



DEPARTMENT OF HEALTH AND HUMAN SERVICES  
OFFICE OF GOVERNMENT AFFAIRS

ROY COOPER  
GOVERNOR

MANDY COHEN, MD, MPH  
SECRETARY

BEN POPKIN  
ASSISTANT SECRETARY FOR LEGISLATION

March 30, 2017

**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 Tim Moore, 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' Office of Internal Auditor to monitor implementation of monitor the implementation of the Department's response to any audit of the Department conducted by the State Auditor pursuant to law 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 General Statute. In accordance with the requirement found in General Statute §143B-216.51(g), please find the attached reports.

Should you have any questions regarding the report, please contact Chet Spruill, Director of the Office of the Internal Auditor, at 919-855-3662.

Sincerely,

Ben Popkin  
Assistant Secretary for Legislation

cc:	Chet Spruill	Denise Thomas	Marjorie Donaldson	Kolt Ulm
	Theresa Matula	Rod Davis	Joyce Jones	Pam Kilpatrick
	Susan Jacobs	Lindsey Dowling	LT McCrimmon	Ben Popkin
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*Office of the Internal Auditor*  
HEALTH AND HUMAN SERVICES

Follow-up Assessment of the Department's Response to  
the Findings and Recommendations Identified in the  
State of North Carolina Single Audit Report for  
the Fiscal Year Ended June 30, 2015

Issued by the Office of the State Auditor,  
March 29, 2016

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September 26, 2016

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September 26, 2016

Secretary Richard O. Brajer  
N.C. Department of Health and Human Services  
Adams Building, 101 Blair Drive  
Raleigh, NC 27603

The Office of the Internal Auditor (OIA) has conducted a follow-up assessment of the Department of Health and Human Services' (Department) response to the findings and recommendations identified in the State of North Carolina Single Audit Report for the fiscal year ended June 30, 2015, FSA-2015-4410 and FSA-2015-8730. The reports were issued by the Office of the State Auditor (OSA) on March 28, 2016 and March 29, 2016, respectively.

#### Conclusion

OIA observed sufficient evidence to conclude that the Department has taken appropriate corrective action to reduce the risks identified in 13 of the 50 findings noted in OSA's audit report. In our opinion, the corrective action taken in relation to each of those 13 findings was adequate to reduce the risk that the finding would continue to exist in subsequent periods. The Department has taken some action to reduce the risks identified in the remaining 37 of the 50 findings identified by OSA; however, the corrective action taken is not sufficient to reduce the risk that the finding would continue to exist in subsequent periods. The Department has included in this report the anticipated completion date of corrective action for each of the 37 partially resolved findings. A summary of each of OSA's findings and recommendations and OIA's observed results are included in Appendix A. Due to their sensitive nature and pursuant to G.S. 132-6.1(c), a separate letter will be issued to you that includes detailed follow-up results from the six security-related findings noted in OSA's audit report.

#### Objective

The objective of our follow-up assessment was to evaluate whether the Department has taken appropriate corrective action in response to OSA's findings and recommendations. Our follow-up assessment was conducted pursuant to G.S. 143B-216.51(g). The General Statute requires OIA to issue a report to the Secretary on the status of corrective actions taken by the Department of Health and Human Services no later than six months after the State Auditor publishes any audit report pursuant to law. A copy of this report shall also be filed with the Joint Legislative Commission on Governmental Operations pursuant to the General Statute.

#### Scope

The scope of our follow-up program encompasses the review of all activities directed toward the resolution of the risks associated with the findings and recommendations as provided by OSA, as well as management's action plan from the original audit report.

### Methodology

In order to form an opinion on the current status of each of the 50 findings identified, we performed the following functions:

- We reviewed and discussed the audit report with OSA in order to gain a better understanding of the findings.
- We discussed with Department management the basis for any findings and the corrective actions which were to be implemented.
- We conducted subsequent tests to evaluate whether corrective actions taken by the Department were implemented and reduce the risk that the finding would continue to exist in subsequent periods.

We express our appreciation to the management and staff of the Department of Health and Human Services and the Office of the State Auditor for their cooperation and assistance provided during this follow-up assessment.

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Chet Spruill  
Director, Office of the Internal Auditor

## **APPENDIX A**

### **SUMMARY OF OSA'S FINDINGS AND RECOMMENDATIONS AND DEPARTMENT OIA'S FOLLOW-UP RESULTS**

#### **1) OSA FINDING AND RECOMMENDATION 2015-002: DEFICIENCIES IN SYSTEM ACCESS CONTROLS 10.551 SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM DIVISION OF SOCIAL SERVICES**

Finding 2015-002: The results of our audit disclosed deficiencies considered reportable under generally accepted Government Auditing Standards. These deficiencies regard security, which due to their sensitivity, are reported to the Department by separate sensitive letter. Pursuant to North Carolina General Statute 132-6.1(c), the sensitive letter including your responses will not be publicly released.

Similar aspects of this finding were reported in the prior year.

*Federal Award Information:* This finding affects Supplemental Nutrition Assistance Program for federal fiscal years ended September 30, 2014, and September 30, 2015.

Agency Response: The Department is committed to maintaining adequate information security and system access controls. The Department has designed and/or implemented corrective actions to address the risks identified in this audit. These corrective actions have been detailed in a response separately submitted to the State Auditor. Security risks are given the highest priority by the Department and corrective actions will be monitored by senior leadership.

Corrective Action Plan: The Department is committed to maintaining information security and system access controls. As a result, we have implemented or are implementing corrective actions to address the risks identified by the audit team. These corrective actions have been detailed in a response separately submitted to OSA. Any potential security risks or noncompliance are given the highest priority by DHHS and corrective actions will be monitored by the DHHS senior leadership team.

*Anticipated Completion Date:* February 12, 2016

#### **OIA Follow-up Results**

Per OIA follow-up, NC FAST has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-002. Due to the sensitivity of the finding, details of OIA's follow-up activities are not included in this report. A separate letter will be issued to the Secretary with detailed follow-up results.

We consider this finding partially resolved, with an anticipated completion date of October 31, 2016.

## 2) OSA FINDING AND RECOMMENDATION 2015-003: DEFICIENCIES IN NC FAST PROGRAM CHANGE CONTROLS

### 10.551 SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

#### *DIVISION OF SOCIAL SERVICES*

Finding 2015-003: There were NC FAST change requests for the Supplemental Nutrition Assistance Program (SNAP) that did not have approvals before implementation. All NC FAST changes affecting compliance for the SNAP program were tested for evidence of approvals before implementation. Of the 31 changes, there were five (16%) that did not have evidence of the designated program expert's approval.

Failure to approve changes before implementation could result in noncompliance with eligibility rules for the SNAP program. This could potentially adversely affect the outcomes to SNAP participants and/or payment of erroneous benefits.

The Department did not ensure that the program change approvals were being performed and documented.

The Statewide Information Security Manual, dated January 2015, standard 040405 states "adequate management of system change control processes shall require...proper authorization and approvals at all levels". The standard's guidelines include a best practice requiring formal agreements and approvals for any changes. Under standard 040203 software upgrades shall not be installed until the following conditions are met:

- "Qualified personnel certify that the upgrade has passed acceptance testing.
- Management has agreed that the desired acceptance criteria have been met."

*Federal Award Information:* This finding affects Supplemental Nutrition Assistance Program for federal fiscal years ended September 30, 2014, and September 30, 2015.

OSA Recommendations: The Department should ensure that all NC FAST program changes have written documentation of business approval before implementation.

Agency Response: The Department is committed to maintaining compliance with program change control requirements as noted in the Statewide Information Security Manual. Adequate program change control procedures have been in place in the division. While division personnel consistently performed the required acceptance testing, the Department agrees that documentation of the approval was not always maintained. The Department will reemphasize the need and requirement to maintain adequate approval documentation.

Corrective Action Plan: The Department performed two corrective actions. The Director of NC FAST communicated with staff on the importance of fully documenting approvals for program changes. The Department also updated the standard language for personnel to use for program changes in a local procedure document.

*Anticipated Completion Date:* October 14, 2015

**OIA Follow-up Results**

Per OIA follow-up, NC FAST has fully implemented procedures to address the finding as of August 11, 2016. NC FAST provided guidance to staff regarding standard wording to use when documenting approvals and communicated the importance of obtaining and maintaining documentation of approvals. Further, NC FAST established an email service account to store all approvals. OIA reviewed the updated guidance provided to NC FAST staff, reviewed the email service account used to store approvals, tested a sample of changes from the system change log, and verified that approvals were obtained and documented according to guidelines.

OIA determined that the Division has fully implemented the corrective action plan and adequately mitigated the risk associated with finding 2015-003 to an acceptable level to prevent this finding from recurring.

We consider this finding resolved as of August 11, 2016.

### **3) OSA FINDING AND RECOMMENDATION 2015-004: MANAGEMENT DECISIONS WERE NOT COMMUNICATED TIMELY**

10.551 SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

*DIVISION OF SOCIAL SERVICES*

Finding 2015-004: The Department did not communicate management decisions to subrecipients (in response to audit results) in a timely manner.

Auditors reviewed a sample of 28 annual subrecipient audit reports for the 138 governmental entities to which the Department passes through federal funds. The auditors found the following:

- For nine of the 28 (32%) subrecipient audit reports reviewed, management decisions were issued between 29 and 121 days late.
- For two of the 28 (7%) subrecipient audit reports reviewed, management decisions had not been issued at the time of audit.

The failure to issue a management decision on the results of the audit in a timely manner increases the risk that corrective actions will not be initiated timely by the subrecipient, including requirements to repay disallowed costs, make financial adjustments or meet other grant requirements. Delaying the implementation of the management decision increases the risk of further instances in noncompliance and allows the possible misuse of funds to continue.

According to the Department, at the end of fiscal year 2015, they underwent a significant reorganization. In preparation for and during the transition, resources were shifted and priority was not given to communicating management decisions.

Federal regulations require pass-through entities to issue a management decision on the results of the subrecipient's audit within 6 months of receipt of the audit report.

*Federal Award Information:* This finding affects the following federal programs:

- 10.551 – Supplemental Nutrition Assistance Program
- 10.561 – State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (also see finding 2015-011)
- 10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children (also see finding 2015-009)
- 93.044 – Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers (also see finding 2015-061)
- 93.045 – Special Programs for the Aging Title III, Part C Nutrition Services (also see finding 2015-062)
- 93.053 – Nutrition Services Incentive Program (also see finding 2015-063)
- 93.268 – Immunization Cooperative Agreements (also see finding 2015-064)
- 93.558 – Temporary Assistance for Needy Families (also see finding 2015-069)
- 93.563 – Child Support Enforcement (also see finding 2015-070)
- 93.659 – Adoption Assistance (also see finding 2015-073)
- 93.714 – ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program (also see finding 2015-074)
- 93.767 – Children's Health Insurance Program (also see finding 2015-080)
- 93.778 – Medical Assistance Program (also see finding 2015-085)

- 93.959 – Block Grants for Prevention and Treatment of Substance Abuse (also see finding 2015-095)

OSA Recommendation: The Department should assure that priority is given to communicating management decisions timely to subrecipients.

