

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

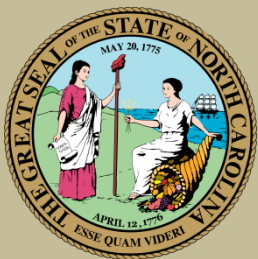


## NORTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES

RALEIGH, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2022



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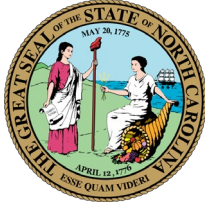
**Beth A. Wood, CPA**  
**State Auditor**

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



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## **AUDITOR'S TRANSMITTAL**

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The Honorable Roy Cooper, Governor  
The General Assembly of North Carolina  
Kody Kinsley, 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 (Department) for the year ended June 30, 2022.

We conducted our audit of federal 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). Our audit objective was to express an opinion on the State of North Carolina's compliance for each of its major federal programs. However, 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. The State Auditor expresses an opinion on the State of North Carolina's compliance with requirements applicable to its major federal programs in the State's *Single Audit Report*.

Our federal compliance audit scope at the Department included the following:

- Emergency Solutions Grant Program (Assistance Listing Number 14.231)
- Coronavirus State and Local Fiscal Recovery Funds (Assistance Listing Number 21.027)
- Aging Cluster:
  - Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers (Assistance Listing Number 93.044)
  - Special Programs for the Aging, Title III, Part C, Nutrition Services (Assistance Listing Number 93.045)
  - Nutrition Services Incentive Program (Assistance Listing Number 93.053)

- Immunization Cooperative Agreements (Assistance Listing Number 93.268)
- Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) (Assistance Listing Number 93.323)
- Temporary Assistance for Needy Families (Assistance Listing Number 93.558)
- Social Services Block Grant (Assistance Listing Number 93.667)
- Medicaid Cluster:
  - State Medicaid Fraud Control Units (Assistance Listing Number 93.775)
  - State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare (Assistance Listing Number 93.777)
  - Medical Assistance Program (Assistance Listing Number 93.778)
- HIV Care Formula Grants (Assistance Listing Number 93.917)
- Block Grants for Prevention and Treatment of Substance Abuse (Assistance Listing Number 93.959)
- Disability Insurance/SSI Cluster:
  - Social Security Disability Insurance (Assistance Listing Number 96.001)

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

### 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, 4, 9, 10, 11, 12, 13, and 14 in the Findings, Recommendations, and Views of Responsible Officials of the Auditee section.

### Internal Control Over Compliance

In planning and performing our audit of federal 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 the Department's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's 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 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. However, as discussed in the Findings, Recommendations, and Views of Responsible Officials of the Auditee section, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies. The deficiencies described in findings 13 and 14 are considered to be material weaknesses in internal control over compliance. Furthermore, the deficiencies described in findings 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, and 12 are considered 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 Department based on the requirements of the Uniform Guidance. Accordingly, this transmittal is not suitable for any other purpose.

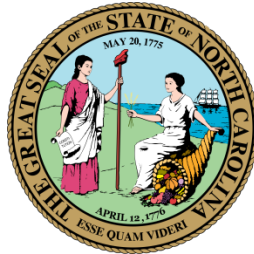
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this transmittal.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

March 24, 2023



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

**Matters Related to Federal Compliance Audit Objectives****ALN 14.231 – EMERGENCY SOLUTIONS GRANT PROGRAM**

## 1. SUBRECIPIENTS WERE NOT PAID TIMELY

The Department of Health and Human Services (Department) paid subrecipients of the Emergency Solutions Grant Program (ESGP) more than 30 days after receiving the payment request. During the audit period, the Department paid \$24.2 million to ESGP subrecipients.

Auditors tested a sample of 40 subrecipient payments totaling \$365,000 and found that 25 (63%) payments were not paid until 31 to 153 days after receiving the payment requests.

Subrecipients rely on ESGP funding to improve the number and quality of emergency shelters, provide essential services to shelter residents, re-house homeless individuals and families, and prevent families and individuals from becoming homeless. When subrecipients do not receive grant funds in a timely manner, it could impact their ability to provide these services to some of the states' most vulnerable citizens.

According to Department management, subrecipients were not paid timely because of staffing shortages and a significant increase in workload. In addition to the annual ESGP allocation, the Department received additional funding through the Coronavirus Aid, Relief and Economic Security (CARES) Act. The additional funding significantly increased the number of subrecipient payment requests that needed to be processed, and the combination of key staff positions being vacant and the increase in the workload caused delays in processing the payments.

Federal regulations<sup>1</sup> require the Department to pay each subrecipient within 30 days after receiving the subrecipient's payment request.

*Federal Award Information:* Federal Awarding Agency: U.S. Department of Housing and Urban Development; Assistance Listing Number (title): 14.231 (Emergency Solutions Grant Program); Federal Award Identification Numbers (award periods): E-20-DC-37-001 (September 2, 2020 – September 2, 2022) and E-20-EW-37-001 (COVID-19) (July 8, 2020 – July 8, 2022).

*Recommendation:* Department management should establish a contingency plan to ensure continuity of operations when workloads increase, and staffing shortages occur.

