



STATE OF NORTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF GOVERNMENT AFFAIRS

JOSH STEIN
GOVERNOR

DEV DUTTA SANGVAI
SECRETARY

JANSSEN WHITE
ASSISTANT SECRETARY FOR GOVERNMENT AFFAIRS

December 11, 2025

SENT VIA ELECTRONIC MAIL

The Honorable Phil Berger, Co-Chair
Joint Legislative Commission on
Governmental Operations
North Carolina General Assembly
Room 2007, Legislative Building
Raleigh, NC 27601

The Honorable Destin Hall, Co-Chair
Joint Legislative Commission on
Governmental Operations
North Carolina General Assembly
Room 2304, Legislative Building
Raleigh, NC 27601

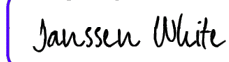
Dear Chairmen:

North Carolina General Statute §143B-216.51(g) requires the Department of Health and Human Services' (Department) Office of Internal Auditor to monitor the implementation of the Department's response to any audit of the Department conducted by the State Auditor and to issue a report to the Secretary on the status of corrective actions implemented no later than six months after the State Auditor publishes any audit report pursuant to law. The law also requires that a copy of this report be filed with the Joint Legislative Commission on Governmental Operations. Pursuant to the provisions of law, the Department is pleased to submit the attached report.

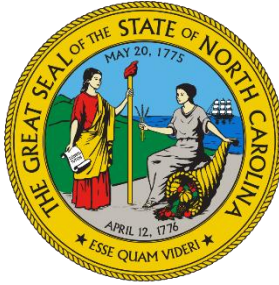
Should you have any questions regarding the report, please contact Jeff Grimes, Director of the Office of the Internal Auditor, at Jeff.Grimes@dhhs.nc.gov.

Sincerely,

Signed by:


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Janssen White

Assistant Secretary for Government Affairs

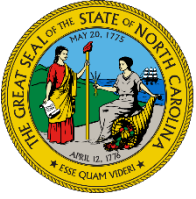


NC DEPARTMENT OF
HEALTH AND HUMAN SERVICES

Office of the Internal Auditor

Follow-up Assessment of the Department's Response to Findings and
Recommendations from the State of North Carolina Single Audit Report
Issued by the Office of the State Auditor on April 4, 2025
for Fiscal Year Ended June 30, 2024

October 1, 2025



NC DEPARTMENT OF
**HEALTH AND
HUMAN SERVICES**
Office of the Internal Auditor

JOSH STEIN • Governor

DEVPUTTA SANGVAI • Secretary

JEFF GRIMES • Director, Office of the Internal Auditor

October 1, 2025

Secretary Sangvai
NC Department of Health and Human Services
1915 Health Services Way
Raleigh, NC 27607

The Office of the Internal Auditor (OIA) has conducted a follow-up assessment of the NC Department of Health and Human Services' (Department) response to the findings and recommendations in the State of North Carolina Single Audit Report, FSA-2024-8730, for the fiscal year ended June 30, 2024. The report was issued by the Office of the State Auditor (OSA) on April 4, 2025.

One of the four findings is considered resolved. The Department took sufficient corrective action to reduce identified risk for the one finding to an acceptable level. The additional three findings are considered partially resolved. The Department took some action to reduce identified risks for those three findings. However, the corrective action taken is not sufficient to reduce risk to an acceptable level, and the Department continues to work to address the findings.

OIA will continue to follow up with the Department to ensure its work activities reduce risk to an acceptable level. A summary of OSA's findings and recommendations and OIA's follow-up results are included in the Results section.

Objective

The objective of our follow-up assessment was to evaluate whether the Department took appropriate corrective action in response to the Office of the State Auditor's findings and recommendations. Our follow-up assessment was conducted pursuant to The General Statutes of North Carolina 143B-216.51(g). The General Statute requires OIA to issue a report to the Secretary on the status of corrective action taken by the Department no later than six months after the State Auditor publishes any audit report pursuant to law. The scope of our follow-up assessment included a review of activities directed toward the resolution of OSA's findings and recommendations as well as the corrective action taken by the Department. A copy of this report will be filed with the Joint Legislative Commission on Governmental Operations pursuant to the General Statute.