Agency Response: The Department agrees with the finding and will ensure management decision letters are issued in a timely manner.

Corrective Action Plan: The Department will implement a tracking database which will be used to produce a monthly report showing the upcoming due dates for management decision letters. The report will be reviewed by management to ensure letters are issued timely.

*Anticipated Completion Date:* June 30, 2016

### **OIA Follow-up Results**

The Risk Management and Audit Monitoring (RMAM) team estimates the work on its database for local government grantees is 95% complete. It is currently in production use, however, the reports are still a work in progress and should be completed by the end of August 2016. RMAM estimates the report generation and review process should be available for review approximately six weeks after completion of the report format.

RMAM generally begins to receive current subrecipient audit reports in April of each year. RMAM has six months from receipt of the audit reports to issue the management decision letters and estimates their completion to be the end of October 2016. Due to this timing, OIA is unable to test the audit reports received in 2016.

The two subrecipient audit reports, for which management decisions had not been issued and which were noted in OSA's Single Audit Report, were reports for a county and a subsidiary of another county. RMAM could not provide definitive evidence that these two management responses had been sent to the respective counties.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-004.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

#### **4) OSA FINDING AND RECOMMENDATION 2015-005: DUPLICATE PAYMENTS MADE TO SNAP PARTICIPANTS**

10.551 SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM  
*DIVISION OF SOCIAL SERVICES*

Finding 2015-005: The Department made duplicate payments to participants enrolled in the Supplemental Nutrition Assistance Program (SNAP) program. During the state fiscal year 2015, the SNAP eligibility system (NC FAST) processed \$2.4 billion in SNAP benefit payments for 1.2 million households. The identified overpayments and questioned costs totaled \$352,613.

In a week in April 2015, the Department encountered a system error resulting in a large volume of duplicate payments to recipients. Total questioned costs from these duplicate payments were \$272,127.

In addition, auditors also identified the following:

- During the audit period, we identified 359 benefit payments where the participant received duplicate benefit payments for the same month on the same case. Specifically, two of these cases received 12 authorizations for the same month. Total identified questioned costs were \$80,331.
- In a sample of 74 out of 60,771 participants receiving benefits on two or more cases, auditors identified three errors where the cases overlapped from two days to one month. Total identified questioned costs were \$155. Even though the sample results identified only \$155 in questioned costs, if tests were extended to the entire population, questioned costs would likely exceed \$10,000. Federal regulations require auditors to report known questioned costs when likely questioned costs are greater than \$10,000.

As a result, the Department made at least \$352,613 of benefit overpayments to households, increasing the overall costs to the program.

According to the Department, it installed a software update in April 2015. After installation, the Department detected a system problem that resulted in a large number of duplicate payments. The Department immediately put in a system correction. Subsequent to the fiscal year end, the Department communicated the occurrence to the United States Department of Agriculture and has begun the process to recoup the overpayments. The process of identifying how many and who received overpayments plus the recoupment effort will cost the Department additional agency resources and administrative costs.

Additionally, the system did not have a process with preventive edit checks in place to detect duplicate payments before being issued to participants.

Federal regulations, state “Each State agency shall establish a system to assure that no individual participates more than once in a month, in more than one jurisdiction, or in more than one household within the State in the Food Stamp Program. To identify such individuals, the system shall use names and social security numbers at a minimum, and other identifiers such as birth dates

or addresses as appropriate. If the State agency detects a large number of duplicates, it shall implement other measures, such as more frequent checks or increased emphasis on prevention.”

*Federal Award Information:* This finding affects the Supplemental Nutrition Assistance Program for the federal fiscal years ended September 30, 2014, and September 30, 2015.

OSA Recommendation: The Department should implement system validations or edits to ensure that duplicate benefits are not provided for the same participant and/or the same period before issuing monthly benefits.

The Department should continue its efforts to recoup benefit overpayments.

Agency Response: The Department agrees with the finding and will implement an appropriate corrective action plan to meet the intent of the recommendations.

Corrective Action Plan: The Department recouped a total of \$114,504.93 from the April 2015 system error and communicated the recoupment amount to the United States Department of Agriculture.

The Department implemented the following enhancements to minimize the risk of duplicate issuances:

- a. On January 19, 2015, NC FAST added a soft validation notifying the worker that a “client is receiving on two cases.”
- b. On February 28, 2015, NC FAST added validations to account for situations where an individual has eligible and ineligible decisions for overlapping time periods on separate cases.
- c. On April 30, 2015, NC FAST:
  - Created a validation to require a person search on the person registration screen;
  - Removed the case sensitivity to return a more accurate search result and to default to the “sounds like” search option;
  - Updated the person registration to help workers correctly register clients.
- d. On June 30, 2015, NC FAST implemented and continues to check the records in the CNDS result set against NC FAST person records. If the CNDS person exists in NC FAST, the person search result displays as source NC FAST. There will also be a validation and error message on the Register Person screen to prevent duplicate person registration if the CNDS person selected already exists in NC FAST.
- e. On January 25, 2016, NC FAST added a hard stop validation to the system preventing clients from receiving payments on two cases at the same time.

The Department is currently testing a Dual Issuance Batch process that will identify dual issuances and place them on hold. The following events will be added with the new batch process:

- a. Create a new issuance status, including status workflow and security roles for the status;
- b. Create a new queue to assign dual issuance cases for business review;
- c. Create a cancellation workflow, creating benefit evidence record and inserting a case note;
- d. Update the Payment Instrument to clearly reflect cancellation of payment as a dual issuance;
- e. Send a notification to the caseworker of the cancellation as a result of the dual issuance;

f. Test features, such as the new screens, by reviewing and canceling the dual issuances until the Dual Issuance Batch process is fully implemented.

The Department will continue performing its standard operating procedures and working diligently to resolve the duplicate benefit issues with the software vendor as well as making local enhancements to the system.

*Anticipated Completion Date: May 31, 2016*

### **OIA Follow-up Results**

Per OIA follow-up, the following system updates were implemented: a soft validation notifying the worker that a client is receiving on two cases, validations to account for individuals with eligible and ineligible decisions for overlapping periods on separate cases, a validation to require a person search on the person registration screen, an update to default the person search to the “sounds like” search option, the addition of a “show duplicates” checkbox to help workers correctly register clients, an update to ensure records are checked in the Common Name Data Service (CNDS), and a hard stop validation to prevent clients from receiving payments on two cases at the same time, even if the original case is closed.

In addition, a dual issuance prevention batch process was implemented to identify any dual issuances, place them on hold, and cancel payment. With the system enhancement, the root cause has been fully addressed.

DSS investigated and set up recoupment of the overpayments arising from the system error which resulted in duplicate payments of \$272,172. However, DSS and NC FAST had not attempted to recoup all of the overpayments related to the questioned costs of \$80,486.

OIA determined that DSS has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-005.

We consider this finding partially resolved with an updated anticipated completion date of October 31, 2016.

**5) OSA FINDING AND RECOMMENDATION 2015-006: CHANGES MADE TO CASES RESULT IN PAYMENTS MADE OUTSIDE OF CERTIFICATION PERIOD**

10.551 SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

*DIVISION OF SOCIAL SERVICES*

Finding 2015-006: The Department did not discontinue Supplemental Nutrition Assistance Program (SNAP) benefit payments to participants after the end of their certification period. During state fiscal year 2015, the SNAP eligibility system (NC FAST) processed \$2.4 billion in SNAP benefit payments for 1.2 million households.

Auditors identified the following errors:

Auditors reviewed a sample of 117 out of 2,076 cases where participants received a payment subsequent to their certification period. Six (5%) of the cases received benefits after the case was closed. Total questioned costs were \$1,102.

In addition, auditors reviewed a sample of 72 out of 44,911 cases that changed from a closed status to another status. Three (4%) closed cases were reopened by case workers. Two cases resulted in payments for ineligible periods and one case resulted in an underpayment. Total questioned costs were \$221.

As a result, the Department made at least \$1,323 of benefit overpayments to households, increasing the overall costs to the program. If tests were extended to the entire population, questioned costs could be significant to the program.

Case workers are allowed to manually close and reopen closed cases, but no review is performed to ensure that the changes are appropriate.

Federal regulations require the eligibility system to “Provide for an automatic cutoff of participation for households which have not been recertified at the end of their certification period.”

In addition, federal regulations also state that “If a household submits an application after the household’s certification period has expired, that application shall be considered an initial application and benefits for that month shall be prorated.” Cases should not be reopened in these instances.

Similar aspects of this finding were reported in previous years.

*Federal Award Information:* This finding affects the Supplemental Nutrition Assistance Program for the federal fiscal years ended September 30, 2014, and September 30, 2015.

OSA Recommendation: The Department should develop a review process to ensure cases that change from a closed status are reopened appropriately.

Agency Response: The Department is committed to administering the SNAP program in accordance with Federal requirements and State policy and very pleased to report significant progress in this area. Accordingly, the Department is pleased to note that while similar aspects of

this finding were reported in the prior year, the error rate for inappropriately re-opened cases dropped from 10% for SFY 2014 to 4% for this SFY 2015 audit. Likewise, the error rate for payments made after a certification period declined significantly from 71% in SFY 2014 to 5% for this SFY 2015 audit.

The NC FAST system experienced a system processing error which caused the 6 pending payments to be held in transition. In an effort to deliver the benefits to the recipients in a timely manner, several workers closed the cases and generated new cases which processed payments properly and recipients received their benefits. Unfortunately, when the system processing error was resolved, the payments which were held in transition on the closed cases unexpectedly processed resulting in duplicate payments being issued. This error was identified prior to the audit review and efforts have been put in place to recoup the overpayments by reducing future benefit payment amounts. The payments appeared to be made subsequent to the certification period because the closed date on the previous case had to be set for the month prior to the certification period in order to rekey the case and issue the benefits timely.

The Department reviewed the 3 cases that were deemed to be reopened inappropriately and agrees that one of the cases was in fact reopened when it should not have been. A detailed review of the other 2 cases revealed that they were reopened in accordance with the Department's SNAP Policy Manual, however, workers did not clearly document the reason for reopening the cases.

Corrective Action Plan: On January 24, 2015, the NC FAST financial payment batch process was updated to allow for all payments to process immediately.

On January 25, 2016, a hard stop validation was added to the system to prevent clients from receiving payments on two cases at the same time.

In addition, the correction action plan outlined in the prior year was successfully implemented and no further action is necessary.

