

STATE OF NORTH CAROLINA

SPECIAL REVIEW

**CAROLIANCE
WESTERN REGION
STATE HEALTH PLAN PURCHASING
ALLIANCE BOARD**

ASHEVILLE, NORTH CAROLINA

OCTOBER 1998

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

SPECIAL REVIEW

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WESTERN REGION
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ASHEVILLE, NORTH CAROLINA

OCTOBER 1998

LETTER OF TRANSMITTAL

October 14, 1998

The Honorable James B. Hunt, Jr., Governor
The Honorable Dennis Wicker
Lieutenant Governor
Mrs. Katie G. Dorsett, Secretary
N.C. Department of Administration
Mr. Bob Joyce, Executive Director
State Health Plan Purchasing Alliance Board
Mr. Rick Lee, Chairman
Western Region Caroliance Board
Members of the North Carolina General Assembly

Ladies and Gentlemen:

Pursuant to General Statute §147-64.6(c)(16), we have completed our special review into allegations concerning the Western Region Caroliance. The results of our review, along with recommendations for corrective actions, are contained in this report.

General Statute §147-64.6(c)(12) requires the State Auditor to provide the Governor, the Attorney General, and other appropriate officials with written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee. In accordance with that mandate, and our standard operating practice, we are providing copies of this special review to the Governor, the Attorney General and other appropriate officials.

Respectfully submitted,

Ralph Campbell, Jr., CFE
State Auditor

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OVERVIEW

In 1993, the General Assembly created the State Health Plan Purchasing Alliance Board (State Board) to promote the development of state chartered, non-profit private purchasing organizations known as Health Purchasing Alliances (Alliances). The mission of the Alliances is to provide affordable, quality health care for self-employed individuals, as well as small employers. To achieve this mission, the Alliances offer participants contracting expertise and the administrative savings that can result from pooled purchasing. The Alliances do not provide insurance directly. However, they strive to provide a choice of accountable health carriers that offer affordable, quality health care. Membership in the Alliances is strictly voluntary. However, an alliance member is required to purchase health care coverage through the Alliance for all of its employees.

The State Board consists of eleven members and is required to establish market areas across the State. Within the established market areas, the State Board has the authority to create a single Alliance for the benefit of the Alliances' members. The State Board disburses state funds each year to the established regions. In addition, the State Board is responsible for analyzing the effectiveness of each regional Alliance, as well as the performance of the carriers.

Originally, the State Board established six regions across the state: Western, Northwestern/Triad, Metrolina, Southeastern, Triangle and Eastern. Each region has an exclusive service area and the regions do not compete for members. Additionally, each region establishes an eleven member board of directors, who oversee that region's

OVERVIEW (CONCLUDED)

operations. The State Board contracted with a third party administrator that handles billing and other functions supporting the regional Alliance program.

By the end of 1995, all six regional Alliances were fully operational. Since 1997, the Southeastern and Eastern regions have been consolidated into the four remaining regions. The four existing regions are currently operating under the name Caroliance. Each region employs an Executive Director who is responsible for administering the daily operation of their region and reports to a local board of directors.

According to the State Board Executive Director, the following disbursements were made to each of the regions:

<u>Region</u>	<u>FY 94-95</u>	<u>FY 95-96</u>	<u>FY 96-97</u>	<u>FY 97-98</u>	<u>Total</u>
Western		\$ 294,139.94	\$ 191,613.67	\$ 191,314.33	\$ 677,067.94
NW/Triad		164,806.50	174,906.50	189,125.00	528,838.00
Metrolina	\$ 73,150.14	283,532.98	189,559.67	164,259.33	710,502.12
Southeastern	35,200.00	266,724.98	165,457.02		467,382.00
Triangle		238,955.32	204,231.77	177,901.73	621,088.82
Eastern	24,000.00	361,481.95	218,936.00	78,750.00	683,167.95
Totals	\$ 132,350.14	\$ 1,609,641.67	\$ 1,144,704.63	\$ 801,350.39	\$ 3,688,046.83
	<u>4</u>				

INTRODUCTION

We received the following allegations through the State Auditor's Hotline concerning the former Executive Director of the Western Region Caroliance:

1. The former Executive Director made personal charges on the Caroliance corporate credit card.
2. The former Executive Director personally benefited from a vacation certificate purchased by the Caroliance.
3. The former Executive Director did not record leave while on vacation.