*Views of Responsible Officials of the Auditee:* Management agrees with this finding. During the time period within the scope of this audit, three-fourths of the Division of Aging and Adult Services Budget Office positions were vacant. This was also the period of time when the COVID-19 pandemic began, and a significant amount of additional grant funding was received for Emergency Solutions Grant (ESG) and other programs. The combination of staff vacancies and the increased workload resulting from the rapid increase in new funding resulted in delays to approving payments to subrecipients.

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<sup>1</sup> 24 CFR 576.203(c).



**ALN 93.268 – IMMUNIZATION COOPERATIVE AGREEMENTS****2. IMMUNIZATION FUNDS USED FOR UNALLOWABLE ACTIVITIES**

The Department of Health and Human Services (Department) incorrectly used \$127,676 of Immunization Cooperative Agreements (Immunization) program funds. During the audit period, the Department spent \$101.2 million in Immunization funds to establish and maintain health services programs for vaccine-preventable diseases.

The Department entered into contracts with vendors and subrecipients (collectively called agreements), to administer the Immunization program. Auditors tested 26<sup>2</sup> of the 145 agreements that had expenditures totaling \$13.3 million and found one (4%) agreement that used the funds on activities not allowed by the Immunization program.

As a result, the \$127,626 is considered questioned costs<sup>3</sup> and the Department may be required to pay the funds back to the federal government. In addition, the funds could have been used on activities that help control the spread of infectious diseases through immunization.

According to Department management, unallowable activities were charged to the Immunization program because a purchase order was mistakenly issued using the incorrect funding source and it was not detected during the review and approval process.

Federal regulations<sup>4</sup> require Immunization program funds be used by states to assist them in meeting the costs of establishing and maintaining preventive health service programs.

In addition, federal regulations<sup>5</sup> require costs to be necessary and reasonable; authorized; adequately documented, and consistent with the program regulations that apply to the federal award.

*Federal Award Information:* Federal Awarding Agency: U.S. Department of Health and Human Services; Assistance Listing Number (title): 93.268 (Immunization Cooperative Agreements); Federal Award Identification Number (award period): 6NH231P922624 (COVID-19) (July 1, 2019 - June 30, 2024).

*Recommendation:* Department management should ensure that staff responsible for reviewing and approving program spending have a clear understanding of the funding sources that can be used.

*Views of Responsible Officials of the Auditee:* The Department agrees with this finding regarding the SFY 22 audit of Immunization funds that found that \$127,626 was expended against the Immunization grant for consulting services in error. These expenditures were reclassified in September 2022 (SFY 23), which is after the audit period.

<sup>2</sup> The 26 items that were reviewed included three that were deemed individually important. These items were removed from the population and tested 100%. The other 23 items were selected from the remaining population. The identified error was one of the three individually important items.

<sup>3</sup> 2 CFR.200.516(a)(3) requires auditors to report known questioned costs that are greater than \$25,000 for a type of compliance requirement for a major program.

<sup>4</sup> 42 USC 247b(a).

<sup>5</sup> 45 CFR 75.403.



The Department, in responding to a once-in-a-lifetime, global pandemic, was engaged in multiple cross-departmental functions and activities; including contracts necessary to address the needs of the state throughout the pandemic. This included a significant number of contracts and purchases which had to be completed very quickly. We will ensure that staff responsible for reviewing and approving program spending have a clear understanding of the funding sources that can be used.

3. ERRORS IN FFATA REPORTING

The Department of Health and Human Services (Department) did not report complete and accurate subaward information for some subrecipients of the Immunization Cooperative Agreements grant to the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS).

Auditors reviewed all 186 subawards totaling \$42.9 million that were required to be reported to the FSRS during the audit period and found the following errors:

- 74 subawards totaling \$17.2 million were not reported at all.
- Two subawards totaling \$200,419 were overreported by \$171,081 because they were reported with incorrect amounts.

The FFATA was enacted to help reduce wasteful spending in government by empowering every American citizen with the ability to hold the government accountable for each spending decision. When subaward information is not reported to the FSRS or when it is reported incorrectly, citizens do not have complete and accurate information about how federal funds are being used in their communities.

According to Department management, the incomplete and inaccurate reporting occurred because staff prioritized vaccine allocation, distribution, and utilization over FFATA reporting requirements.

The FFATA<sup>6</sup> requires direct recipients of grants or cooperative agreements to report first-tier subawards of \$30,000 or more to the FSRS.

*Federal Award Information:* Federal Awarding Agency: U.S. Department of Health and Human Services; Assistance Listing Number (title): 93.268 (Immunization Cooperative Agreements) Federal Award Identification Numbers (award periods): 6NH23IP922624 (COVID-19) (July 1, 2019 – June 20, 2024) and 5NH23IP922624-03 (July 1, 2021 – June 30, 2022).

*Recommendation:* Department management should develop a contingency plan to ensure FFATA reporting is completed and reviewed for accuracy when priorities need to be shifted to meet other demands.

*Views of Responsible Officials of the Auditee:* The Department agrees with the finding and is developing plans to ensure accurate and complete reporting in accordance with the Federal Funding Accountability and Transparency Act (FFATA), specifically during times of business disruption such as a public health emergency.

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<sup>6</sup> 2 CFR 170 Appendix A.