*Anticipated Completion Date:* January 25, 2016

### **OIA Follow-up Results**

Per OIA follow-up, the Division of Social Services (DSS) removed a validation from the financial payment batch process code that had caused duplicate payments to be made outside the certification period. In addition, a hard stop validation was created to prevent clients from receiving payments on two cases at the same time. OIA also verified that DSS successfully implemented corrective actions for a prior year finding that mitigate the risk of cases being reopened inappropriately, including a requirement for caseworkers to select from a list of valid reasons when reopening a case. The requirement ensures the reason for reopening a case is clearly documented. Two of the three cases cited by OSA were issues due to caseworkers entering incorrect start dates. DSS's Operational Support Team will send a reminder to the county DSS offices regarding start date policies. DSS was unable to provide evidence that claims have been set up to recoup the overpayments cited by OSA.

DSS has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-006.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

**6) OSA FINDING AND RECOMMENDATION 2015-007: SNAP ELIGIBILITY DETERMINATIONS AND BENEFIT CALCULATIONS NOT PERFORMED ACCURATELY**

10.551 SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

*DIVISION OF SOCIAL SERVICES*

Finding 2015-007: The Department had numerous deficiencies in the Supplemental Nutrition Assistance Program (SNAP) eligibility determination and benefit calculation processes. During state fiscal year 2015, the SNAP eligibility system (NC FAST) processed \$2.4 billion for 1.2 million households. The net underpayments identified were \$4,672.

During the audit, auditors identified the following errors in the eligibility determination and benefit calculation process:

- In 21 out of 294 (7%) cases the eligibility system did not calculate income or deductions correctly. These errors resulted in net underpayments of \$4,672.

The 21 cases contained the following types of errors in the components used to calculate benefit amounts, with some cases having multiple types of errors:

- In 10 cases, the shelter deduction was not calculated correctly.
  - In three cases, the household composition was incorrect. Two cases did not include all eligible participants. One case included an ineligible participant.
  - In three cases, the participant benefits were not updated to include the new federal rates effective October 1, 2014.
  - In three cases, the incorrect household income was used in the benefit calculation. Two cases did not use the updated income as shown in the system. In one case, the system counted the income twice.
  - In two cases, the system did not correctly calculate the prorated amount for participants in their first month of benefits.
  - In addition, auditors also noted that in four cases, the system showed documentation had been deleted from the case. Without the documentation, the auditors were unable to verify the accuracy of eligibility and benefit system calculations.
- In 12 out of 227 (5%) households, notices were not sent to participants communicating major changes in their case status such as eligibility or benefit calculations.
  - The auditors performed a system validation test and determined that the eligibility system does not deny benefits to secondary education students when they do not meet the federal work requirements. Specifically, the auditors entered hours less than the federal requirement into a test environment and validated that the system did not deny eligibility.

As a result, the Department made improper payments to households which could result in eligible participants not receiving the necessary amount of nutrition assistance. Additionally, the Department could incur additional administrative costs to reprocess the benefit underpayments and in determining improper payments made to secondary education students.

According to the Department, the issues were caused by processing errors in the eligibility system that were not detected. Also, case workers deleted information from the eligibility system that prevented auditors from determining the accuracy of the eligibility and benefit system calculations.

Federal regulations require state agencies to maintain an efficient and effective food stamp system. State agencies are also required to determine household eligibility and benefit levels accurately. This determination should include all federally required criteria including, but not limited to specific household income and deductions, household composition, and new federal rates.

Federal regulations for the SNAP program also include the following:

- Federal regulations require the eligibility system to “notify the certification unit (or generate notices to households) of cases requiring Notices of (A) Case Disposition, (B) Adverse Action and Mass Change, and (C) Expiration.”
- Federal regulations require students to “be employed for a minimum of 20 hours per week and be paid for such employment or, if self-employed, be employed for a minimum of 20 hours per week and receiving weekly earnings at least equal to the Federal minimum wage multiplied by 20 hours” or meet qualified exemptions to be eligible for the SNAP program.

Similar aspects of this finding were reported in the prior year.

*Federal Award Information:* This finding affects the Supplemental Nutrition Assistance Program for the federal fiscal years ended September 30, 2014, and September 30, 2015.

OSA Recommendation: The Department should implement system enhancements to ensure the eligibility system is accurately processing and calculating household eligibility and participant benefits.

The Department should prohibit case workers from deleting information that was used in system calculations.

The Department should also ensure notices are properly sent to participants.

Agency Response: The Department is committed to administering the SNAP program in accordance with Federal requirements and State. The Department reviewed all 21 cases noted and agrees that 16 of the cases contained errors, though not all errors were caused by the system as indicated. The Department agrees that errors in shelter deduction amounts were noted for 10 cases, participant benefits were not calculated on new rates for 3 cases, prorated amounts were incorrect for 2 cases and 1 case contained an error in the household composition. Additional documentation was available in the system to determine the Department’s disagreement with the 2 household composition and 3 household income errors noted.

Additionally, the Department agrees that evidence was mistakenly deleted for 4 cases, notices were not sent to 12 households and benefits were not denied for secondary education students who did not meet Federal work requirements.

The Department will take appropriate action to reduce the opportunity for the errors to reoccur.

Corrective Action Plan: On March 4, 2015, the Department corrected one of the household income errors.

The Department will also:

1. Enhance the NC FAST System to capture any deletions made by the caseworker;
2. Enhance the NC FAST System to correct shelter deduction, household composition, household income and proration errors;
3. Implement additional process steps to ensure that all cases are reassessed during the 2016 Mass Change update;
4. Review the 12 cases that did not receive notices and determine if the issues are already part of the pending enhancements slated for implementation;
5. Enter a change request to add a rule that will deny benefits to secondary education students that do not meet the federal work requirements;
6. Provide additional training to the departments of social services.

*Anticipated Completion Date:* August 31, 2016

### **OIA Follow-up Results**

Per OIA follow-up, the Division of Social Services (DSS) has created a report to show cases that did not update to the new federal rates during the Mass Change Update. OIA verified that DSS sent the report to the counties asking them to review the cases and make adjustments to the cases as necessary, to ensure they can be reassessed.

DSS plans to implement enhancements to NC FAST to correct the shelter deduction, household composition, household income, secondary education student determinations, and to capture deletions made by caseworkers. DSS also plans to investigate the 12 cases that did not receive notices, and to provide additional training to the county departments of social services. DSS has not completed the process of investigating and recouping overpayments.

DSS has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-007. Successful implementation of the corrective action plan is expected to mitigate the risk to an acceptable level to prevent the finding from recurring in the future.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

**7) OSA FINDING AND RECOMMENDATION 2015-008: DEFICIENCIES IN SYSTEM ACCESS CONTROLS**  
10.557 SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN  
DIVISION OF PUBLIC HEALTH

Finding 2015-008: The results of our audit disclosed deficiencies considered reportable under generally accepted *Government Auditing Standards*. These deficiencies regard security, which due to their sensitivity, are reported to the Department by separate sensitive letter. Pursuant to *North Carolina General Statute 132-6.1(c)*, the sensitive letter including your responses will not be publicly released.

*Federal Award Information:* This finding affects the Special Supplemental Nutrition Program for Women, Infants, and Children federal grant award 5NC705W for the federal fiscal years ended September 30, 2014 and 2015.

Agency Response: The Department is committed to maintaining adequate information security and system access controls. The Department has designed and/or implemented corrective actions to address the risks identified in this audit. These corrective actions have been detailed in a response separately submitted to the State Auditor. Security risks are given the highest priority by the Department and corrective actions will be monitored by senior leadership.

Corrective Action Plan: The Department is committed to maintaining information security and system access controls. As a result, we have implemented or are implementing corrective actions to address the risks identified by the audit team. These corrective actions have been detailed in a response separately submitted to OSA. Any potential security risks or noncompliance are given the highest priority by DHHS and corrective actions will be monitored by the DHHS senior leadership team.

*Anticipated Completion Date:* April 30, 2016

**OIA Follow-up Results**

Per OIA follow-up, the Information Technology Division (ITD) - Crossroads support team has implemented the corrective action plan and mitigated the risk associated with finding 2015-008 to an acceptable level to prevent this finding from recurring. Due to the sensitivity of the finding, details of OIA's follow-up activities are not included in this report. A separate letter will be issued to the Secretary with detailed follow-up results.

We consider this finding resolved as of July 21, 2016.

**8) OSA FINDING AND RECOMMENDATION 2015-009: MANAGEMENT DECISIONS WERE NOT COMMUNICATED TIMELY**

10.557 SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN  
DIVISION OF PUBLIC HEALTH

Finding 2015-009: The Department did not communicate management decisions to subrecipients (in response to audit results) in a timely manner. See finding 2015-004 for a description.

OSA Recommendation (see finding 2015-004): The Department should assure that priority is given to communicating management decisions timely to subrecipients.

Agency Response (see finding 2015-004): The Department agrees with the finding and will ensure management decision letters are issued in a timely manner.

Corrective Action Plan: The Department will implement a tracking database which will be used to produce a monthly report showing the upcoming due dates for management decision letters. The report will be reviewed by management to ensure letters are issued timely.

*Anticipated Completion Date:* June 30, 2016.

**OIA Follow-up Results (also see OIA Follow-up Results finding 2014-004)**

The Risk Management and Audit Monitoring (RMAM) team estimates the work on its database for local government grantees is 95% complete. It is currently in production use, however, the reports are still a work in progress and should be completed by the end of August 2016. RMAM estimates the report generation and review process should be available for review approximately six weeks after completion of the report format.

RMAM generally begins to receive current subrecipient audit reports in April of each year. RMAM has six months from receipt of the audit reports to issue the management decision letters and estimates their completion to be the end of October 2016. Due to this timing, OIA is unable to test the audit reports received in 2016.

The two subrecipient audit reports, for which management decisions had not been issued and which were noted in OSA's Single Audit Report, were reports for a county and a subsidiary of another county. RMAM could not provide definitive evidence that these two management responses had been sent to the respective counties.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-009.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

**9) OSA FINDING AND RECOMMENDATION 2015-010: MONITORING OF CHILD AND ADULT CARE FACILITIES HAD WEAKNESSES**

10.558 CHILD AND ADULT CARE FOOD PROGRAM

*DIVISION OF PUBLIC HEALTH*

Finding 2015-010: The Department did not properly perform compliance reviews/monitoring over child and adult care facilities related to recordkeeping, meal counts, administrative costs, facility licensing, etc. During state fiscal year 2015, the Department paid \$93.7 million to reimburse 729 facilities for providing healthy meals and snacks to children and adults receiving day care as a part of the Child and Adult Care Food Program (CACFP).