We used the following procedures to conduct our special review:

- Interviews with employees of the Caroliance.
- Interviews with members of the Western Region Board.
- Interviews with employees of the State Health Plan Purchasing Alliance Board.
- Examination of Caroliance records.

This report presents the results of our Special Review. This review was conducted pursuant to G.S. §147-64.b(c)(16), rather than as a financial audit. The Western Region Caroliance has an annual financial audit done by a private certified public accounting firm.

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FINDINGS AND RECOMMENDATIONS

1. THE FORMER EXECUTIVE DIRECTOR OF THE WESTERN REGION CAROLIANCE WAS PERMITTED TO MAKE PERSONAL CHARGES ON THE CAROLIANCE CORPORATE CREDIT CARD. HOWEVER, HE VIOLATED THAT AGREEMENT WHEN HE USED CAROLIANCE FUNDS TO PAY FOR HIS PERSONAL CHARGES.

During the time period of November 1995 through May 1998, the former Executive Director of the Western Region Caroliance (former Director) incurred a total of \$12,493.83 in personal charges on the Caroliance corporate credit card. According to a Western Region Board member, the Western Region Board had an unwritten policy that allowed the former Director to make personal charges on the Western Region's corporate credit card, as long as, all personal charges were paid by him within the billing cycle.

In February 1997, the Western Region Board was informed that the former Director had not paid his personal charges as agreed. A memo dated February 12, 1997, addressed to the former Director signed by a board member stated; "You will pay all personal charges, including finance charges, as soon as possible. We will adopt a policy, effective immediately, that any personal charges will be paid in full within thirty days of receiving the invoice." The memo additionally stated two members of the board would oversee the payments, and reports would be submitted to a board member every two weeks rather than monthly. On May 6, 1997, the former Director paid the credit card company \$1,017.11 for the unpaid personal charges.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

According to the Administrative Assistant for the Western Region Caroliance (Administrative Assistant), the former Director continued to make personal charges after the balance was paid. The Administrative Assistant stated the former Director would identify his personal charges and make a check payable to the credit card company, or in some instances, to Caroliance. The Administrative Assistant said all business charges were paid in full each month.

The Administrative Assistant said the former Director paid his personal charges as agreed until November 1997, when he requested she use Caroliance funds to pay the entire balance of the corporate credit card. The Administrative Assistant said the Caroliance paid the credit card company \$2,865.87, of which \$552.40 was for business charges incurred during that month and \$2,313.47 was for the former Director's personal charges. The Administrative Assistant stated she did not inform the Board that the former Director had not paid his personal charges and the Board did not monitor the activities of the account. She said the former Director told her he would reimburse the Caroliance the \$2,313.47. The Administrative Assistant said she kept a record of the amount owed, however, the former Director never paid the Caroliance until he resigned in May 1998.

According to the former Director, in November 1997, the Administrative Assistant suggested Caroliance pay the balance of his personal charges and that he could reimburse the Caroliance when he was financially capable. It should be noted, the former Director and not the Administrative Assistant, had check signing authority.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

According to the State Board Executive Director, in May 1998, he received the same allegations regarding the former Director. The State Board Executive Director said he notified the Western Region Board of the allegations and an internal investigation was performed. According to the Administrative Assistant, she and the Western Regions' accountants examined the credit card statements thoroughly and determined the former Director owed \$5,965.97 for unpaid personal charges and an additional \$200 for a vacation certificate used (refer to Finding 3). On May 15, 1998, the former Director resigned from his position and reimbursed the Western Region Caroliance \$6,165.97 (\$5,965.97+\$200). After the former Director resigned, the Caroliance received a credit card statement that included an additional \$220.85 of the former Director's personal charges. At the time the former Director resigned, he was unaware of the amount of personal charges incurred and has not paid for these charges.

We determined that during the time period of November 1995 through May 1998 the former Director incurred a total of \$12,493.83 in personal charges on the Caroliance credit card. However, the former Director has only paid a total of \$11,256.45, of which \$5,965.97 was paid in May 1998. Therefore, the former Director continues to owe the Caroliance \$1,237.38 (\$12,493.83 less \$11,256.45) for unpaid personal charges.

RECOMMENDATION

FINDINGS AND RECOMMENDATIONS (CONTINUED)

We recommend the State Health Plan Purchasing Alliance Board take whatever action is necessary to recoup the \$1,237.38 of unpaid personal charges made by the former Director. Additionally, we recommend the Western Region Caroliance Board discontinue the practice of permitting employees to make personal charges on the Caroliance credit card.

