

## **MANAGEMENT OVERSIGHT OF PROGRAMS**

### **DHHS – Services for the Blind – Business Enterprise Program [FCA-2015-4450](#)**

\$29 million spent since 2000 without determining whether the Program meets the vocational needs of the blind and ineffective oversight of program and facilities. Currently 89 locations with 70 vendors. (July 2015)

Oversight activities not performed:

| <b>OVERSIGHT ACTIVITY</b>                           | <b>NOT PERFORMED</b> | <b>REQUIRED</b> | <b>%</b>  |
|-----------------------------------------------------|----------------------|-----------------|-----------|
| Sanitation Inspections (Vending Only) <sup>14</sup> | 125                  | 193             | 65        |
| Recordkeeping Reviews                               | 27                   | 55              | 49        |
| Compliance Monitoring Reviews                       | 34                   | 54              | 63        |
| Financial Analysis and Operating Standards Reviews  | 14                   | 32              | 44        |
| <b>Total</b>                                        | <b>200</b>           | <b>334</b>      | <b>60</b> |

“Set-Aside” moneys at risk.

### **Public Schools of Robeson County – Medicaid Reimbursements for School-Based Medical Services [FCA-2015-3510](#)**

\$1 million intended for special needs students spent for other purposes and more than \$364,000 in available Medicaid funding not claimed. (July 2015)

### **Department of Labor – Elevator and Wage and Hour Bureaus [FCA-2013-3800](#)**

Only 3% of the elevators with violations in 2012 had a follow-up inspection and elevator penalty reductions and waivers deviate from state law and internal policy. The Wage Bureau did not complete follow up investigations on agreements made with companies to correct violations of labor laws. (June 2013)

### **Department of Public Safety – Division of Adult Correction – Recovery Audits [FCA-2013-4490](#)**

The Department can reduce its inmate medical costs by performing focused recovery audits of hospital medical claims. An auditor-initiated review of 10 of the largest hospital claims identified about \$105,700 in overpayments made to eight hospitals during the prior fiscal year. By law, the Division is required to explore medical cost containment methods. (May 2012)

### **Department of Transportation – Civil Penalty Collections [FCA-2012-4200](#)**

The Department 1) did not review approximately \$179 million in open (unresolved) lapsed automobile liability insurance records to identify the amount owed to the state; 2) did not aggressively pursue collection of \$7.3 million in penalties that would have been transferred to North Carolina local school systems. (April 2012)

### **State Health Plan – Baptist Hospital Overpayments [PER-2011-7266](#)**

The State Health Plan did not increase the outpatient discount rate as allowed in the contract because it did not have a contract monitoring plan and did not seek or obtain annual outpatient fee increase information from Baptist Hospital. Auditors estimate the overpayment to be approximately \$1.34 million. (September 2011)

## **CONTRACT ADMINISTRATION AND OVERSIGHT**

### **DHHS – Waiver of Competition Contracts [PER-2015-4410](#)**

Many of the Department's no-bid contracts lacked required reviews and approvals, lacked documentation of negotiations, and lacked adequate written justification to waive competition. DHHS had 2,500 non-competitively bid contracts with a value of approximately \$2.4 billion (excluding personal service contracts) between state fiscal year 2012 through 2014. **Bidding, negotiation, and administration.** (August 2016)

### **DHHS - Medicaid Durable Medical Equipment Claims [PER-2015-4445](#)**

The Department omitted accuracy standards from the contract despite known problems with contractor work and did not have quality assurance processes to evaluate the contractors' work. Penalties for nonperformance were excluded from the prepayment review contract. The state paid \$170 million in durable medical equipment claims in the 2015 fiscal year. **Negotiation.** (August 2016)

### **Asheville-Buncombe Tech Community College [INV-2015-0404](#)**

The Director of the Facility Operations Department at Asheville-Buncombe Technical Community College circumvented state and college purchasing procedures that require solicitation for competitive bids. As a result, the college may have overpaid a single vendor for cleaning and chemical products because other vendors were denied the opportunity to submit competitive bids for similar products. Over 33 months, the college spent \$386,455 on cleaning and chemical products from the vendor. **Bidding.** (November 2015)

### **Eastpointe Human Services [INV-2015-0402](#)**

The former CFO violated state laws pertaining to purchase and bidding requirements. As a result, Eastpointe may not have contracted with the most qualified contractors or received the best prices. This investigation showed that between January 2010 and December 2013, the CFO personally received payments of \$547,595 from the vendors after having paid the vendors more than \$1 million through local government contracts.