Auditors identified the following weaknesses in the monitoring of child and adult care facilities:

- 53 out of 79 (67%) review reports of seriously deficient facilities were not reviewed by the Department. Facilities that are found to be seriously deficient require a quality review of the monitoring results to ensure that the monitoring was completed accurately.
- 12 out of 50 (24%) reviews that resulted in adjustments in the amount paid to the facility were not adjusted. The total amount of overpayments that were not adjusted was \$1,620.
- 4 out of 729 (0.5%) facilities were not monitored by the Department on a three year rotation as required. One of these facilities has had no review since joining the program in fiscal year 2011.

Undetected or uncorrected noncompliance with federal guidelines could result in excess spending and increase the overall cost of the program.

According to the Department, all monitoring reviews were not performed because the annual monitoring schedule was not complete. The database used to generate annual monitoring schedules was not compared to the payments made to facilities to ensure all paid facilities were on the schedule.

Further, according to the Department, they had significant turnover. This resulted in the Department having limited ability to perform quality reviews of monitoring results or review documentation on which underpayments or overpayments would have been reported.

Federal regulations state, “Independent centers and sponsoring organization of 1 to 100 facilities must be reviewed at least once every three years” and “new institutions that are sponsoring organizations of five or more facilities must be reviewed within the first 90 days of Program operations.”

The Department’s program policy requires a quality review be conducted on all monitoring reviews submitted as seriously deficient. In addition, the Department’s contracting policy requires some form of monitoring schedule in place for each contract to determine whether the contractor will meet the terms and goals noted in the contract.

Federal regulations require the disallowance of any portion of claims that are incorrect and recover any payment to an institution this is not properly payable.

Similar aspects of this finding were reported in the prior year.

*Federal Award Information:* This finding affects the Child and Adult Care Food Program federal grant awards 5NC300N1099 and 5NC300N2020 for the federal fiscal years ended September 30, 2014, and 2015, respectively.

OSA Recommendations: The Department should ensure the database used to generate annual monitoring review schedules is compared to the payments made to facilities to ensure all paid facilities are on the schedule. The Department should ensure that priority is given to reviewing the results of monitoring reviews and documentation of under/overpayments.

Agency Response: The Department agrees with the findings identified in the area of subrecipient monitoring of the Child and Adult Care Food Program (CFDA # 10.558). The Nutrition Services Branch (NSB) is committed to providing quality nutrition services to the citizens of North Carolina. We will implement corrective actions to help minimize the risks identified in this audit.

Corrective Action Plan: The Nutrition Services Branch (NSB) has implemented the follow actions:

- Documented procedures to ensure that all institutions submitted as seriously deficient will have a quality review.
- Hired temporary staff to assist in conducting quality reviews.
- Revised scheduling database policy to ensure that all institutions are monitored according to 7 CFR Part 226.
- Hired administrative review coordinator who is responsible for tracking the administrative reviews and ensuring that all institutions are monitored within the appropriate timeframe.

NSB will monitor each of the implemented actions and modify existing controls and procedures as necessary.

*Anticipated Completion Date:* June 30, 2016

### **OIA Follow-up Results**

Per OIA follow-up, the Division of Public Health (DPH) has documented procedures to ensure that all institutions submitted as seriously deficient will have a quality review going forward and has hired staff to assist in conducting quality reviews. DPH has also revised their scheduling database policy to ensure all institutions are monitored according to 7 CFR Part 226. In addition, DPH has hired an administrative review coordinator who is responsible for tracking the administrative reviews and ensuring that all institutions are monitored within the appropriate time frame.

The process of performing quality reviews on seriously deficient facilities was formalized in March 2016, though several seriously deficient facilities have had quality reviews as early as January 2016. Four seriously deficient facilities were tested during the period January 1, 2016 to August 18, 2016 and were found to have had quality reviews.

Adjustments in the amounts paid to facilities were made. Also, 3 of the 4 facilities that were previously not monitored, have now been monitored by DPH. DPH did not perform its initial review on the fourth facility that was to be conducted within the first 90 days of operation. DPH anticipates that this facility will be monitored by December 31, 2016.

DPH has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-010.

We consider this finding partially resolved with an anticipated completion date of December 31, 2016.

**10) OSA FINDING AND RECOMMENDATION 2015-011: MANAGEMENT DECISIONS WERE NOT COMMUNICATED TIMELY**

10.561 STATE ADMINISTRATIVE MATCHING GRANTS FOR THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM  
*DIVISION OF SOCIAL SERVICES*

Finding 2015-011: The Department did not communicate management decisions to subrecipients (in response to audit results) in a timely manner. See finding 2015-004 for a description.

OSA Recommendation (see finding 2015-004): The Department should assure that priority is given to communicating management decisions timely to subrecipients.

Agency Response (see finding 2015-004): The Department agrees with the finding and will ensure management decision letters are issued in a timely manner.

Corrective Action Plan: The Department will implement a tracking database which will be used to produce a monthly report showing the upcoming due dates for management decision letters. The report will be reviewed by management to ensure letters are issued timely.

*Anticipated Completion Date*: June 30, 2016

**OIA Follow-up Results**

The Risk Management and Audit Monitoring (RMAM) team estimates the work on its database for local government grantees is 95% complete. It is currently in production use, however, the reports are still a work in progress and should be completed by the end of August 2016. RMAM estimates the report generation and review process should be available for review approximately six weeks after completion of the report format.

RMAM generally begins to receive current subrecipient audit reports in April of each year. RMAM has six months from receipt of the audit reports to issue the management decision letters and estimates their completion to be the end of October 2016. Due to this timing, OIA is unable to test the audit reports received in 2016.

The two subrecipient audit reports, for which management decisions had not been issued and which were noted in OSA's Single Audit Report, were reports for a county and a subsidiary of another county. RMAM could not provide definitive evidence that these two management responses had been sent to the respective counties.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-011.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

**11) OSA FINDING AND RECOMMENDATION 2015-043: ERRORS IN CLAIMS PAYMENT PROCESS**  
84.126 REHABILITATION SERVICES- VOCATIONAL REHABILITATION GRANTS TO STATES  
*DIVISION OF VOCATIONAL REHABILITATION SERVICES*

Finding 2015-043: The Department processed more than 103,000 payments for vocational rehabilitation services totaling more than \$55 million during state fiscal year 2015. One hundred seven (107) of 226 (47%) payments tested contained errors. The total errors identified resulted in net overpayments of \$104,277 and federal questioned costs of \$82,066.

Examples of the errors detected included:

- Payment amount was calculated incorrectly and/or paid at the wrong rate for 104 claims totaling \$88,397.
- Inadequate documentation to support the payment for 10 claims totaling \$25,394.
- Payment amount did not apply available third party benefits first for 3 claims totaling \$8,214
- Provided service was not on the individual's plan of employment for 1 claim totaling \$3,432.

Some claims payments had numerous errors detected.

In accordance with OMB Circular A-133 Section .510(a)(3), auditors must report known questioned costs when likely questioned costs are greater than \$10,000. Therefore, the overpayments of \$104,277 (federal share \$82,066) are being questioned. The estimated errors in the population are \$4.77 million, +/- 4%.

As a result, the Department made improper payments of program funds that could have been used to provide additional rehabilitation services to other eligible clients, or reduce program cost.

Implementation of a new claims processing system (BEAM) occurred during the year under audit. According to the Department, they delayed updating Medicaid rates in the new system until the completion of the NCTracks/BEAM interface. This delay in rate updates resulted in payments made based upon incorrect rates. Correcting these errors will result in additional cost to the Department.

In addition to the rate calculation errors, the benefit determinations / claims authorizations made by counselors and the supporting documentation did not receive adequate supervisory review to detect errors and omissions in a timely manner.

Federal regulations require costs to be adequately documented; authorized; necessary and reasonable; and be consistent with program regulations that apply to the federal award.

Significant aspects of this finding were reported in previous years.

*Federal Award Information:* This finding affects the Rehabilitation Services –Vocational Rehabilitation Grants to States federal grant awards H126A130049, H126A130050, H126A140049, H126A140050, H126A150049, H126A150050 for the federal fiscal years ended September 30, 2013 to 2015.

OSA Recommendation: The Department should ensure the rates in the claim processing system are timely and consistently updated with the most current rates to ensure payments are calculated accurately. Further, the Department should ensure all third-party benefits are appropriately applied where applicable.

The Department should ensure payments are made only for authorized services and are supported by documentation.

Agency Response: The Department agrees with the errors noted for SFY2015. As of July 1, 2015, the division acquired access to NC Tracks and began manually pricing claims until the NC Tracks/BEAM interface was complete. On November 1, 2015, the interface was fully functional and the correct rates are being paid for medical, pharmaceutical, and institutional goods and services. Third-party benefits are appropriately applied except when the division, in accordance with 34CFR 361.53, elects to waive the determination of the benefits to avoid a delay in achieving an individual's employment outcome. The Department will reemphasize the need to maintain adequate documentation to support the payment of claims.

Corrective Action Plan: The Department will follow up with the collection or payment of the identified over and underpaid claims.

The Department is in the process of expanding guidance and training efforts in the use of NCTracks and other sources made available to staff for verifying third-party benefits available to program participants.

*Anticipated Completion Date:* June 30, 2016

The Department will continue to emphasize the importance of collecting and maintaining appropriate documentation corresponding to service provision through the provision of feedback obtained by ongoing case reviews by supervisors and Quality Development Specialists.

In order to address the identified need to improve compliance with existing policies in place requiring the collecting, reviewing and maintaining documentation in support of service provision, a 3-phase approach will be undertaken as follows:

- 1) Conduct an analysis of the existing policies relevant to this finding to determine which components require adjustment to best meet the business needs while improving efficiencies whenever possible;
- 2) Update and implement identified policy components requiring adjustment;
- 3) Communicate, educate and train staff about resulting policy changes followed by additional reinforcement through established case review processes.

*Anticipated Completion Date:* October 1, 2016

### **OIA Follow-up Results**

Per OIA follow-up, the Divisions of Vocational Rehabilitation Service (DVRS) and Services for the Blind (DSB) reclassified the Federal questioned costs to 100% state funds. The Divisions have expanded guidance and training efforts in the use of NCTracks and verifying third-party benefits. Also,

the Divisions have continued to address collecting and maintaining documentation through trainings and case review feedback.

The Divisions have also begun efforts of a 3-phase approach to 1) analyze existing policies relevant to errors in the claims payment process, 2) update and implement the policies requiring adjustment, and 3) communicate, educate, and train staff on the revised policies. This 3-phase approach has an anticipated completion date of October 1, 2016. Per the Director of Program Policy, Planning, and Evaluation for DVRs/DSB/DSDHH, the Divisions are on schedule to meet the target date.

DVRs and DSB have partially implemented the corrective action plan and mitigated the risk associated with finding 2015-043.