2. THE FORMER DIRECTOR VIOLATED POLICY WHEN HE DID NOT SUBMIT RECEIPTS FOR BUSINESS EXPENSES.

One of the few policies established by the Western region, addresses cash disbursements. The policies states, “When an invoice or expense reimbursement form is received, the following steps will be taken to process:

1. All amounts will be verified. This will include a recalculation of totals, matching invoice amount to receipts received (in the case of accounts that bill on a monthly basis for services rendered during the preceding billing period), and verification that services, supplies or materials were received for which the invoice has been issued.”

The Administrative Assistant stated the former Director should have submitted receipts for all business expenses charged on the corporate credit card, but in some instances he did not. We found a total of \$5,887.51 in business charges that were not supported by receipts. Therefore, we question whether the Caroliance should have paid for these expenses.

The former Director said he submitted receipts to the Administrative Assistant for all business expenses charged on the corporate credit card.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

RECOMMENDATION

We recommend all invoices or expense reimbursements be paid in accordance with the established policy.

3. THE FORMER DIRECTOR PERSONALLY BENEFITED FROM A VACATION CERTIFICATE PURCHASED BY THE CAROLIANCE.

The former Director purchased twenty-six vacation certificates from a Georgia promotional agency at a cost of \$4,164.00. The certificates allowed recipients to stay at participating hotels free of charge. The certificates were purchased with the intent of being awarded to insurance agents as sales incentives for achieving certain goals. The cost of the certificates was divided among the six regions and each region paid the Western Region its allocated amount. As of August 1, 1998, twenty-one of the certificates still on hand had expired and could no longer be used. The cost of these certificates was \$3,180.

The promotional agency confirmed that the former Director used one of the vacation certificates. The agent stated the cost of the certificate redeemed by the former Director was \$200. The former Director admitted he used one of the certificates to take a vacation to Florida; however, he said the certificate had expired. We were unable to determine if the certificate had expired, nevertheless, the certificate was redeemed. The former Director has reimbursed the Caroliance \$200, the cost of the vacation certificate.

RECOMMENDATION

FINDINGS AND RECOMMENDATIONS (CONTINUED)

We recommend employees refrain from using promotional items purchased by the Caroliance.

4. THE POLICIES FOR THE WESTERN REGION CAROLIANCE ARE INADEQUATE.

The State Board Executive Director said the local board for each region was responsible for establishing its own policies and procedures. However, according to a Western Region Board member, the Administrative Assistant and the former Director created the only policies established in the Western Region. In fact, a memo dated February 12, 1997, from the board member addressed to the former Director stated, “We declined to create a personnel policy manual or establish a personnel committee. The Board feels that a two person office does not need this as it would be too clumsy to administer and you need plenty of leeway.”

According to the Administrative Assistant, prior to February 1997, the office did not have a manual. In February 1997, she and the former Director created a manual as suggested by the State Health Plan Purchasing Alliance Board. An examination of the Western Region’s Policy Manual revealed many of the policies established were vague and for some situations, policies were non-existent. The policies that do exist were never officially approved by the Western Region Board.

For example, each employee is provided a cellular phone. However, the cellular phone policy only addressed the company that would provide the service and that the balance should be paid in full each month. Proper use of the cellular phones is not mentioned.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The Administrative Assistant stated that from March 1995 through April 1997, the former Director would identify his personal cellular calls and make a check payable to the cellular phone company for his charges. According to the Administrative Assistant, however, in May 1997, the Caroliance began paying for all cellular calls, including the calls that were personal. The former Director said he stopped paying for his personal cellular calls because his Administrative Assistant did not require him to do so. The Administrative Assistant said the Caroliance paid her personal cellular calls as well.

Additionally, there are no policies addressing personal long distance calls from the office or while traveling. Therefore, the Caroliance has paid all personal long distance calls, including personal calls, made from the office or while traveling. Furthermore, there are no policies regarding sick or vacation leave. According to the Administrative Assistant, each employee receives two weeks paid vacation, although no time records are maintained. The Administrative Assistant said an employee absent from work due to illness would be paid, regardless of the length of time the employee was absent.