Division of Public Health (DPH) staff were responding to a once-in-a-lifetime, global pandemic and were engaged in the largest mass vaccination efforts in modern public health history. The goal of the DPH Immunization Branch was to implement the COVID-19 Vaccination Program as a critical component to reduce COVID-19-related illnesses, hospitalizations, and deaths and to help restore societal functioning. As such, incomplete reporting occurred because DPH prioritized its limited staff and resources on vaccine allocation, distribution, and utilization over FFATA reporting requirements. Vaccines are one of the greatest success stories in public health and the COVID-19 vaccine is still a critical component of the United States' strategy to address the COVID-19 pandemic.

**ALN 93.558 – TEMPORARY ASSISTANCE FOR NEEDY FAMILIES**

4. DEFICIENCIES IN THE TANF ELIGIBILITY DETERMINATION PROCESS

The Department of Health and Human Services (Department) paid Temporary Assistance for Needy Families (TANF) benefits<sup>7</sup> to ineligible families based on inaccurate and inadequately documented eligibility determinations. During the audit period, approximately 56,600 families received \$129.3 million in TANF benefits.

The task of determining eligibility for the TANF program has been delegated to the county departments of social services (DSS).<sup>8</sup> However, the Department was responsible for ensuring compliance with the eligibility requirements, establishing eligibility determination policies, maintaining NC FAST<sup>9</sup>, and facilitating training.

Auditors redetermined eligibility for a sample of 93 families that had benefits totaling \$212,647 paid to or on their behalf during the audit period. Auditors found two (2.2%) families to be ineligible for cash assistance during the coverage period. Payments totaling \$4,935 were paid to these ineligible families.

In addition to the eligibility errors noted above, auditors also identified 10 families whose income calculations were inaccurate or whose case files were missing some of the required eligibility documentation. Examples of missing information included kinship verifications, required child custody statements, and online verification documentation. However, when auditors redetermined eligibility using the correct information, the families were found to be eligible.

As a result, there is an increased cost to the TANF program, and the funds could have been used to provide benefits to other eligible families. Even though the tests identified only \$4,935 that was paid to the ineligible families, if tests were extended to the entire population, questioned costs could be greater than \$25,000.<sup>10</sup>

According to Department management, the errors occurred because of inaccurate application of established eligibility policies by the county DSS staff.

<sup>7</sup> TANF benefits include cash assistance paid directly to eligible families and childcare subsidy assistance paid directly to childcare providers on behalf of eligible families.

<sup>8</sup> North Carolina General Statute 108A-27.6(a)(2).

<sup>9</sup> The North Carolina Families Accessing Services Through Technology (NC FAST) is the eligibility system used in the TANF program.

<sup>10</sup> 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.

Federal regulations<sup>11</sup> state that recipients are only eligible if they meet the requirements of a financially needy family with children. Further, state eligibility manuals<sup>12</sup> require documentation to support eligibility determinations.

*Federal Award Information:* Federal Awarding Agency: U.S. Department of Health and Human Services; Assistance Listing Number (title): 93.558 (Temporary Assistance for Needy Families); Federal Award Identification Numbers (award periods): 2101NCTANF (October 1, 2020 to September 30, 2022) and 2201NCTANF (October 1, 2021 to September 30, 2023).

*Recommendation:* Department management should analyze each error to specifically identify why the errors occurred and develop additional training for county DSS staff or establish other procedures as necessary to prevent future errors from occurring.

*Views of Responsible Officials of the Auditee:* Management agrees with this finding and will implement a correction action plan to appropriately assess the issue.

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

The Department of Health and Human Services (Department) submitted inaccurate Temporary Assistance for Needy Families (TANF) data to the U.S. Department of Health and Human Services' Administration for Children and Families (ACF). During the reporting period,<sup>13</sup> approximately 10,600 families received approximately \$26.3 million in cash assistance from the TANF program.

Auditors tested a sample of case files for 60 families from the quarterly performance reports that were submitted for the reporting period and found 10 (17%) cases where the number of months the participant received assistance was reported incorrectly.

In addition, the Department over-reported the total number of families receiving assistance by approximately 2,900 (27%) families.

The Department's failure to submit accurate data could lead to penalties. A penalty of 4%<sup>14</sup> of the adjusted State Family Assistance Grant (SFAG)<sup>15</sup> can be imposed for each quarter the Department fails to submit an accurate, complete, and timely report. Based on the federal fiscal year 2021 SFAG, the penalty could be up to \$10.2 million.

Furthermore, inaccurate data could impact the Department's Work Participation Rate<sup>16</sup> (WPR) calculation. The data collected in the quarterly performance report is used by ACF to determine whether the Department achieved the WPR. Failure to achieve the WPR could also result in additional penalties.

According to Department management, the quarterly performance reports submitted for federal fiscal year 2021 were not accurate due to a programming code error as well as

<sup>11</sup> 42 USC 601.

<sup>12</sup> North Carolina Work First Manual.

<sup>13</sup> Federal fiscal year 2021 (October 1, 2020 through September 30, 2021).

<sup>14</sup> 45 CFR 262.1 (a)(3).

<sup>15</sup> The SFAG is the fixed amount of the federal TANF funding for the state. The adjusted SFAG for federal fiscal year 2021 was \$253,766,744 per the September 30, 2021 TANF financial report (form ACF-196R).

<sup>16</sup> 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.

programming code changes needed after the transition to NC FAST<sup>17</sup>, which occurred in state fiscal year 2015. The Division of Social Services (DSS)<sup>18</sup> is aware of the code changes needed and has been working with the Department's NC FAST and IT staff to correct coding, criteria, and conversion issues related to the transition to NC FAST. However, they were unable to resolve all issues before submitting the federal fiscal year 2021 reports.