Methodology

We conducted this engagement in conformance with the *Global Internal Audit Standards* issued by The Institute of Internal Auditors. In order to form an opinion on the current status of the four findings, we performed the following procedures:

- We reviewed the Single Audit Report to gain a better understanding of the findings.
- We discussed the basis for the findings and the associated corrective action with Department management.
- We conducted tests to evaluate whether corrective action taken by the Department reduced risk to an acceptable level.

Status Definitions

The status of each finding is categorized as follows:

- Resolved: We observed evidence that actionable items were completed and implemented to reduce risk to an acceptable level.
- Partially Resolved: We observed evidence of progress toward the implementation of the actionable items in the Department's response and Department activity is ongoing to reduce risk to an acceptable level.
- Unresolved: We did not observe evidence to demonstrate Department progress toward the implementation of the actionable items in the Department's response, to reduce risk to an acceptable level.

We express our appreciation to Department management and staff for their cooperation and assistance during this follow-up assessment.

Jeff Grimes
Director, Office of the Internal Auditor

CC: Janssen White, Assistant Secretary for Governmental Affairs, NCDHHS

RESULTS

SUMMARY OF FINDINGS AND RECOMMENDATIONS FROM OSA REPORT (*ITALICIZED*) AND OIA'S FOLLOW-UP RESULTS (BOLDED**)**

1. SINGLE AUDIT REPORT FINDING AND RECOMMENDATION – 2024-011: DEFICIENCIES IN THE MEDICAID ELIGIBILITY DETERMINATION PROCESS

93.778 MEDICAL ASSISTANCE PROGRAM

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 3 million beneficiaries received \$22.2 billion in Medicaid benefits.

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

Auditors redetermined eligibility for a sample of 113 beneficiaries that had benefits totaling \$34.9 million paid on their behalf during the audit period. Auditors found eight (7%) beneficiaries that were ineligible due to inaccurate and/or outdated income information used in the eligibility determination. Payments totaling \$28,838 (federal share \$21,144) were paid on behalf of these beneficiaries.

In addition to the eligibility errors noted above, auditors also identified 18 beneficiaries whose case files were either missing required eligibility documentation, such as self-employment verification, or inaccurate calculations and household composition were used. However, when auditors redetermined eligibility using the correct information, the beneficiaries were found to be eligible.

As a result, the \$28,838 (federal share \$21,144) is considered questioned costs and the Department may be required to pay back the federal share. In addition, there is an increased cost to the Medicaid Program for both the state and federal government, as the program is jointly financed by these two governments and is administered by the state.

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 to input data and make eligibility determinations; however, the Department is responsible for establishing the eligibility determination policies, maintaining NC FAST, and facilitating training.

Federal regulations 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 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 2023 Statewide Single Audit as finding number 2023-016.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; Assistance Listing Number (title): 93.778 (Medical Assistance Program (Medicaid; Title XIX));

Federal Award Identification Numbers (award periods): 2305NC5MAP (October 1, 2022 – September 30, 2023) and 2405NC5MAP (October 1, 2023 – September 30, 2024).

OSA 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 North Carolina Families Accessing Services Through Technology (NC FAST) system, issues eligibility policies, facilitates training and provides technical support to the county DSS offices to enable their administration of eligibility determinations. The Department reviewed the errors and will update, post, and track completion of mandated training for county DSS staff to ensure their correct understanding of the related eligibility policy so they correctly determine eligibility. The Department will enhance its review of the Recipient Eligibility Determination Audit results as well as second-party corrective action plans to monitor, evaluate, and analyze the counties' understanding of policy to identify any additional training needs, policy updates, and/or system fixes. The Department will take appropriate steps to correct the specific improper eligibility determination errors identified in the audit.

Corrective Action Plan: The Department will update, post, and track completion of mandated training for county DSS staff to ensure their correct understanding of the related eligibility policy. The Department will enhance its review of the Recipient Eligibility Determination Audit results as well as second-party corrective action plans to monitor, evaluate, and analyze the counties' understanding of policy to identify any additional training needs, policy updates, and/or system fixes. The Department reviewed the specific errors identified in the audit and will take appropriate steps to correct the improper eligibility determinations.