The Western Region had not developed any written policies for entertainment expenses. During our examination of the corporate credit card statements, we found numerous restaurant, golf course, and gift shop charges. According to the Administrative Assistant, the former Director incurred these charges while entertaining insurance agents. A Western Region Board member said it was normal practice for the former Director to entertain often.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

We found that many of the entertainment expenses were incurred from entertaining Caroliance employees from other regions, as well as employees of the State Board. When questioned, the State Board Executive Director said it was inappropriate for a Caroliance employee to take another employee to play golf. He said, however, it may be appropriate for a Caroliance employee to take another employee to dinner as long as it is a legitimate business meeting. Again, there are no policies addressing entertaining, or appropriate business expenses. In our opinion, it is inappropriate for one Caroliance employee to entertain another Caroliance employee at state expense. The former Director said it was left to his own discretion who and how he entertained.

RECOMMENDATION

We recommend the State Health Plan Purchasing Alliance Board revise the established policies and procedures for the Western Region Caroliance to insure the policies are adequate. In addition, the Board should attempt to collect the personal long distance and cellular calls paid by the Caroliance from the former Director and the Administrative Assistant.

5. THE POLICIES AND PROCEDURES FOR THE CAROLIANCE ARE INCONSISTENT AMONG THE DIFFERENT REGIONS.

While conducting our review we examined all four existing regions' policies and procedures to ensure adequate policies had been established. We found that all

FINDINGS AND RECOMMENDATIONS (CONTINUED)

regions did have policy manuals, however, many of the policies and procedures were inconsistent from one region to another.

Unlike the Western region, the remaining three regions: Northwestern/Triad, North Central and Metrolina regions obtained local board approval for their policies. However, since the State Board did not provide any oversight in the development of these policies, major inconsistencies existed in each of the regions' manuals.

For example, the number of days of vacation and sick leave that could be earned by employees differed from region to region. Also, the policy regarding cellular phones was so inconsistent that employees in one region could make unlimited personal calls and the Caroliance would pay the bill. Another region required employees to pay for personal calls.

The regions were also inconsistent in what was allowable entertainment expenses and particularly in the amount of entertainment expenses incurred. The Western Region's entertainment expenses far exceeded those of the other regions.

Our special review confirmed that the inconsistencies among regions were a result of the lack of oversight and direction from the State Board.

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

RECOMMENDATION

We recommend the State Health Plan Purchasing Alliance Board approve each regions' policies and procedures to ensure appropriate and consistent policies are established. Furthermore, we recommend the State Health Plan Purchasing Alliance Board offer assistance in developing adequate policies and procedures to the regional boards, as well as the regional Executive Directors.

Statement of Financial Impact

The following schedule represents a quantification of the items examined during our special review. We cannot completely quantify the tangible benefits or detriment, if any, to the taxpayer resulting from the findings of our review. We are simply noting these areas where the system of internal controls were either circumvented or should be enhanced, or where, in our judgment, questionable activities or practices occurred.

1. Amount of state funds used to pay personal charges. (Finding 1)	\$ 2,313.47
2. Business expenses paid by the Caroliance not supported by receipts. (Finding 2)	5,887.51
3. Cost of vacation certificate used by the former Director.(Finding 3)	200.00
4. Cost of vacation certificates purchased but not used before they expired. (Finding 3)	<u>3,180.00</u>
Total Financial Impact	<u>\$ 11,580.98</u>

Auditor's Note: The true financial impact is larger than the amount shown above since funds were used to pay for personal cellular telephone calls, personal long-distance telephone calls, and absences from work not charged to vacation or sick leave. We could not determine the amount due to the length of time that would have been involved and the lack of records for leave taken.

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*Response from Chairman of the
Western Region Caroliance Board*

Member American Institute of Architects

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September 30, 1998

The Honorable Ralph Campbell, Jr.
State Auditor
Office of the State Auditor
300 North Salisbury Street
Raleigh, NC 27603-5903

Dear Mr. Campbell,

Enclosed is a resolution which is the official response of the WNC Health Alliance Board of Directors to the Special Review of our office procedures. We have addressed each of the findings and recommendations as completely as possible. Please bear in mind that the market area we represent will be merged with two other areas. This will have an effect on our recommendations for operations of the successor corporation going forward.

Mr. Campbell, we are embarrassed by the actions of our former director. Mr. Moser had performed well in developing a marketing organization, a sales force, and a network of community partners all working together toward the common goal of affordable, good quality health insurance for small employers. It is unfortunate that these circumstances have set back our efforts. As business people and taxpayers, we regret that the actions of one individual will tarnish an otherwise successful effort.