Federal regulations<sup>19</sup> require the Department to submit quarterly performance reports with data on the families receiving TANF assistance.

*Federal Award Information:* Federal Awarding Agency: U.S. Department of Health and Human Services; Assistance Listing Number (title): 93.558 (Temporary Assistance for Needy Families); Federal Award Identification Number (award period): 2101NCTANF (October 1, 2020 – September 30, 2022).

*Recommendation:* Department management should continue working with the NC FAST and IT staff to identify and correct unresolved programming code issues to ensure accurate reports are submitted.

In addition, until the programming code issues are resolved, Department management should design and implement alternative procedures to ensure accurate data is reported.

*Views of Responsible Officials of the Auditee:* Management agrees with this finding. The inaccurate reporting of a recipient's number of months received is a known issue and is a result of coding changes needed after the transition to NC FAST. NC FAST has created a 60 Month Time Clock table to capture this data, and the division is aware of the coding changes needed to use this table for reporting. This coding change is already on the ACF-199 project list but was unable to be completed prior to the submission of the FFY 21 data.

The inaccurate reporting regarding the number of families was due to a programming code error in which cases were not deduplicated for each report month. The incorrect code has been identified and will be corrected to ensure cases are only counted once per month.

6. FFATA REPORTING NOT COMPLETED

The Department of Health and Human Services (Department) did not complete the Federal Funding Accountability and Transparency Act (FFATA) reporting for the Temporary Assistance for Needy Families (TANF) program.

Auditors reviewed all 270 subawards totaling \$166.8 million that were required to be reported to the FFATA Subaward Reporting System (FSRS) during the audit period and found that none were reported as required.

The FFATA was enacted to help reduce wasteful spending in government by empowering every American citizen with the ability to hold the government accountable for each spending decision. When subaward information is not reported to the FSRS, citizens do

<sup>17</sup> The North Carolina Families Assessing Services Through Technology (NC FAST) is the eligibility system used for the TANF program and holds all of the underlying data about families that receive TANF Assistance.

<sup>18</sup> DSS is the division within the Department that is responsible for administering the TANF program.

<sup>19</sup> 45 CFR 265.3.

not have complete and accurate information about how federal funds are being used in their communities.

The TANF subawards were administered by two divisions within the Department and according to Department management.

- The Division of Social Services (DSS) did not complete the FFATA reporting for 182 subawards totaling \$98.5 million because significant turnover during the audit period reduced the number of staff available to carry out the FFATA reporting requirements.
- The Division of Child Development and Early Education (DCDEE) did not complete the FFATA reporting for the remaining 88 subawards totaling \$68.3 million because there was a misunderstanding as to who was responsible for completing the FFATA reporting.

The FFATA<sup>6</sup> requires direct recipients of grants or cooperative agreements to report first-tier subawards of \$30,000 or more to the FSRS.

*Federal Award Information:* Federal Awarding Agency: U.S. Department of Health and Human Services; Assistance Listing Number (title): 93.558 (Temporary Assistance for Needy Families); Federal Award Identification Numbers (award periods): 2101NCTANF (October 1, 2020 – September 30, 2022) and 2201NCTANF (October 1, 2021 - September 30, 2023).

*Recommendation:* Department management should prioritize the development of a contingency plan to ensure FFATA reporting is completed when employee turnover occurs.

Additionally, Department management should provide clear guidance about FFATA reporting responsibilities to all Department divisions.

*Views of Responsible Officials of the Auditee:* The Department agrees with the finding and is prioritizing the development of plans to ensure FFATA reporting compliance.

**ALN 93.667 – SOCIAL SERVICES BLOCK GRANT**

7. INADEQUATE SUBRECIPIENT MONITORING

The Department of Health and Human Services (Department) did not adequately monitor subrecipients<sup>20</sup> that received \$57.5 million in Social Services Block Grant (SSBG) funds during the audit period.

SSBG is administered by three divisions<sup>21</sup> within the Department and each division is responsible for monitoring the subrecipients that received SSBG funds. Auditors reviewed the monitoring activities over 28 of the 63 subrecipients and found that no monitoring was completed for 7 (25%) subrecipients that received \$3.6 million in SSBG funds.

<sup>20</sup> Subrecipients are counties, Local Management Entity/Managed Care Organizations (LME/MCOs), and non-governmental entities that use SSBG funds to provide a variety of services for individuals and families.

<sup>21</sup> The Department provides SSBG funds to subrecipients through the following Divisions: Division of Social Services, Division of Aging and Adult Services, and the Division of Mental Health/Developmental Disabilities/Substance Abuse Services.

Inadequate monitoring increases the risk that federal funds may not be used in accordance with federal requirements, which may reduce the funding available for providing essential services to individuals and families that help reduce dependency and promote self-sufficiency, and protect children and adults from neglect, abuse, and exploitation.

According to Department management, the seven subrecipients were not monitored because the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services implemented a pause in monitoring the Local Management Entity/Managed Care Organizations (LME/MCO's) due to the coronavirus pandemic; however, management did not get approval from the federal oversight agency. In addition, vacancies in positions responsible for overseeing the monitoring process prevented management from developing alternative monitoring methods during the pause.

Federal regulations<sup>22</sup> require the Department 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.

