written documented contract monitoring procedures and methodology.[27]

Furthermore, federal regulations[1] require the Department to "establish and maintain effective internal control over the federal award that provides reasonable assurance that the Department is managing the program in compliance with federal statutes, regulations, and the terms and conditions of the federal award." Establishing written quality assurance monitoring procedures would be an effective control over compliance.

[27] https://files.nc.gov/ncdoa/pandc/Documents/Contract-Administration-and-Monitoring-Guide/Contract-Administration-Guide.pdf

This finding was previously reported in the 2019 Statewide Single Audit as finding number 2019-060.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.778 (Medical Assistance Program (Medicaid; Title XIX)); Federal Award Identification Numbers (award periods): 1905NC5MAP (October 1, 2018 to September 30, 2019) and 2005NC5MAP (October 1, 2019 – September 30, 2020).

Recommendation: Department management should prioritize developing written quality assurance monitoring procedures for all contractors who help ensure that Medicaid services, products and procedures are medically necessary.

In addition, Department management should establish a contingency plan to ensure continuity of operations when unforeseen events occur.

Views of Responsible Officials of the Auditee: The Department agrees with this finding. During State Fiscal Year (SFY) 2020, the Department was engaged in an effort to enhance the documentation of the monitoring procedures for contracted vendors which provide prior approval of Medicaid services. While documentation of the monitoring plans for the two vendors noted in the audit was not completed by June 30, 2020, documentation for one of the vendors was completed and implemented in July 2020. Due to the suspension of prior approvals during the public health emergency that began in March 2020, completion of the remaining monitoring plan is delayed and is currently targeted for August 2021, pending adjustments to the public health emergency period. Despite the lack of formal documented procedures, monitoring activities for the two vendors were conducted during the state fiscal year. While it is not certain that lack of documentation had an impact on funds paid for prior authorized services, the updated monitoring plans will ensure the vendors are reviewing and approving prior authorizations in accordance with the Department's requirements when prior approvals are reinstated.

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: http://www.auditor.nc.gov

To report alleged incidents of fraud, waste or abuse in state government contact the Office of the State Auditor Fraud Hotline:

Telephone:1-800-730-8477

Internet: http://www.auditor.nc.gov/pub42/Hotline.aspx

For additional information contact the
North Carolina Office of the State Auditor at:
919-807-7666

This audit required 14,897 hours of auditor effort at an approximate cost of $1,549,288. The cost of the specialist's effort was $90,569. As a result, the total cost of this audit was $1,639,857.