Anticipated Completion Date: October 1, 2025.

OIA Follow-up Results

OIA conducted a follow-up review and determined that the Department has partially resolved the finding. The Division of Health Benefits (DHB) anticipates completing its corrective action by December 1, 2025.

DHB reviewed the eight eligibility errors and ensured the counties made eligibility corrections as necessary. OIA sampled three of the eight eligibility errors and determined that DHB verified the counties corrected the eligibility determinations. DHB issued recoupment notices to the applicable counties for the eight overpayments caused by the eligible errors and initiated the process to refund the federal share of overpayments.

To enhance county monitoring procedures, the DHB Member Compliance Team began providing detailed Recipient Eligibility Determination Audit (REDA) reports and the counties' second-party eligibility review corrective action plans to the DHB Operational Support Team (OST). The OST has begun reviewing the reports to determine where additional training or policy updates may be needed. The OST has incorporated a discussion of the REDA results and second-party review CAPs into its quarterly consultations with each county. Additionally, OST presented information about REDA error trends during a training session at the NC Association of County Directors of Social Services' 2025 Social Services Institute, on August 7, 2025.

DHB posted three new training courses to the NC FAST Learning Gateway and notified counties that all county Medicaid staff are required to complete the trainings by a set due date. DHB has begun tracking the county Medicaid staff's completion of the courses. DHB is planning to post the fourth training course by mid-September and post the final training course by December 1, 2025. DHB will verify that all five training courses have been completed by county Medicaid staff by the due dates. Because all training courses are not yet posted, OIA considers finding 2024-011 partially resolved.

2. SINGLE AUDIT REPORT FINDING AND RECOMMENDATION – 2024-012: INADEQUATE SUBRECIPIENT MONITORING

93.788 - Opioid STR

The Division of Mental Health, Developmental Disabilities and Substance Use Services (Division) did not adequately monitor \$106.5 million in federal funds passed to subrecipients for providing substance abuse prevention, treatment, and recovery services and addressing the opioid abuse crisis.

The Division's monitoring plan required specific monitoring activities based on the two types of subrecipients: Local Management Entity/Managed Care Organization (LME/MCO) and Financial Assistance Contract (FAC) entities.

Auditors reviewed the monitoring plan for all six LME/MCO subrecipients which required monthly fiscal monitoring, quarterly programmatic monitoring, and one annual on-site visit. However, the Division did not provide evidence to support that any of these monitoring activities were completed for all six of the LME/MCOs that received \$40.4 million in substance abuse funds and \$37.5 million in opioid abuse funds.

Auditors then reviewed the monitoring plan for all FAC subrecipients which required annual monitoring activities based on risk assessments and found the following errors:

- For all 35 FACs that received \$27.2 million in substance abuse funds, only five (14%) had a risk assessment to determine the frequency and method of monitoring required. Furthermore, auditors found that even the minimum level of monitoring required was not completed for 34 (97%) FACs that received \$26.1 million in substance abuse funds.*
- For all three FACs that received \$1.4 million in opioid abuse funds, only one (33%) had a risk assessment to determine the frequency and method of monitoring required. Furthermore, auditors found that even the minimum level of monitoring required was not completed for two (67%) FACs that received \$1.2 million in opioid abuse 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 providing substance abuse prevention, treatment, and recovery services and addressing the opioid crisis.

According to Division management, the LME/MCO and FAC fiscal and programmatic monitoring plan was not implemented due to competing priorities and changes to monitoring procedures that were not reflected in the monitoring plan.

Federal regulations require the Division 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.

This finding was previously reported in the 2023 Statewide Single Audit as finding number 2023-018.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; Assistance Listing Number (title): 93.788 (Opioid STR); Federal Award Identification Numbers (award periods): H79TI085757 (September 30, 2022 – September 29, 2023) and H79TI083312 (September 30, 2021 – September 29, 2024).