We consider this finding partially resolved with an anticipated completion date of October 1, 2016.

## 12) OSA FINDING AND RECOMMENDATION 2015-044: DEFICIENCIES IN BEAM PROGRAM CHANGE CONTROLS

84.126 REHABILITATION SERVICES- VOCATIONAL REHABILITATION GRANTS TO STATES  
*DIVISION OF VOCATIONAL REHABILITATION SERVICES*

Finding 2015-044: The Department failed to properly manage system changes for the BEAM eligibility system.

The Department implemented 96 change requests for enhancements or new components during state fiscal year 2015 and a random sample of 20 (20%) change requests was tested. Documentation of user acceptance testing (UAT) verification was not available for five (25%) of the 20 change requests sampled.

Failure to properly manage program changes increase the risk of noncompliance with eligibility rules and could result in improper payment amounts from BEAM.

The Department did not ensure user acceptance testing verification was being documented before implementation.

The Statewide Information Security Manual, dated January 2015, standard 040405 states “Adequate management of system change control processes shall require...successful testing of updates and new programs prior to their being moved into a live environment.”

Additionally, the BEAM Release Management process dated July 24, 2014 states that “UAT will occur...to unit test each individual ticket” and “these tickets will be verified or rejected as appropriate.”

*Federal Award Information:* This finding affects the Rehabilitation Services – Vocational Rehabilitation Grants to States federal grant awards H126A130049, H126A130050, H126A140049, H126A140050, H126A150049, and H126A150050 for the federal fiscal years ended September 30, 2013 to 2015.

OSA Recommendation: The Department should ensure documentation of user acceptance testing verification occurs during their formal program change management process.

Agency Response: The Department agrees with the recommendation and is committed to maintaining compliance with program change control requirements as noted in the Statewide Information Security Manual. The divisions are in the process of implementing a multi-step solution, some of which has been partially implemented.

Corrective Action Plan: DVR and DSB management is in the process of implementing the following multi-step solution, some of which has been initially implemented:

- Developed standard operating procedures and controls pertaining to user acceptance testing documentation parameters that are currently being used and refined;
- Development change cycles under normal operating conditions have been expanded to a 3-week cycle to test, document and accept/reject change items prior to loading into the

production environment, thereby giving testers increased opportunity to more thoroughly document testing procedures;

- Validate and finalize updated standard operating procedures and controls and analyze the effectiveness of the development cycle expansion.

*Anticipated Completion Date:* June 30, 2016

### **OIA Follow-up Results**

Per OIA follow-up, the Divisions of Vocational Rehabilitation Service (DVRS) and Services for the Blind (DSB) developed standard operating procedures and controls pertaining to user acceptance testing (UAT) documentation parameters. The Divisions have also expanded the development change cycles under normal operating conditions to a 3-week cycle to test, document, and accept or reject change items prior to loading into the production environment. The standard operating procedures and controls were also finalized. After analyzing the effectiveness of the development cycle expansion described above, the Divisions acknowledged that implementing the formal process was beneficial. OIA reviewed the BEAM change management control procedures and selected a sample of change requests to verify that the appropriate user acceptance approvals are in place.

DVRS and DSB have fully implemented the corrective action plan and mitigated the risk associated with finding 2015-044 to an acceptable level to prevent the finding from recurring.

We consider this finding resolved as of August 5, 2016.

**13) OSA FINDING AND RECOMMENDATION 2015-045: DEFICIENCIES IN SYSTEM ACCESS CONTROLS**  
84.126 REHABILITATION SERVICES- VOCATIONAL REHABILITATION GRANTS TO STATES  
*DIVISION OF VOCATIONAL REHABILITATION SERVICES*

Finding 2015-045: The results of our audit disclosed deficiencies considered reportable under generally accepted *Government Auditing Standards*. These deficiencies regard security, which due to their sensitivity, are reported to the Department by separate sensitive letter. Pursuant to *North Carolina General Statute 132-6.1(c)*, the sensitive letter including your responses will not be publicly released.

*Federal Award Information:* This finding affects the Rehabilitation Services –Vocational Rehabilitation Grants to States federal grant awards H126A130049, H126A130050, H126A140049, H126A140050, H126A150049, and H126A150050 for the federal fiscal years ended September 30, 2013 to 2015.

Agency Response: The Department is committed to maintaining adequate information security and system access controls. The Department has designed and/or implemented corrective actions to address the risks identified in this audit. These corrective actions have been detailed in a response separately submitted to the State Auditor. Security risks are given the highest priority by the Department and corrective actions will be monitored by senior leadership.

Corrective Action Plan: The Department is committed to maintaining information security and system access controls. As a result, we have implemented or are implementing corrective actions to address the risks identified by the audit team. These corrective actions have been detailed in a response separately submitted to OSA. Any potential security risks or noncompliance are given the highest priority by DHHS and corrective actions will be monitored by the DHHS senior leadership team.

*Anticipated Completion Date:* June 30, 2016

**OIA Follow-up Results**

Per OIA follow-up, the Divisions of Vocational Rehabilitation Service (DVRS) and Services for the Blind (DSB) have fully implemented the corrective action plan and mitigated the risk associated with finding 2015-045 to an acceptable level to prevent the finding from recurring. Due to the sensitivity of the finding, details of OIA's follow-up activities are not included in this report. A separate letter will be issued to the Secretary with detailed follow-up results.

We consider this finding resolved as of August 12, 2016.

**14) OSA FINDING AND RECOMMENDATION 2015-046: MANAGEMENT DID NOT TAKE FULL CORRECTIVE ACTION ON PRIOR RECOMMENDATIONS**

**84.126 REHABILITATION SERVICES- VOCATIONAL REHABILITATION GRANTS TO STATES**  
*DIVISION OF VOCATIONAL REHABILITATION SERVICES*

Finding 2015-046: The Department of Health and Human Services (Department) management did not take full corrective action on prior year audit findings for three major federal programs audited for the current fiscal year ended June 30, 2015.

Because management did not implement full corrective action, the following are findings in the current year:

- Rehabilitation Services - Vocational Rehabilitation Grants to States
  - Errors in Claims Payment Process – The Department made payments to providers that did not comply with federal cost requirements for the program. As described in current year finding #43, audit tests indicated a continuation in payment errors.
  - Deficiencies in Participant Eligibility Determinations – The Department did not maintain documentation to support accurate and timely eligibility determinations for the program. As described in current year finding #47, audit tests indicated a continuation in documentation errors.
- Medical Assistance Program (see finding 2015-087 also)
  - Deficiencies in Provider Enrollment and Termination Processes – The Department continued to inadequately monitor the contracted service provider to ensure eligible medical providers are enrolled and ineligible providers are terminated from the program. As described in current year finding #86, audit tests indicated an increase in enrollment and termination errors.
- Block Grants For Prevention and Treatment of Substance Abuse (see finding 2015-093 also)
  - Monitoring Procedures Need Improvement – As described in current year finding #94, the Department did not ensure Local Management Entities and Managed Care Organizations complied with applicable laws and regulations.

Failure to implement corrective action in a timely way to ensure compliance allows federal funds to potentially be used for unallowable expenditures.

Although the Department identified corrective action plans to address these deficiencies in prior years, management did not follow through to ensure corrective actions were taken.

OMB Circular A-133 section .300 states that auditees are responsible for following up and taking corrective action on audit findings.

Significant aspects of this finding were reported in the prior year.

*Federal Award Information:* This finding affects the following programs and awards:

- CFDA #84.126 – Rehabilitation Services - Vocational Rehabilitation Grants to States
  - This finding affects federal grant awards H126A130049, H126A130050, H126A140049, and H126A140050 for the federal fiscal years ended September 30, 2013, and 2014, respectively.

- CFDA #93.778 – Medical Assistance Program (see finding 2015-087 also)
  - This finding affects federal grant awards 05-1305NC5MAP and 05-1405NC5MAP for the federal fiscal years ended September 30, 2013, and 2014, respectively.
- CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse (see finding 2015-093 also)
  - This finding affects federal grant awards TI010032-13 and TI010032-14 for the federal fiscal years ended September 30, 2013, and 2014, respectively.

OSA Recommendation: The Department should ensure corrective action plans are finalized by planned completion dates.

Agency Response:

- Rehabilitation Services – Vocational Rehabilitation Grants to States
  - Errors in Claim Payment Process - The Department agrees with the errors noted for SFY2015. As of July 1, 2015, the division acquired access to NC Tracks and began manually pricing claims until the NC Tracks/BEAM interface was complete. On November 1, 2015, the interface was fully functional and the correct rates are being paid for medical, pharmaceutical, and institutional goods and services. Third-party benefits are appropriately applied except when the division, in accordance with 34CFR 361.53, elects to waive the determination of the benefits to avoid a delay in achieving an individual's employment outcome. The Department will reemphasize the need to maintain adequate documentation to support the payment of claims.
  - Deficiencies in Participant Eligibility Documentation - The Department agrees with the errors noted and is pleased with the improvement made over the last two years. During the Single Audit for SFY 2013 an error rate of 39% was identified from a sample of 100 cases. For SFY 2015 the error rate has been drastically reduced to 5.6% in a larger sample of 214 cases. The Department credits the improvement to the implementation of structured statewide monitoring procedures employed during SFY 2014. The Department will continue to improve its documentation to substantiate its verification of participant's financial need to ensure compliance with the federal regulations.
- Medical Assistance Program - see Agency Response for this portion of the finding at finding 2015-087.
- Block Grants for Prevention and Treatment of Substance Abuse - see Agency Response for this portion of the finding at finding 2015-093.

Corrective Action Plan:

- Rehabilitation Services – Vocational Rehabilitation Grants to States
  - Errors in Claim Payment Process - The Department will follow up with the collection or payment of the identified over and underpaid claims.

The Department is in the process of expanding guidance and training efforts in the use of NCTracks and other sources made available to staff for verifying third-party benefits available to program participants.

*Anticipated Completion Date:* June 30, 2016

The Department will continue to emphasize the importance of collecting and maintaining appropriate documentation corresponding to service provision through the provision of feedback obtained by ongoing case reviews by supervisors and Quality Development Specialists.

In order to address the identified need to improve compliance with existing policies in place requiring the collecting, reviewing and maintaining documentation in support of service provision, a 3-phase approach will be undertaken as follows:

- 1) Conduct an analysis of the existing policies relevant to this finding to determine which components require adjustment to best meet the business needs while improving efficiencies whenever possible;
- 2) Update and implement identified policy components requiring adjustment;
- 3) Communicate, educate and train staff about resulting policy changes followed by additional reinforcement through established case review processes.