*Federal Award Information:* Federal Awarding Agency: U.S. Department of Health and Human Services; Assistance Listing Number (title): 93.667 (Social Services Block Grant) Federal Award Identification Numbers (award periods): 2101NCSOSR (October 1, 2020 - September 30, 2022) and 2201NCSOSR (October 1, 2021 – September 30, 2023).

*Recommendation:* Department management should obtain federal agency oversight approval to deviate from required processes and procedures.

In addition, Department management should establish contingency plans to ensure monitoring procedures are completed during employee turnover.

*Views of Responsible Officials of the Auditee:* Management agrees with the finding and recommendation. The seven subrecipients were not monitored because the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services prioritized support of the Department's ongoing response to the global COVID-19 pandemic (e.g., outreach, prevention, testing, vaccination). This resulted in a pause in monitoring the Local Management Entity/Managed Care Organizations (LME/MCO's). In addition, vacancies in positions responsible for overseeing the monitoring process prevented management from developing alternative monitoring methods during the pause.

## 8. FFATA REPORTING NOT COMPLETED

The Department of Health and Human Services (Department) did not complete the Federal Funding Accountability and Transparency Act (FFATA) reporting for the Social Services Block Grant (SSBG).

Auditors reviewed all 240 subawards totaling \$55.7 million that were required to be reported to the FFATA Subaward Reporting System (FSRS) during the audit period and found that none were reported as required.

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<sup>22</sup> 2 CFR 200.332(d).



The FFATA was enacted to help reduce wasteful spending in government by empowering every American citizen with the ability to hold the government accountable for each spending decision. When subaward information is not reported to the FSRS, citizens do not have complete and accurate information about how federal funds are being used in their communities.

The SSBG subawards were administered by two divisions within the Department and according to Department management.

- The Division of Social Services (DSS) did not complete the FFATA reporting for 230 subawards totaling \$41.3 million because significant turnover during the audit period reduced the number of staff available to carry out the FFATA reporting requirements.
- The Division of Mental Health, Developmental Disabilities and Substance Abuse Services (DMH/DD/SAS) did not complete the FFATA reporting for the remaining 10 subawards totaling \$14.4 million due to essential staff turnover across the Division.

The FFATA<sup>6</sup> requires direct recipients of grants or cooperative agreements to report first-tier subawards of \$30,000 or more to the FSRS.

*Federal Award Information:* Federal Awarding Agency: U.S. Department of Health and Human Services; Assistance Listing Number (title): 93.667 (Social Services Block Grant); Federal Award Identification Numbers (award periods): 2101NCSOSR (October 1, 2020 – September 30, 2022) and 2201NCSOSR (October 1, 2021 - September 30, 2023).

*Recommendation:* Department management should prioritize the development of a contingency plan to ensure FFATA reporting is completed when employee turnover occurs.

*Views of Responsible Officials of the Auditee:* The Department agrees with the finding and is prioritizing the development of plans to ensure FFATA reporting compliance.

## ALN 93.778 – MEDICAL ASSISTANCE PROGRAM

### 9. ERRORS IN MEDICAID PROVIDER BILLING AND PAYMENT PROCESS

The Department of Health and Human Services (Department) made overpayments to Medicaid providers during the fiscal year ended June 30, 2022. During that period, the Department processed more than 24 million original fee-for-service claims totaling \$8.1 billion in payments.

Auditors tested the medical documentation for a sample of 151<sup>23</sup> original fee-for-service claims totaling approximately \$19.0 million in payments and identified 14 (9.3%) claims that contained errors. Specifically:

- Auditors were not able to test six (4.0%) claims because the providers failed to provide the medical documentation to support the services that were billed,

<sup>23</sup> The 151 items that were tested included 27 items that were deemed individually important. These items were tested 100% and removed from the population. The other 124 items were selected from the remaining population.



resulting in overpayments totaling \$11,708 (federal share \$8,658).

- The medical documentation provided for eight (5.3%) claims did not support the services billed by the provider, resulting in overpayments totaling \$1,469 (federal share \$1,085).

In addition, auditors recalculated the payments for 87<sup>24</sup> original fee-for-service claims totaling approximately \$18.9 million and identified two (2.3%) maternity event claims that were reimbursed at the incorrect billing rate, resulting in net overpayments totaling \$125 (federal share \$93).

As a result, there is an increased cost to the Medicaid program which is jointly financed by the state and federal government and is administered by the state. In addition, when providers do not provide access to medical documentation or do not maintain documentation to support the services billed, it increases the risk of improper payments for ineligible services.

Even though the tests identified only \$13,302 in overpayments (federal share \$9,836), if tests were extended to the entire population, questioned costs could be greater than \$25,000<sup>10</sup> and the Department may be required to pay the funds back to the federal government.

According to Department management, there were several reasons for the errors:

- Providers did not respond to several requests by the Division of Health Benefits<sup>25</sup> to provide the medical documentation for audit purposes.
- Providers did not document and/or maintain adequate medical records to support the services billed in the claim.
- The maternity event claims were reimbursed at the incorrect billing rate because the Department did not provide rate changes to General Dynamics Information Technology (GDIT)<sup>26</sup> to update the claims processing system.<sup>27</sup>

Federal regulations<sup>28</sup> require costs to be adequately documented and consistent with program regulations that apply to the federal award. In addition, providers sign an agreement<sup>29</sup> that requires them to maintain records disclosing the extent of services furnished to recipients and, on request, furnish the records to the Department.