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; Assistance Listing Number (title): 93.959 (Block Grants for the Prevention and Treatment of Substance Abuse); Federal Award Identification Numbers (award periods): B08TI084663 (October 1, 2021 – September 30, 2023), B08TI085825 (October 1, 2022 – September 30, 2024), B08TI083540 (March 15, 2021 – March 14, 2025), B08TI083959 (September 1, 2021 – September 30, 2025), B08TI084599 (September 1, 2021 – September 30, 2025), and B08TI087057 (October 1, 2023 – September 30, 2025).

OSA Recommendation: *Division management should dedicate resources to ensure the fiscal and programmatic monitoring activities are completed in accordance with the approved grant monitoring plan.*

Views of Responsible Officials of the Auditee: *Management agrees with the finding and recommendation. The Division experienced increased resource constraints during this time period, due to numerous critical and time sensitive priorities, such as Tailored Plan implementation, two large LME/MCO health plan consolidations, and Medicaid expansion (which also included an unprecedented influx of service-related dollars).*

In spite of these challenges, monitoring occurred for the Local Management Entities/Managed Care Organizations (LMEs/MCOs); however, the monitoring was not completed in accordance with the plan and was not timely documented in the Prepaid Health Plan Contract Data Utility (PCDU) system. In addition, as part of the implementation of Tailored Plans, it was determined that changes to monitoring were warranted. Annual on-site visits were eliminated and other informal changes to monitoring were made; however, the Monitoring Plan was not updated to reflect the changes.

Regarding monitoring of Financial Assistance Contracts (FAC), the Division identified a need to dedicate staff resources (and update post-COVID operating procedures) around the administration, management, and monitoring of FAC contracts, and subsequently has stood up a Contracts and Grants team with dedicated staff resources in these areas, and we expect to see significant improvements in the next year as we clarify staff roles, refine our processes, and train newly hired Contract Administrators. The Division also identified a need for better documentation of the FAC monitoring that is happening.

Finally, the Division is also partnering with Risk Management, Compliance and Consulting to provide additional training.

The Division is dedicated to improving subrecipient monitoring.

Corrective Action Plan: *The Division is taking the following steps to improve monitoring:*

- *Implementing a monthly Local Management Entity/Managed Care (LME/MCO) fiscal monitoring process.*

- *Developing internal controls to ensure that monitoring is completed and updated in the system timely.*
- *Updating the LME/MCO Monitoring Plan to reflect current monitoring processes.*
- *Assigning staff to FAC monitoring and partnering with Risk Management, Compliance and Consulting to train monitoring staff.*

Anticipated Completion Date: June 30, 2025.

OIA Follow-up Results

OIA conducted a follow-up review and determined that the Department has partially resolved the finding. The Division of Mental Health, Developmental Disabilities, and Substance Use Services (DMH/DD/SUS) anticipates completing its corrective action by December 31, 2025.

DMH/DD/SUS developed internal controls to ensure that Local Management Entity/Managed Care Organization (LME/MCO) monitoring is completed and updated timely in the Prepaid Health Plan Contract Data Utility system. DMH/DD/SUS updated the LME/MCO Monitoring Plan to reflect current monitoring processes and has assigned Contracts and Grants Management staff to FAC monitoring. Finally, DMH/DD/SUS partnered with OIA's Risk Management, Compliance and Consulting team to train monitoring staff on May 29, 2025.

DMH/DD/SUS has developed a monthly fiscal monitoring process for the LME/MCOs and plans to implement the monitoring process by December 31, 2025. Because the fiscal monitoring process is not yet implemented, OIA considers finding 2024-012 partially resolved.

3. SINGLE AUDIT REPORT FINDING AND RECOMMENDATION – 2024-013: INADEQUATE SUBRECIPIENT MONITORING

93.959 - BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE

The Division of Mental Health, Developmental Disabilities and Substance Use Services (Division) did not adequately monitor \$106.5 million in federal funds passed to subrecipients for providing substance abuse prevention, treatment, and recovery services and addressing the opioid abuse crisis. See Finding 2024-012 for a description.

This finding was previously reported in the 2023 Statewide Single Audit as finding number 2023-020.