*Anticipated Completion Date:* October 1, 2016

- Deficiencies in Participant Eligibility Determinations
  - Timely Eligibility Determinations: DVR and DSB will continue to make compliance with 60 day eligibility determination requirements a priority through refinement of currently established monitoring procedures that will include:
    - Refining monitoring of reports that can be generated from the BEAM case management system.
    - Ongoing training and management emphasis regarding the 60 day eligibility determination policy.
  - Financial Need: DVR and DSB will continue to address policy requirements of establishing financial need through unit and regional trainings and through case reviews conducted by casework supervisors and Quality Development Specialists as well as the Area Rehabilitation Supervisors and Chief of Rehabilitation Field Services for DSB.

*Anticipated Completion Date:* June 30, 2016

- Medical Assistance Program - see Agency Response for this portion of the finding at finding 2015-087.
- Block Grants for Prevention and Treatment of Substance Abuse - see Agency Response for this portion of the finding at finding 2015-093.

### **OIA Follow-up Results**

- Rehabilitation Services - Vocational Rehabilitation Grants to States
  - Errors in Claims Payment Process: The Divisions of Vocational Rehabilitation Service (DVRS) and Services for the Blind (DSB) reclassified the Federal questioned costs to 100% state funds. The Divisions have also begun efforts of a 3-phase approach to 1) analyze existing policies relevant to errors in the claims payment process, 2) update and implement the policies requiring

adjustment, and 3) communicate, educate, and train staff on the revised policies. The Divisions have expanded guidance and training efforts in the use of NCTracks and verifying third-party benefits. Also, the Divisions have continued to address collecting and maintaining documentation through trainings and case review feedback. The corrective actions are partially implemented to ensure that errors in the claims payment process are minimized, as the 3-phase approach has an anticipated completion date of October 1, 2016. See additional details at OIA Follow-up Results for finding 2015-043.

- Deficiencies in Participant Eligibility Determinations: The Divisions of Vocational Rehabilitation Service (DVRS) and Services for the Blind (DSB) refined the monitoring of BEAM-generated reports, as applicable. The divisions have provided on-going training and emphasized management monitoring of the sixty day eligibility determination policy. Also, the Divisions have continued to address the financial need policy requirements through trainings and case review feedback. Corrective actions are fully implemented to ensure that deficiencies in participant eligibility determination are minimized. See additional details at OIA Follow-up Results for finding 2015-047.

- Medical Assistance Program – see OIA Follow-up Results for finding 2015-087.
- Block Grants for Prevention and Treatment of Substance Abuse - see OIA Follow-up Results for finding 2015-093.

Per OIA's follow-up, the Division of Vocational Rehabilitation has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-046.

We consider this finding partially resolved with an anticipated completion date of October 1, 2016.

## **15) OSA FINDING AND RECOMMENDATION 2015-047: DEFICIENCIES IN PARTICIPANT ELIGIBILITY DETERMINATIONS**

### **84.126 REHABILITATION SERVICES- VOCATIONAL REHABILITATION GRANTS TO STATES DIVISION OF VOCATIONAL REHABILITATION SERVICES**

Finding 2015-047: The Department did not make eligibility determinations in accordance with timeframes established by the regulatory guidelines and some determinations lacked required documentation. Eligibility determinations were made for approximately 24,800 participants during the audit period.

Out of a sample of 214, 12 (5.6%) files contained the following errors:

- 6 (2.8%) client files did not contain documentation to prove that the Department verified participant's financial need. However, we determined that these six participants were eligible for the program.
- 6 (2.8%) eligibility decisions were not made within the required 60 days or within the extension period agreed to by the participant and the Department.

As a result, there is an increased risk that federal funds could be provided to ineligible individuals, an eligible individual could be denied services, or an individual's rehabilitative needs are not met in a timely manner to obtain employment.

According to the Department, the errors occurred and were not detected because there is limited supervisory review of the counselors' determinations.

Federal regulations require the agency to maintain documentation for each individual determined to be eligible. Further, regulations also require that the agency must determine whether an individual is eligible for services within a reasonable period of time, not to exceed 60 days after the individual has submitted an application for the services unless the agency and the individual agree to a specific extension of time.

Significant aspects of this finding were reported in previous years.

*Federal Award Information:* This finding affects the Rehabilitation Services –Vocational Rehabilitation Grants to States federal grant awards H126A130049, H126A130050, H126A140049, H126A140050, H126A150049, H126A150050 for the federal fiscal years ended September 30, 2013 to 2015.

OSA Recommendation: The Department should strengthen the supervisory review of counselors' eligibility determinations to ensure determinations are appropriately documented and made in accordance with timeframes established by the regulatory guidelines.

Agency Response: The Department agrees with the errors noted and is pleased with the improvement made over the last two years. During the Single Audit for SFY 2013 an error rate of 39% was identified from a sample of 100 cases. For SFY 2015 the error rate has been drastically reduced to 5.6% in a larger sample of 214 cases. The Department credits the improvement to the implementation of structured statewide monitoring procedures employed during SFY 2014. The

Department will continue to improve its documentation to substantiate its verification of participant's financial need to ensure compliance with the federal regulations.

Corrective Action Plan: Timely Eligibility Determinations: DVR and DSB will continue to make compliance with 60 day eligibility determination requirements a priority through refinement of currently established monitoring procedures that will include:

- Refining monitoring of reports that can be generated from the BEAM case management system.
- Ongoing training and management emphasis regarding the 60 day eligibility determination policy.

Financial Need: DVR and DSB will continue to address policy requirements of establishing financial need through unit and regional trainings and through case reviews conducted by casework supervisors and Quality Development Specialists as well as the Area Rehabilitation Supervisors and Chief of Rehabilitation Field Services for DSB.

*Anticipated Completion Date:* June 30, 2016

### **OIA Follow-up Results**

Per OIA follow-up, the Divisions of Vocational Rehabilitation Service (DVRS) and Services for the Blind (DSB) refined the monitoring of BEAM-generated reports, as applicable. The Divisions have provided on-going training and emphasized management monitoring of the sixty day eligibility determination policy. Also, the Divisions have continued to address the financial need policy requirements through trainings and case review feedback. OIA reviewed the BEAM-generated monitoring reports and training documents and selected a sample of client cases to verify that eligibility determinations were appropriately made or extended and to confirm that financial need was verified.

DVRS and DSB have implemented the corrective action plan and mitigated the risk associated with finding 2015-047 to an acceptable level to prevent the finding from recurring.

We consider this finding resolved as of August 1, 2016.

**16) OSA FINDING AND RECOMMENDATION 2015-048: DEFICIENCIES IN PARTICIPANT PLAN FOR EMPLOYMENT DOCUMENTATION**

**84.126 REHABILITATION SERVICES- VOCATIONAL REHABILITATION GRANTS TO STATES**  
*DIVISION OF VOCATIONAL REHABILITATION SERVICES*

Finding 2015-048: The Department did not consistently complete program participants' plans to gain employment or improve their employment status within 90 days as required by the Rehabilitation Services – Vocational Rehabilitation Grants to States program.

Individualized Plans of Employment (IPE) were not completed on time for 12 (5.6%) out of 214 participant files.

As a result, there is an increased risk that an individual's rehabilitative needs are not met in time to help them obtain employment or improve their job status.

According to the Department, they had not had time to fully comply with the law since it was enacted in July 2014.

Federal law requires an IPE to be completed as soon as possible, but not later than 90 days after the eligibility determination date, unless the agency and the individual agree to an extension.

*Federal Award Information:* This finding affects the Rehabilitation Services –Vocational Rehabilitation Grants to States federal grant awards H126A130049, H126A130050, H126A140049, H126A140050, H126A150049, H126A150050 for the federal fiscal years ended September 30, 2013 to 2015.

OSA Recommendation: The Department should set aside time in its schedule to fully implement the law to ensure timely completion of an Individualized Plan of Employment for each participant.

Agency Response: The Department agrees with the errors noted. Effective October 1, 2015 the Division implemented a policy regarding the timely development of an Individualized Plan for Employment (IPE). The Division is currently developing procedures and measures to effectively manage and emphasize timely and compliant IPE development.

Corrective Action Plan: DVR and DSB are developing procedures and measures to effectively manage and emphasize timely and compliant Individualized Plan for Employment (IPE).

Compliance for both DVR and DSB vocational rehabilitation programs will be emphasized through staff training, case review feedback, and structured reports generated from the case management system monitored by local and regional managers in coordination with the Policy Office and the DSB Chief of Rehabilitation Field Services.

The Divisions efforts to strengthen and improve procedures for the IPE continue as a work in progress.

*Anticipated Completion Date:* June 30, 2016

### **OIA Follow-up Results**

Per OIA follow-up, the Divisions of Vocational Rehabilitation Service (DVRS) and Services for the Blind (DSB) updated their IPE policies regarding timeliness, as applicable. Procedures and measures were developed to manage and emphasize completing IPEs in a timely manner and in compliance with relevant laws. Compliant IPEs were also emphasized through training, case review feedback, and/or BEAM generated reports monitored by managers, DVRS Policy Office and the DSB Chief of Rehabilitation Field Services. OIA reviewed the updated DVRS and DSB IPE policy and procedures, monitoring reports, and training documents, and tested a sample of client cases to verify that the IPEs were developed and signed within 90 days after the eligibility determination or that an extension form was completed and maintained on file.

DVRS and DSB have fully implemented the corrective action plan and mitigated the risk associated with finding 2015-048 to an acceptable level to prevent the finding from recurring.

We consider this finding resolved as of July 27, 2016.

**17) OSA FINDING AND RECOMMENDATION 2015-061: MANAGEMENT DECISIONS WERE NOT COMMUNICATED TIMELY**

93.044 SPECIAL PROGRAMS FOR THE AGING- TITLE III, PART B- GRANTS FOR SUPPORTIVE SERVICES AND SENIOR CENTERS  
*DIVISION OF AGING AND ADULT SERVICES*

Finding 2015-061: The Department did not communicate management decisions to subrecipients (in response to audit results) in a timely manner. See finding 2015-004 for a description.

OSA Recommendation (see finding 2015-004 also): The Department should assure that priority is given to communicating management decisions timely to subrecipients.

Agency Response (see finding 2015-004 also): The Department agrees with the finding and will ensure management decision letters are issued in a timely manner.

Corrective Action Plan: The Department will implement a tracking database which will be used to produce a monthly report showing the upcoming due dates for management decision letters. The report will be reviewed by management to ensure letters are issued timely.

*Anticipated Completion Date:* June 30, 2016

**OIA Follow-up Results (also see OIA Follow-up Results for finding 2015-004)**

The Risk Management and Audit Monitoring (RMAM) team estimates the work on its database for local government grantees is 95% complete. It is currently in production use, however, the reports are still a work in progress and should be completed by the end of August 2016. RMAM estimates the report generation and review process should be available for review approximately six weeks after completion of the report format.