Furthermore, North Carolina General Statute 108C-11 requires providers to cooperate with all announced and unannounced audits. Providers who fail to grant prompt and

<sup>24</sup> The 87 claims that were recalculated included 27 items that were deemed individually important. These items were tested 100% and removed from the population. The other 60 items were selected from the remaining population.

<sup>25</sup> The Division of Health Benefits is the division within the Department responsible for administering the Medicaid program.

<sup>26</sup> GDIT is the state's Medicaid claims processing contractor.

<sup>27</sup> NCTracks is the Department's multi-payer Medicaid management information system. Providers use NCTracks to submit claims for payment.

<sup>28</sup> 2 CFR 200.403.

<sup>29</sup> In accordance with 42 CFR 431.107.

reasonable access or who fail to timely provide specifically designated documentation to the Department may be terminated from the North Carolina Medicaid program.

**This finding was previously reported in the 2021 Statewide Single Audit as finding number 2021-021.**

*Federal Award Information:* Federal Awarding Agency: U.S. Department of Health and Human Services; Assistance Listing Number (title): 93.778 (Medical Assistance Program); Federal Award Identification Numbers (award periods): 2105NC5MAP (October 1, 2020 – September 30, 2021) and 2205NC5MAP (October 1, 2021 – September 30, 2022).

*Recommendation:* Department management should determine if the failure to submit medical documentation should result in the providers' termination or suspension from participation in the Medicaid program.

In addition, Department management should analyze each error and follow-up on the overpaid claims to specifically identify corrective action such as further education of providers and recoupment of costs.

Lastly, Department management should work with GDIT to get the claims processing system updated with the correct rates so that the impacted claims can be reprocessed.

*Views of Responsible Officials of the Auditee:* The Division of Health Benefits (DHB) agrees with this finding. DHB is dedicated to claims payment accuracy and continues to work with providers to minimize errors in the claims payment process. DHB will analyze each error and take immediate and appropriate corrective action, including recouping any identified overpayments and emphasizing provider education where necessary. A Tentative Notice of Decision (TND) will be sent to each provider to recoup any overpayment identified. Providers who failed to submit documentation as requested will be reviewed and appropriate corrective action will be taken. DHB will also conduct a six-month post payment review of these providers' fee-for-service paid claims to determine if errors are recurring.

#### 10. DEFICIENCIES IN THE MEDICAID ELIGIBILITY DETERMINATION PROCESS

The Department of Health and Human Services (Department) made Medical Assistance Program (Medicaid) payments to providers based on inaccurate and inadequately documented eligibility determinations. During the audit period, approximately 2.2 million beneficiaries received \$17.6 billion in Medicaid benefits.

The task of determining eligibility for the Medicaid program has been delegated to the county departments of social services (DSS).<sup>30</sup> However, the Department was responsible for ensuring compliance with the eligibility requirements.

<sup>30</sup> North Carolina General Statute 108A-25(b).

Auditors redetermined eligibility for a sample of 147 beneficiaries<sup>31</sup> that had benefits totaling \$38 million paid on their behalf during the audit period and found two (1.36%) eligibility errors. Specifically:

- One (0.68%) beneficiary was determined eligible for the incorrect Medicaid group,<sup>32</sup> and received services during the coverage period they were not entitled to receive. Payments for those services totaling \$846 (federal share \$627) were paid on behalf of this beneficiary.
- One (0.68%) beneficiary was found to be ineligible for a portion of the coverage period due to inaccurate eligibility calculations. Payments totaling \$92 (federal share \$68) were paid on behalf of this beneficiary during the ineligible portion of the coverage period.

In addition to the eligibility errors noted above, auditors also identified 32 beneficiaries whose case files were either missing required eligibility documentation, such as self-employment verification, or inaccurate calculations and household composition were used or were missing a completed recertification. However, when auditors redetermined eligibility using the correct information, the beneficiaries were found to be eligible. Beneficiaries continued to receive benefits without a completed recertification because of the ongoing coronavirus public health emergency.

As a result, there is an increased cost for 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. Even though the tests identified only \$938 in overpayments (federal share \$695), if tests were extended to the entire population, questioned costs could be greater than \$25,000.<sup>10</sup>

Although \$938 resulted from the errors identified, the amount of Medicaid funds paid on behalf of ineligible beneficiaries is likely greater. Self-attestation by applicants is accepted for certain elements of the Modified Adjusted Gross Income methodology of determining eligibility.<sup>33</sup> Further verification or documentation is not required. Auditors tested participant eligibility using the documentation contained in the case files, which includes self-attested data that could not be verified by the auditors.

According to Department management, the errors occurred because of inaccurate application of established eligibility policies by the county DSS staff. The county DSS staff utilize NC FAST<sup>34</sup> to input data and make eligibility determinations; however, the Department is responsible for establishing the eligibility determination policies, maintaining NC FAST, and facilitating training.

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<sup>31</sup> The 147 items that were redetermined included 23 items that were deemed individually important. These items were tested 100% and removed from the population. The other 124 items were selected from the remaining population.

<sup>32</sup> Once eligibility has been determined, beneficiaries are placed into groups; the one error identified in our sample was placed into the Medicaid to Families with Dependent Children (MAF-C) group instead of the Family Planning (MAF-D) group and beneficiaries in the MAF-C group are entitled to receive services that are beyond those in the MAF-D group.