OSA Recommendation: *See Finding 2024-012 for a description.*

Views of Responsible Officials of the Auditee: *See Finding 2024-012 for a description.*

Corrective Action Plan: *See Finding 2024-012 for a description.*

OIA Follow-up Results

OIA conducted a follow-up review and determined that the Department has partially resolved the finding. The Division of Mental Health, Developmental Disabilities, and Substance Use Services (DMH/DD/SUS) anticipates completing its corrective action by December 31, 2025.

See OSA finding 2024-012 above for details.

Because the fiscal monitoring process is not yet implemented, OIA considers finding 2024-012 partially resolved.

4. SINGLE AUDIT REPORT FINDING AND RECOMMENDATION – 2024-014 ERRORS IN FFATA REPORTING
93.959 - BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE

The Division of Mental Health, Developmental Disabilities and Substance Use Services (Division) did not submit complete, accurate, and timely subaward information for subrecipients of the Block Grants for Prevention and Treatment of Substance Abuse to the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS). Auditors reviewed all 82 subawards totaling \$56.8 million that were required to be reported to the FSRS during the audit period and found the following errors:

- 14 subawards totaling \$15.0 million were not reported at all.*
- 12 subawards totaling \$6.0 million were reported inaccurately.*
- 15 subawards totaling \$13.0 million were reported 14 to 284 days late.*

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 Division management, the FFATA reports were prepared using subaward tracking spreadsheets that were being developed during the period and were not reviewed for completeness and accuracy.

The FFATA requires direct recipients of grants or cooperative agreements to report first-tier subawards of \$30,000 or more to the FSRS no later than the end of the month following the month in which the obligation was made.

This finding was previously reported in the 2023 Statewide Single Audit as finding number 2023-019.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; Assistance Listing Number (title): 93.959 (Block Grants for the Prevention and Treatment of Substance Abuse); Federal Award Identification Numbers (award periods): B08TI084663 (October 1, 2021 – September 30, 2023), B08TI085825 (October 1, 2022 – September 30, 2024), B08TI083540 (March 15, 2021 – March 14, 2025), B08TI083959 (September 1, 2021 – September 30, 2025), B08TI084599 (September 1, 2021 – September 30, 2025), and B08TI087057 (October 1, 2023 – September 30, 2025).

OSA Recommendation: Division management should implement review procedures over the subaward tracking spreadsheets to ensure FFATA reporting is accurate and completed as required.

Views of Responsible Officials of the Auditee: Management agrees with the finding and recommendation. The Division encountered reporting inaccuracies due to a misunderstanding of the dates in the contract system and errors in the tracking logs. The Division has received clarification on the correct execution date to use during reporting for FFATA. Regarding the tracking log errors, the Division's FFATA policy will be updated to reflect an additional review of the monthly FFATA entries once they are entered into the reporting system. This review will require supervisory review of the completed FFATA report for each Grant award, FFATA tracking log and contracts/allocation letters to ensure all three items reconcile for the reporting month. SFY 25 FFATA reporting is up to date.

Corrective Action Plan: The Division FFATA policy will be updated to reflect an additional review of the monthly FFATA entries once they are entered into the reporting system. Those updates will include

supervisory review of the completed FFATA report for each Grant award, FFATA tracking log and contracts/allocation letters to ensure all three items reconcile for the reporting month.

Anticipated Completion Date: September 30, 2025.

OIA Follow-up Results

OIA conducted a follow-up review and determined that the Department has resolved the finding.

The Division of Mental Health, Developmental Disabilities, and Substance Use Services (DMH/DD/SUS) updated their FFATA procedure to include a secondary supervisory review of the FFATA reports once they are entered into the subaward reporting system on the System for Award Management website. DMH/DD/SUS implemented the secondary supervisory review process in June 2025 and reviewed the previously filed Fiscal Year 2025 FFATA reports for accuracy. OIA verified that DMH/DD/SUS's FFATA subaward tracking logs and the FFATA reports on the System for Award Management website agree for June 2025.

OIA considers finding 2024-014 resolved because DMH/DD/SUS has fully implemented the corrective action plan and mitigated the risk associated with the finding to an acceptable level.