**Bidding and administration.** (June 2015)

### **DOA – Retread Tires [FCA-2014-4100A](#)**

Department's lax contract administration led to 30% price increase and substandard tires costing \$89,000. The total value of the state's retread tire contracts is \$3 million annually. **Administration.** (October 2014)

### **DHHS – Division of Medical Assistance – Medicaid Provider Eligibility [PER-2014-4445](#)**

The contractor's enrollment review procedures do not provide reasonable assurance that only qualified providers participate in the NC Medicaid program. The contract for eligibility determination lacked adequate performance measures to hold the contractor accountable for processing applications accurately and reliably and the Division's quality assurance effort was ineffective. The state paid this contractor \$9.9 million total for fiscal years 2012-13. **Negotiation and administration.** (August 2014)

### **DOA – Office Supplies Term Contract Follow-Up [FCA-2014-4100](#)**

The Division of Purchase and Contract (P&C) did not implement four of the six recommendations to improve its oversight of the office supplies contract originally made in a September 2008 audit. Specifically, P&C did not provide documentation to show that it recovered \$294,413 in overcharges, automate contract monitoring, automate complaint tracking, or provide needed training to its contract monitors. The contract was valued at approximately \$25.4 million prorated for the scope of the audit. **Administration.** (June 2014)

**Four-County Community Services, Inc.** [INV-2014-0393](#) and [FCA-2013-9201](#)

Four-County improperly contracted for vehicles, copiers, cleaning services, and other items and services by violating conflict of interest, nepotism, and bidding policies and procedures. For fiscal years 2009 through 2012, annual expenditures for Four-County ranged from \$15 million to \$21 million in state and federal awards. This investigation resulted in over \$4.8 million in questioned costs stemming from 23 findings. **Bidding and administration.** (February 2014)

**DHHS - Selected Contracts with Vendors to Identify Improper Payments** [FCA-2012-4445](#)

Department's Program Integrity Section had not reviewed any of the three contractors' performance to ensure contractors were meeting the required accuracy rate performance standards. The contracts were worth a total of \$11 million. The expected returns on investment were estimated at as much as 1,250% for one vendor and 900% for another. Actual recovery rates were 0% and 7.1%, respectively. The benefit of the third contract was unclear. **Administration.** (July 2012)

**Department of Justice – Contract Reviews** [FCA-2012-3600](#)

The Department's process for reviewing agencies' large contracts (greater than \$1 million) is poorly designed. The department was unable to identify contracts subject to review and contracts reviewed and did not provide guidance to attorneys on what to review. At the time, state agencies spent about \$2.9 billion a year in service contracts. **Administration.** (June 2012)

**DOA – Division of Purchase and Contract – Contract Oversight** [FCA-2012-4100](#)

The Division did not provide contract management guidance for large contracts (greater than \$1 million) mandated by the General Assembly and recommended by the State Auditor in November 2010. At the time, state agencies spent about \$2.9 billion a year in service contracts. **Administration.** (June 2012)

**DHHS - Replacement MMIS Implementation** [PER-2011-7273](#)

Department did not include a specific corrective action for poor performance in its \$494.9 million contract with CSC to build a replacement Medicaid Management Information System (MMIS). **Negotiation.** (January 2012)

**DOA – Division of Purchase and Contract** [PER-2010-7254](#)

P&C has not issued written guidance on contract monitoring training and procedures. As a result, state agencies have developed their own varying contract monitoring practices and some agencies have not established the necessary structural support, performed adequate planning, or included contract terms and conditions necessary for effective monitoring of service contracts to ensure that the State receives the services for which it paid. Of the agencies examined the Office of Information Technology Services reported oversight responsibility for \$543.9 million in contracts; the Department of Transportation, \$4.1 billion; and the Housing Finance Agency, \$3.2 billion. **Administration.** (November 2010)

**DHHS - Oversight of the Mental Health Services Utilization Review Contract** [PER-2008-7238](#)

Department did not prove it performed any audits to ensure contractor complied with contract performance standards. The contract was valued at \$57.2 million over five years. The audit scope covered a six-month period. Auditors were unable to evaluate contract effectiveness due to lack of documentation by DHHS. **Administration.** (July 2008)

## **INFORMATION TECHNOLOGY – PROJECT IMPLEMENTATION**

### **Department of State Treasury – Core Banking System Pre-Implementation [ISA-2015-3400](#)**

The Core Banking system upgrade project had significant risks that could jeopardize a successful go-live if not addressed by the Department. Risks included insufficient oversight, testing of system readiness, risk and issue management, and data verification and go-live plans. The estimated cost of the Core Banking System was \$5 million. (May 2015)

### **Department of Health and Human Services – NC Tracks – Post Implementation [ISA-2013-4410B](#)**

Since going live, the NC Tracks system encountered more than 3,200 defects, had an inadequate framework and plan for resolving the defects. Some federal and state mandated changes were not implemented within their target or mandated dates. The system cost \$494.9 million. (December 2013)

### **Department of Health and Human Services – NC Tracks (MMIS Replacement) Implementation [ISA-2013-4410](#)**

The Department did not have criteria to determine if the system is ready to go-live and failed to adequately test the system. Key decisions about privacy and security procedures had not been made. A vendor hired to oversee the project did not conduct independent verifications as expected by the Centers for Medicare and Medicaid, and another vendor was permitted to set its own guidelines for whether its work was acceptable. The system cost \$494.9 million. (May 2013)