RMAM generally begins to receive current subrecipient audit reports in April of each year. RMAM has six months from receipt of the audit reports to issue the management decision letters and estimates their completion to be the end of October 2016. Due to this timing, OIA is unable to test the audit reports received in 2016.

The two subrecipient audit reports, for which management decisions had not been issued and which were noted in OSA's Single Audit Report, were reports for a county and a subsidiary of another county. RMAM could not provide definitive evidence that these two management responses had been sent to the respective counties.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-061.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

**18) OSA FINDING AND RECOMMENDATION 2015-062: MANAGEMENT DECISIONS WERE NOT COMMUNICATED TIMELY**

93.045 SPECIAL PROGRAMS FOR THE AGING- TITLE III, PART C- NUTRITION SERVICES  
*DIVISION OF AGING AND ADULT SERVICES*

Finding 2015-062: The Department did not communicate management decisions to subrecipients (in response to audit results) in a timely manner. See finding 2015-004 for a description.

OSA Recommendation (see finding 2015-004 also): The Department should assure that priority is given to communicating management decisions timely to subrecipients.

Agency Response (see finding 2015-004 also): The Department agrees with the finding and will ensure management decision letters are issued in a timely manner.

Corrective Action Plan: The Department will implement a tracking database which will be used to produce a monthly report showing the upcoming due dates for management decision letters. The report will be reviewed by management to ensure letters are issued timely.

*Anticipated Completion Date:* June 30, 2016

**OIA Follow-up Results (also see OIA Follow-up Results for finding 2015-004)**

The Risk Management and Audit Monitoring (RMAM) team estimates the work on its database for local government grantees is 95% complete. It is currently in production use, however, the reports are still a work in progress and should be completed by the end of August 2016. RMAM estimates the report generation and review process should be available for review approximately six weeks after completion of the report format.

RMAM generally begins to receive current subrecipient audit reports in April of each year. RMAM has six months from receipt of the audit reports to issue the management decision letters and estimates their completion to be the end of October 2016. Due to this timing, OIA is unable to test the audit reports received in 2016.

The two subrecipient audit reports, for which management decisions had not been issued and which were noted in OSA's Single Audit Report, were reports for a county and a subsidiary of another county. RMAM could not provide definitive evidence that these two management responses had been sent to the respective counties.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-061.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

**19) OSA FINDING AND RECOMMENDATION 2015-063: MANAGEMENT DECISIONS WERE NOT COMMUNICATED TIMELY**

93.053 NUTRITION SERVICES INCENTIVE PROGRAM

*DIVISION OF AGING AND ADULT SERVICES*

Finding 2015-063: The Department did not communicate management decisions to subrecipients (in response to audit results) in a timely manner. See finding 2015-004 for a description.

OSA Recommendation (see finding 2015-004 also): The Department should assure that priority is given to communicating management decisions timely to subrecipients.

Agency Response (see finding 2015-004 also): The Department agrees with the finding and will ensure management decision letters are issued in a timely manner.

Corrective Action Plan: The Department will implement a tracking database which will be used to produce a monthly report showing the upcoming due dates for management decision letters. The report will be reviewed by management to ensure letters are issued timely.

*Anticipated Completion Date:* June 30, 2016

**OIA Follow-up Results (also see OIA Follow-up Results for finding 2015-004)**

The Risk Management and Audit Monitoring (RMAM) team estimates the work on its database for local government grantees is 95% complete. It is currently in production use, however, the reports are still a work in progress and should be completed by the end of August 2016. RMAM estimates the report generation and review process should be available for review approximately six weeks after completion of the report format.

RMAM generally begins to receive current subrecipient audit reports in April of each year. RMAM has six months from receipt of the audit reports to issue the management decision letters and estimates their completion to be the end of October 2016. Due to this timing, OIA is unable to test the audit reports received in 2016.

The two subrecipient audit reports, for which management decisions had not been issued and which were noted in OSA's Single Audit Report, were reports for a county and a subsidiary of another county. RMAM could not provide definitive evidence that these two management responses had been sent to the respective counties.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-063.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

**20) OSA FINDING AND RECOMMENDATION 2015-064: MANAGEMENT DECISIONS WERE NOT COMMUNICATED TIMELY**

93.268 IMMUNIZATION COOPERATIVE AGREEMENTS

*DIVISION OF PUBLIC HEALTH*

Finding 2015-064: The Department did not communicate management decisions to subrecipients (in response to audit results) in a timely manner. See finding 2015-004 for a description.

OSA Recommendation (see 2015-004 finding also): The Department should assure that priority is given to communicating management decisions timely to subrecipients.

Agency Response (see finding 2015-004 also): The Department agrees with the finding and will ensure management decision letters are issued in a timely manner.

Corrective Action Plan: The Department will implement a tracking database which will be used to produce a monthly report showing the upcoming due dates for management decision letters. The report will be reviewed by management to ensure letters are issued timely.

*Anticipated Completion Date:* June 30, 2016

**OIA Follow-up Results (also see OIA Follow-up Results finding 2014-004)**

The Risk Management and Audit Monitoring (RMAM) team estimates the work on its database for local government grantees is 95% complete. It is currently in production use, however, the reports are still a work in progress and should be completed by the end of August 2016. RMAM estimates the report generation and review process should be available for review approximately six weeks after completion of the report format.

RMAM generally begins to receive current subrecipient audit reports in April of each year. RMAM has six months from receipt of the audit reports to issue the management decision letters and estimates their completion to be the end of October 2016. Due to this timing, OIA is unable to test the audit reports received in 2016.

The two subrecipient audit reports, for which management decisions had not been issued and which were noted in OSA's Single Audit Report, were reports for a county and a subsidiary of another county. RMAM could not provide definitive evidence that these two management responses had been sent to the respective counties.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-064.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

## **21) OSA FINDING AND RECOMMENDATION 2015-065: DEPARTMENT DID NOT ENSURE CORRECTIVE ACTIONS**

93.268 IMMUNIZATION COOPERATIVE AGREEMENTS

*DIVISION OF PUBLIC HEALTH*

Finding 2015-065: Department monitors for the Vaccine for Children (VFC) program did not require follow-up action when they identified provider noncompliance such as failure to obtain corrective action plans and failure to maintain accurate vaccine inventory. Under the VFC program, 1,212 providers received approximately \$120 million worth of vaccines and administered approximately 2.5 million doses.

Department monitors performed site visits on 524 providers. Auditors examined site visit documentation for 120 of the 524 providers and found errors in 36 of the visits. Some visits had multiple errors. Specifically,

- Sixteen (13%) providers did not submit corrective action plans within the 30-day deadline. Department monitors did not formally suspend the providers in the vaccine ordering system.
- Nine (8%) reviews were insufficient because Department monitors did not document their eligibility review of the required minimum number of cases (10 cases).
- Eight (7%) provider vaccine inventory reviews had errors which exceeded the 5% error threshold. Department monitors did not require providers to submit a corrective action.
- Six (5%) providers' corrective action plans did not document that the follow-up actions were completed.

Inventory errors increase the risk of wasted funds. According to the Centers for Disease Control and Prevention (CDC) price list, VFC program vaccines range in price from \$9.45 to \$126.25 per dose. Consequently, the federal "Vaccines for Children Operations Guide" states "Vaccine loss is both costly and preventable. There are many reasons for vaccine loss... Vaccine management and storage and handling procedures must include proper ordering and inventory management to prevent vaccine waste."

According to the Department, procedures were changed during the year to allow self-review by the monitors who performed the site visits. Allowing Department monitors to review their own work did not provide reasonable assurance that problems with the monitors' work would be identified and corrected as intended by federal program requirements.

The Department was required to ensure follow-up action for provider noncompliance identified during site visits. Specifically, North Carolina Immunization Program Procedures Manual states "At the end of the site visit, the Regional Nurse checks off the areas on the Provider Follow-Up Plan that need more attention and/or improvement by the provider in order for them to be in compliance... A plan for addressing any issues of noncompliance/opportunities for improvement are agreed upon and documented in writing... The Regional Nurse instructs the provider that the Performance Improvement Plan must be returned within 30 calendar days of the visit." Otherwise, vaccine orders can be withheld until the Performance Improvement Plan is received. The Regional Nurse (reviewer) is required to follow up on all the issues identified during the site visit.

*Federal Award Information:* This finding affects Immunization Cooperative Agreements federal grant award 5H23IP000759-02 for the year ended December 31, 2014.

OSA Recommendation: The Department should establish supervisory review procedures in accordance with the “Vaccines for Children Operations Guide” and ensure that follow-up and educational plans are made to address staff and/or provider needs as necessary.

Agency Response: The Department agrees with the errors noted. The Division is committed to administering and managing the Vaccines for Children Program with the highest degree of accuracy, integrity and accountability. The Division has implemented new procedures and reemphasized existing processes to ensure follow-up on corrective actions occur in accordance with The Vaccines for Children (VFC) program’s policies and guidelines.

Corrective Action Plan: The Immunization Branch is committed to administering and managing the Vaccines for Children Program with the highest degree of accuracy, integrity and accountability. The Immunization Branch implemented procedures to ensure follow-up on corrective actions in accordance with The Vaccines for Children (VFC) program’s policies and guidelines.

Specific actions taken:

- Re-implemented a process so that Provider Follow-up Plans are managed by the field service unit central office staff.
- Immunization Branch procedures have been updated to include monitoring of site visit activities by the unit supervisor in accordance with CDC guidelines.
- Training and education sessions were held with the site visit reviewers and unit supervisor to review documentation issues and procedure changes.

The Immunization Branch will monitor the progress of internal controls and make changes as necessary.

*Anticipated Completion Date:* May 1, 2016

### **OIA Follow-up Results**

Per OIA follow-up, the Division of Public Health - Immunization Branch re-implemented a process requiring the Field Service Unit central office staff to manage the Provider Follow-up Plans. Procedures were updated to include monitoring of site visit activities by the unit supervisor in accordance with Centers for Disease Control and Prevention (CDC) guidelines. Also, the Immunization Branch continues to provide training and education sessions with the site visit reviewers and unit supervisor to review documentation issues and procedure changes. OIA reviewed the provider Follow-up Plan Process, the Supervisor Oversight Policy and Site Visit Review Checklist, documentation from quarterly meetings, and tested a sample of provider site visit files to verify proper reviews and documentation.

DPH – Immunization Branch has fully implemented the corrective action plan and mitigated the risk associated with finding 2015-065 to an acceptable level to prevent the finding from recurring.

We consider this finding resolved as of August 2, 2016.

**22) OSA FINDING AND RECOMMENDATION 2015-066: DEFICIENCIES IN SYSTEM ACCESS CONTROLS**  
93.558 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES  
*DIVISION OF SOCIAL SERVICES*

Finding 2015-066: The results of our audit disclosed deficiencies considered reportable under generally accepted *Government Auditing Standards*. These deficiencies regard security, which due to their sensitivity, are reported to the Department by separate sensitive letter. Pursuant to *North Carolina General Statute 132-6.1(c)*, the sensitive letter including your responses will not be publicly released.