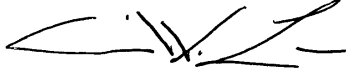
Our Board is proud of the results achieved in this region by the Caroliance program. The non-profit corporation we established has helped over 370 small employers, their employees and families get quality health insurance at an affordable price. Nearly 1,350 people obtained health care coverage through our organization, contributing over \$ 3,500.00 in premium dollars. In addition over 150 professional health insurance agents took part in our program, developing a reliable and more stable marketplace for small businesses to shop for health care coverage in Western North Carolina. Our region has been the fastest growing, playing a key role in building an innovative, community based regional health system which is unique in North Carolina.

We strongly support the health alliance purchasing co-op concept. This Board sincerely believes that a public-private partnership model rather than a government regulatory structure is the best model for bringing stability to the small employers health insurance marketplace.

The WNC Board of Directors thanks the Office of the State Auditor for their review of

our office procedures. You have our assurance that as part of the dissolution plan for the corporation, this Board will diligently pursue a thorough “clean-up” of the matters discussed in the Special Review.

Sincerely,

A handwritten signature in black ink, appearing to read "Eric (Rick) Lee". The signature is stylized with a large, sweeping initial "E" and a long horizontal stroke at the end.

Eric (Rick) Lee
Chairman, WNC Health Alliance Board
of Directors.

**Resolution
of the
WNC Health Alliance Board of Directors**

September 30, 1998

Whereas, the WNC Health Alliance, Inc. (d/b/a Caroliance-Western) Board of Directors received a draft report entitled, Special Review, Caroliance--Western Region on the 23rd day of September, 1998 and;

Whereas, the WNC Health Alliance, Inc. Board of Directors had previously instructed its auditors to prepare an independent audit of certain operating and expense records as a prudent business practice to insure that all corporate accounts are correct and;

Whereas, the WNC Health Alliance, Inc. Board of Directors has examined and discussed the independent auditor's report and the Special Review by telephone conference in order to prepare a proper and timely response to the Office of the State Auditor and;

Whereas, the WNC Health Alliance, Inc. Board of Directors has approved by majority vote on this action;

Now Therefore Be it Resolved, that the following response be sent to the Honorable Ralph Campbell, Jr., State Auditor;

Response to Item 1. The WNC Health Alliance, Inc. Board of Directors will take whatever action is necessary to recoup the unpaid charges of \$ 1,237.38. By copy of this resolution, we have notified our attorney to immediately seek recovery of this amount. Since this region has been merged to form a larger entity, we recommend to the successor corporation that no personal charges be allowed on any company charge account regardless of amount of justification.

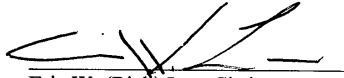
Response to Item 2. The Board has, by copy of this resolution, instructed its attorney and its accountant to endeavor to ascertain whether any other charges to corporate accounts were personal charges and seek reimbursement if necessary.

Response to Item 3. The corporation was reimbursed for the misused certificate. Our own investigation shows that no other incentives were used by employees of the corporation.

Response to Item 4. The Board has by copy of this resolution instructed its attorney and its accountants to endeavor to ascertain whether any personal telephone charges were paid with company funds and seek reimbursement if necessary. The board will recommend to the successor corporation that no personal telephone charges should be paid with company funds.

Response to Item 5. The Board requests that the State Board take the appropriate steps to provide each region with guidelines and an outline of a policy and procedures manual. The Board further recommends that the successor corporation establish an audit committee to review such policies and office practices on a frequent basis.

Signed by the Chairman this 30 day of SEPT., 1998



Eric W. (Rick) Lee, Chairman
WNC Health Alliance, Inc. Board of Directors

DISTRIBUTION OF AUDIT REPORT

In accordance with G.S. §147-64.5 and G.S. §147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable James B. Hunt, Jr.	Governor of North Carolina
The Honorable Dennis A. Wicker	Lieutenant Governor of North Carolina
The Honorable Harlan E. Boyles	State Treasurer
The Honorable Michael F. Easley	Attorney General
Mr. James J. Coman	Director, State Bureau of Investigation
Mr. Marvin K. Dorman, Jr.	State Budget Officer
Mr. Edward Renfrow	State Controller
Mrs. Katie G. Dorsett	Secretary, N.C. Department of Administration
Mr. Bob Joyce	Executive Director, State Health Plan Purchasing Alliance Board
Mr. Rick Lee	Chairman, Western Region Carolian Board

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Mr. Thomas L. Covington	Director, Fiscal Research Division

October 14, 1998

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<http://www.osa.state.nc.us>.

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