### **Office of Information Technology Services – IT Project Budget and Schedule Variances [PER-2013-7283](#)**

Initial estimates of state agency IT project costs and timelines are not reliable and predictable. For 84 IT projects, actual costs were more than twice (an additional \$356.3 million) the original cost estimates and took about 65% (389 days) longer to complete than originally estimated. (April 2013)

## **INFORMATION TECHNOLOGY – SECURITY**

### **Department of Information Technology – Information Technology General Controls [ISA-2016-4660](#)**

Publicly reported and confidential (non-reported) findings related to security of hosted IT operations. (July 2016)

### **Department of Information Technology - Executive Branch Security Governance and Management [ISA-2015-4660](#)**

The Department does not have all governance and management activities in place to ensure effective oversight of Executive Branch IT security and has deficiencies in its prevention, detection, and response processes to effectively protect government systems and data. (May 2016)

### **Fayetteville State University – Information Technology General Controls [ISA-2015-6088](#)**

Confidential (non-reported) findings related to security of IT operations. (January 2016)

### **North Carolina Central University – Information Technology General Controls [ISA-2015-6090](#)**

Confidential (non-reported) findings related to security of IT operations. (January 2016)

**Office of Information Technology – Information Technology General Controls** [ISA-2014-1514](#)

Publicly reported and confidential (non-reported) findings related to security of hosted IT operations. (October 2014)

**Department of Revenue – Tax and Tag Together System** [ISA-2014-4200](#)

Confidential (non-reported) findings related to security of IT operations. (October 2014)

**UNC-General Administration – Banner Hosting Services** [ISA-2013-6010](#)

Publicly reported findings related to security of hosted IT operations. (December 2013)

**Office of Information Technology – Information Technology General Controls** [ISA-2013-4660](#)

Publicly reported and confidential (non-reported) findings related to security of hosted IT operations. (July 2013)

**Office of the State Controller – Beacon Human Resources Payroll System – General Information Technology Controls** [ISA-2012-4160](#)

Publicly reported and confidential (non-reported) findings related to security of hosted IT operations. (June 2012)

## **STATE/FEDERAL GRANTS**

### **North Carolina Rural Economic Development Center [FCA-2013-7901](#)**

Job creation or other performance measures were not verified for at least five grants and grant reporting requirements were not diligently enforced. The Rural Center was responsible at the time for \$60 million in grants annually. (July 2013)

### **Department of Commerce – State Grant Funds Monitoring [FCA-2012-4600](#)**

The Department did not adequately apply grant monitoring procedures to ensure that grantees were meeting grant objectives and that grant expenditures were reasonable. As a result, there is an increased risk that approximately \$80 million in state funds disbursed in fiscal year 2011 were not being used for their intended purpose. (November 2012)

### **Federal Compliance Audit (Single Audit) [FSA-2015-8730](#), [FSA-2014-8730](#), [FSA-2013-8730](#), and [FSA-2012-8730](#)**

Single Audit looks at whether federal money granted to the state meets federal compliance guidelines. The four most recent annual Single Audits (2012-2015) had a total of 369 findings for North Carolina. During this period, the state received nearly \$87 billion in federal funding.

#### Subrecipient monitoring

The largest class of findings was subrecipient monitoring with 124 findings, or 31%, of all of findings during that period. Subrecipients received \$13.8 billion in grants from 2012-15. Three agencies (DPI – 49; DHHS – 35; and Commerce – 19) accounted for more than 80% of the state's subrecipient monitoring findings. The types of shortcomings noted included lack of a subrecipient monitoring plan; not carrying out the plan; lack of documentation to prove monitoring; failure to communicate results of monitoring to subrecipients and ensure corrective action taken.

#### Special Tests and Provisions

Special tests and provisions are specific requirements unique to an individual federal program. They are described in statutes, regulations, and contract provisions or grant agreements for the program. Auditors had 79 findings (20%) in this category. Examples include:

- NCDOT had a repeat finding in FY 2013-15 for not adequately testing concrete and asphalt used in road and bridge construction. Also, NCDOT had multiple years of repeat findings for not ensuring contractors paid employees the proper wages.
- Medicaid had a repeat finding in FY 2012-15 for not properly administering its provider enrollment and termination process.
- Universities and community colleges had repeat findings in FY 2014-15 for student financial aid enrollment reporting errors and errors in the calculation of return of money for students who withdrew from school.

#### Allowable Costs

A total of 48 findings (12%) found that money was not spent in accordance with federal rules or guidelines. Of these, 41 (85%) were written at DHHS. They included significant repeated findings for deficiencies and errors in provider billing and payment for Medicaid, CHIP, Vocational Rehabilitation

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and Substance Abuse programs. Using a statistical sampling model, OSA estimated that the state overpaid Medicaid \$845 million in fiscal year 2015.

Eligibility

A total of 48 findings (12%) found deficiencies in how the state determines eligibility for programs funded by federal dollars. Of these, 39 (81%) were written at DHHS. The majority of them are related to deficiencies in the county eligibility determination process, a repeat finding from 2012-15. The state lacked documentation to support eligibility determinations or miscalculated the financial need for services. These findings were determined by auditors of counties.