<sup>33</sup> Approximately \$7.1 billion, or 40%, of total Medicaid payments were for beneficiaries whose eligibility was determined using the MAGI methodology.

<sup>34</sup> The North Carolina Families Accessing Services Through Technology (NC FAST) is the eligibility system used in the Medicaid Program.

Federal regulations<sup>35</sup> require that the Department, or its designee, determine eligibility for all individuals applying for or receiving benefits in accordance with eligibility requirements defined in the approved state plan.

Further, federal regulations<sup>36</sup> require that documentation be obtained as needed to determine if a beneficiary meets specific income standards and documentation must be maintained to support eligibility determinations.

**This finding was previously reported in the 2021 Statewide Single Audit as finding number 2021-022.**

*Federal Award Information:* Federal Awarding Agency: U.S. Department of Health and Human Services; Assistance Listing Number (title): 93.778 (Medical Assistance Program); Federal Award Identification Numbers (award periods): 2105NC5MAP (October 1, 2020 –September 30, 2021) and 2205NC5MAP (October 1, 2021 – September 30, 2022).

*Recommendation:* Department management should analyze each error to specifically identify why the errors occurred and develop additional training or establish other procedures as necessary to prevent future errors from occurring.

*Views of Responsible Officials of the Auditee:* The Department agrees with this finding. As required by the North Carolina Legislature, the Department has delegated the administration of Medicaid eligibility determinations to the 100 local county offices of the Division of Social Services (DSS). The Department provides the NC FAST system, issues eligibility policies, facilitates training and provides technical support to the county DSS' to enable their administration of eligibility determinations. Using the Centers for Medicare And Medicaid Services' (CMS) Payment Error Rate Measurement (PERM) standards as a model, the Department set an acceptable error rate of 3.2% for the accuracy of county eligibility determinations. The Department monitors the accuracy of each county's eligibility determinations and implements accuracy improvement plans as necessary. As part of the monitoring process, the Department engages with the counties to determine if adjustments are needed to policy, training facilitation or the NC FAST system. The Department has reviewed the specific errors identified in the audit and will take appropriate steps to correct the improper eligibility determinations.

**ALN 93.959 – BLOCK GRANTS FOR THE PREVENTION AND TREATMENT OF SUBSTANCE ABUSE**

11. FUNDS NOT USED ON PRIMARY PREVENTION PROGRAMS

The Department of Health and Human Services (Department) did not allocate and use \$84,279 of Substance Abuse Block Grant (SABG) funds for primary prevention programs as required.

During the federal award period, the Department was required to allocate and use \$9.1 million (20%) of the \$45.4 million received for SABG on primary prevention programs designed to reduce the risk of substance abuse. However, the Department only allocated and used 19.82%.

<sup>35</sup> 42 CFR 431.10(b)(3).

<sup>36</sup> 42 CFR 435.

As a result, \$84,279<sup>37</sup> is considered questioned costs and the Department may be required to pay the funds back to the federal government. In addition, the funds were not used on prevention strategies as intended, which aim to reduce the impact of substance abuse such as awareness and education to individuals.

According to Department management, the error occurred because the staff responsible for award spending misunderstood the calculation requirements for determining the amount required for primary prevention programs.

Federal regulations<sup>37</sup> require that no less than 20% of SABG funds be spent on primary prevention programs to educate and counsel individuals to reduce the risk of substance abuse.

*Federal Award Information:* Federal Awarding Agency: U.S. Department of Health and Human Services; Assistance Listing Number (title): 93.959 (Block Grants for Prevention and Treatment of Substance Abuse); Federal Award Identification Number (award period): B08TI083050 (October 1, 2019 – September 30, 2021).

*Recommendation:* Department management should ensure that staff responsible for determining award spending have a clear understanding of the calculation requirements.

*Views of Responsible Officials of the Auditee:* Management agrees with the finding and recommendation. The Division of Mental Health, Developmental Disabilities, and Substance Use Services (DMH/DD/SUS) is updating and strengthening its grant financial monitoring policies and processes.

## 12. FUNDS SPENT AFTER AWARD ENDED

The Department of Health and Human Services (Department) incorrectly used \$317,153 of Substance Abuse Block Grant (SABG) funds from an award that ended. During the award period,<sup>38</sup> the Department spent \$45.4 million in SABG funds to provide treatment and prevention services for substance abuse.

The Department's 2020 SABG award period ended on September 30, 2021 and the Department had 90 days after the award ended to pay for expenditures that were incurred during the award period. Auditors tested \$2.9 million SABG expenditures that were paid after the award ended and found that expenditures totaling \$317,153 (11%) were outside the period of performance.<sup>39</sup>

As a result, the Department may be required to pay \$317,153 back to the federal government. Furthermore, using grant expenditures outside the award period prevents the Department from monitoring and budgeting program activities, which could put future funding available for additional program activities at risk for reversion to the federal government.

According to Department management, expenditures are reclassified to prior award periods to help ensure full utilization of grant funds; however, reviews over the reclassified

<sup>37</sup> 45 CFR 96.124(b)(1).

<sup>38</sup> The 2020 SABG award period began on October 1, 2019 and ended on September 30, 2021.

<sup>39</sup> Period of performance represents the period of time during which expenditures can be incurred. For the 2020 SABG award, this includes expenditures incurred between October 1, 2019 and September 30, 2021.

expenditures were not detailed enough to ensure expenditures were within the period of performance.

Federal regulations<sup>40</sup> require the Department to charge the federal award for allowable costs incurred during the period of performance (award period).

*Federal Award Information:* Federal Awarding Agency: U.S. Department of Health and Human Services; Assistance Listing Number (title): 93.959 (Block Grants for Prevention and Treatment of Substance Abuse); Federal Award Identification Number (award period): B08TI083050 (October 1, 2019 – September 30, 2021).

*Recommendation:* Department management should develop and implement detailed review procedures over grant expenditures to ensure compliance with period of performance requirements.

*Views of Responsible Officials of the Auditee:* Management agrees with the finding and recommendation. The Division of Mental Health, Developmental Disabilities, and Substance Use Services is updating and strengthening its grant financial monitoring policies and processes.

### 13. INADEQUATE SUBRECIPIENT MONITORING

The Department of Health and Human Services (Department) did not adequately monitor \$47 million in federal funds passed to subrecipients for providing treatment and prevention services for substance abuse.

Auditors reviewed the monitoring procedures over subrecipients that received substance abuse block grant (SABG) funds. The Department’s monitoring procedures required reviews over both fiscal and program areas for all subrecipients. However, auditors reviewed all 14 subrecipients and found that no reviews were completed for 12 (86%) subrecipients that received \$46.3 million in SABG funds.

Inadequate monitoring increases the risk that federal funds may not be used in accordance with the federal requirements, which may reduce the funding available for substance abuse treatment and prevention services.

According to Department management, the Department implemented a pause in monitoring due to the coronavirus pandemic; however, management did not get approval from the federal oversight agency. In addition, vacancies in positions responsible for overseeing the monitoring process prevented management from developing alternative monitoring methods during the pause.

Federal regulations<sup>22</sup> require the Department 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.

*Federal Award Information:* Federal Awarding Agency: U.S. Department of Health and Human Services; Assistance Listing Number (title): 93.959 (Block Grants for Prevention and Treatment of Substance Abuse); Federal Award Identification Numbers (award

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<sup>40</sup> 42 USC 300x -62.



periods): B08TI084663 (October 1, 2021 – September 30, 2023), B08TI083468 (October 1, 2020 – September 30, 2022), B08TI083959 (September 1, 2021 – September 30, 2025), B08TI084599 (September 1, 2021 – September 30, 2025), and B08TI083540 (March 15, 2021 – March 14, 2023).

*Recommendation:* Department management should obtain federal oversight agency approval to deviate from required processes and procedures.

In addition, Department management should establish contingency plans to ensure monitoring procedures are completed during employee turnover.

*Views of Responsible Officials of the Auditee:* Management agrees with the finding and recommendation. Subrecipients were not monitored because the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services prioritized support of the Department's ongoing response to the global COVID-19 pandemic (e.g., outreach, prevention, testing, vaccination). This resulted in a pause in monitoring the Local Management Entity/Managed Care Organizations (LME/MCO's).

#### 14. ERRORS IN FFATA REPORTING

The Department of Health and Human Services (Department) did not report complete and accurate subaward information for some subrecipients of the Substance Abuse Block Grant (SABG) to the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS).

Auditors reviewed all 19 subawards totaling \$47.8 million that were required to be reported to the FSRS during the audit period and found the following errors:

- 14 subawards totaling \$47.3 million were not reported at all.
- 1 subaward totaling \$311,000 was overreported by \$165,926 because it was reported with the incorrect amount.

In addition, auditors found that the Department reported \$1.2 million in expenditures for five subrecipients in the wrong period.

The FFATA was enacted to help reduce wasteful spending in government by empowering every American citizen with the ability to hold the government accountable for each spending decision. When subaward information is not reported to the FSRS, citizens do not have complete and accurate information about how federal funds are being used in their communities.

According to Department management, the incomplete and inaccurate reporting occurred because of essential staff turnover during the year.

The FFATA<sup>6</sup> requires direct recipients of grants or cooperative agreements to report first-tier subawards of \$30,000 or more to the FSRS.

*Federal Award Information:* Federal Awarding Agency: U.S. Department of Health and Human Services; Assistance Listing Number (title): 93.959 (Block Grants for Prevention and Treatment of Substance Abuse); Federal Award Identification Numbers (award



periods): B08TI083050 (October 1, 2019 – September 30, 2021), B08TI083468 (October 1, 2020 - September 30, 2022), and B08TI083540 (March 15, 2021 – March 14, 2023).

*Recommendation:* Department management should prioritize the development of a contingency plan to ensure FFATA reporting is completed and reviewed for accuracy when employee turnover occurs.

*Views of Responsible Officials of the Auditee:* Management agrees with the finding and recommendation. The Federal Funding Accountability and Transparency Act (FFATA) reporting was not completed correctly as available staff prioritized support of the Department's ongoing response to the global COVID-19 pandemic (e.g., outreach, prevention, testing, vaccination). Available staff were not adequately trained in FFATA reporting which led to over-reporting the subaward totaling \$311,000 by \$165,926 due to a duplication error on the FFATA award worksheet for one Local Management Entity/Managed Care Organizations.

# ORDERING INFORMATION

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This audit required 12,932 hours of auditor effort at an approximate cost of \$1,551,840. The cost of the specialist's efforts was \$113,664. As a result, the total cost of this audit was \$1,665,504.