*Federal Award Information:* This finding affects the Temporary Assistance for Needy Families federal grant awards 1402NCTANF, 1502NCTANF and 1502NCTAN3 for the federal fiscal years ended September 30, 2014, and 2015, respectively.

Agency Response: The Department is committed to maintaining adequate information security and system access controls. The Department has designed and/or implemented corrective actions to address the risks identified in this audit. These corrective actions have been detailed in a response separately submitted to the State Auditor. Security risks are given the highest priority by the Department and corrective actions will be monitored by senior leadership.

Corrective Action Plan: The Department is committed to maintaining information security and system access controls. As a result, we have implemented or are implementing corrective actions to address the risks identified by the audit team. These corrective actions have been detailed in a response separately submitted to OSA. Any potential security risks or noncompliance are given the highest priority by DHHS and corrective actions will be monitored by the DHHS senior leadership team.

*Corrective action was completed on:* February 12, 2016

**OIA Follow-up Results**

Per OIA follow-up, NC FAST has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-066. Due to the sensitivity of the finding, details of OIA's follow-up activities are not included in this report. A separate letter will be issued to the Secretary with detailed follow-up results.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

**23) OSA FINDING AND RECOMMENDATION 2015-067: DEFICIENCIES IN COUNTY ELIGIBILITY DETERMINATION PROCESSES**

93.558 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

*DIVISION OF SOCIAL SERVICES*

Finding 2015-067: County departments of social services offices had errors in Temporary Assistance for Needy Families eligibility determinations. Certified Public Accountants performing the county audits tested 972 case files and found eligibility documentation deficiencies in 23 (2%) cases. The auditors identified questioned costs of \$16,872.

The document deficiencies noted by the auditors related to key eligibility requirements for the program. These files were missing items such as applications, county-participant agreements, and state residency verification documentation.

The issues identified result in at least \$16,872 of service payments that could have been used to provide services to other eligible participants. Even though sample results identified only \$16,872 in questioned costs, if tests were extended to the entire population, questioned costs could be significant to the program.

In accordance with 42 USC 601, recipients are only eligible if they meet the requirements of a financially needy family with children.

Similar aspects of this finding were reported in previous years.

*Federal Award Information:* This finding affects the Temporary Assistance for Needy Families federal grant awards 1402NCTANF, 1502NCTANF and 1502NCTAN3 for the federal fiscal years ended September 30, 2014, and 2015, respectively.

OSA Recommendation: The Department should monitor to ensure eligibility determinations are completed accurately and supporting documentation is maintained in case files.

Agency Response: The Department of Health and Human Services is the single State agency designated to administer or supervise the administration of the Temporary Assistance for Needy Families (TANF). North Carolina TANF is State supervised and county administered. The Department will continue to provide training, monitoring and guidance to county departments of social services (DSS) to ensure the adequacy of eligibility determinations. Additional requirements will be established and shared with county DSS agencies. The Department will review questioned costs identified and make the appropriate recoupments/payments.

Corrective Action Plan: The Department will monitor the counties through onsite visits or desk reviews to ensure the supporting documentation is provided for the identified errors. A State Representative will conduct a special case file review for compliance with policy for Forsyth, Guilford, Henderson, Mecklenburg, New Hanover and Scotland counties. The cases with questioned costs will be assessed to determine the overpayment and recoupment amounts. All counties will be required to complete a Program Improvement Plan (PIP). The PIP will be reviewed by the State Representative for successful implementation.

The counties will begin conducting monthly monitoring reviews to ensure the findings are not reoccurring. The State Representative will obtain evidence and track the review process.

*Anticipated Completion Date:* June 30, 2016

### **OIA Follow-up Results**

The questioned costs noted in the Single Audit Report and associated recoupments were completed, when deemed appropriate and valid by the Division of Social Services (DSS).

DSS has completed a majority of the CAP related to onsite and/or desk reviews and the development of PIPs by the county. DSS completed the onsite reviews for the counties with single audit findings and required each to submit a PIP. All PIPs were subsequently accepted by DSS. However, the PIP reviews are not required until after six months after acceptance by DSS.

Based on OIA's review, DSS has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-067. In addition, DSS has partially addressed the root cause.

We consider this finding partially resolved with an anticipated completion date of December 31, 2016.

**24) OSA FINDING AND RECOMMENDATION 2015-068: INACCURATE PERFORMANCE REPORTS  
COULD POTENTIALLY RESULT IN PENALTIES OF UP TO \$75 MILLION**

93.558 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

*DIVISION OF SOCIAL SERVICES*

Finding 2015-068: The Department did not submit complete, accurate and supported quarterly performance reports for the Temporary Assistance for Needy Families Grant (TANF) to the Administration of Children and Families (ACF). The TANF grant provides time-limited assistance to needy families.

The Department is required to submit the ACF199 federal performance report quarterly. The ACF199 is a federal performance report containing data on the cases of families receiving assistance, families no longer receiving assistance and families applying for assistance from TANF funds.

Auditors sampled the reports from quarters ending December 31, 2014 and June 30, 2015. A test of 120 cases included on these reports identified the following items that did not either agree to or could not be supported by the underlying records:

- The total number of TANF grant cases reported for both quarters tested;
- The type of family structure reported in 60 of the 120 cases (50%);
- The work participation status reported for individuals in 40 of the 120 cases (33%);
- The work hours reported for individuals for all cases tested (100%).

The Department's failure to submit complete and accurate reports that are supported by underlying records could lead to substantial penalties reducing future available funds directly impacting needy families in North Carolina. In addition, the ACF uses the ACF199 report to determine the State Work Participation Rate (WPR). Possible penalties include:

- Failure to submit complete and accurate reports could result in a penalty of 4% of the State Family Assistance Grant (SFAG), which is the underlying block grant that supports the TANF grant for federal fiscal year 2015. This results in a potential penalty of approximately \$12 million (SFAG/TANF grant was \$301,435,018).
- The State's failure to meet the required work participation rates could result in a penalty of up to 21%, approximately \$63 million.

According to the Department, in October 2014, North Carolina moved the TANF program into a new data collection system. After the completion of the transition and preparation of the ACF199 performance report, the Client Services Data Warehouse and the Division of Social Services Performance Reporting discovered errors in the data necessary to prepare the reports. Specifically, the TANF cases were incomplete, required fields contained inappropriate values, and certain fields did not contain any data. In an effort to get the reports submitted by the deadline, the Department knowingly included incorrect values in the performance reports.

Federal regulations require the Department to submit quarterly performance reports that are accurate, complete and supported by underlying documentation.

*Federal Award Information:* This finding affects the Temporary Assistance for Needy Families federal grant awards 1502NCTANF and 1502NCTAN3 for the federal fiscal year ended September 30, 2015.

OSA Recommendations: The Department should ensure that performance reports are complete, accurate and are supported by reliable underlying records.

Agency Response: The Department submitted the best available information to the ACF on the initial due date of the report and notified the ACF of its challenges with compiling the information. The Department has been and continues to work with the ACF to submit a final report prior to March 31, 2016. The ACF has provided immeasurable support to the Department in working toward the final report submission.

Corrective Action Plan: The following actions are being taken to mitigate and remedy the findings regarding inaccurate and missing data in the ACF199 quarterly reports for FFY 2015:

- 1) The Division of Social Services Performance Management –Reporting and Evaluation Management and Client Services Data Warehouse staff have determined the correct and necessary code required to extract the type of family, the work participation status and the deemed core hours for reporting on the ACF199.
- 2) The data extraction code that compiles the data is being modified and testing is underway to validate the resulting data. Initial results have been positive and indicate successful modification of the code.
- 3) The Division is communicating with ACF Office of Family Assistance and has advised their TANF Program Specialist & Lead Data Specialist of our intention to re-submit FFY 2015 data as is allowed under normal procedure. The ongoing communications will be documented.
- 4) The Division will work to refine the modifications and validate the data, culminating in the extraction of new data files for each of the reporting quarters for FFY 2015 during the latter two weeks of March 2016.
- 5) The corrected ACF199 data for each of the four reporting quarters will be transmitted to ACF prior to the March 31, 2016 deadline.
- 6) The Division staff will work with staff from NC FAST to ensure data required for future ACF199 reports is also required for entry into NC FAST and included in transmissions to the Client Services Data Warehouse.

*Anticipated Completion Date:* March 31, 2016

### **OIA Follow-up Results**

The Division of Social Services (DSS) submitted revised and final ACF199 reports to the Administration for Children and Families (ACF) for FFY2015 on May 26, 2016. The submission is considered timely due to a national extension of the final filing deadline by ACF.

The DSS Performance Management/Reporting and Evaluation Management team advised that the issues relating to the inaccurate or incomplete data needed for the ACF199 reports are primarily the result of the implementation of NC FAST. DSS staff indicated nearly all data elements required for the ACF199 reports had to be verified against what was collected in NC FAST. DSS staff also indicated that those outstanding items had been narrowed down to 10 to 12 data elements and the process is still

a work in progress. In addition, DSS staff stated the timing of the completion of the CAP was partially dependent on the responsiveness of the staff at NC FAST.

DSS has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-068.

We consider this finding partially resolved with an anticipated completion date of March 31, 2017.

**25) OSA FINDING AND RECOMMENDATION 2015-069: MANAGEMENT DECISIONS WERE NOT COMMUNICATED TIMELY**

93.558 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

*DIVISION OF SOCIAL SERVICES*

Finding 2015-069: The Department did not communicate management decisions to subrecipients (in response to audit results) in a timely manner. See finding 2015-004 for a description.

OSA Recommendation (see finding 2015-004): The Department should assure that priority is given to communicating management decisions timely to subrecipients.

Agency Response (see finding 2015-004): The Department agrees with the finding and will ensure management decision letters are issued in a timely manner.

Corrective Action Plan: The Department will implement a tracking database which will be used to produce a monthly report showing the upcoming due dates for management decision letters. The report will be reviewed by management to ensure letters are issued timely.

*Anticipated Completion Date:* June 30, 2016

**OIA Follow-up Results**

The Risk Management and Audit Monitoring (RMAM) team estimates the work on its database for local government grantees is 95% complete. It is currently in production use, however, the reports are still a work in progress and should be completed by the end of August 2016. RMAM estimates the report generation and review process should be available for review approximately six weeks after completion of the report format.

RMAM generally begins to receive current subrecipient audit reports in April of each year. RMAM has six months from receipt of the audit reports to issue the management decision letters and estimates their completion to be the end of October 2016. Due to this timing, OIA is unable to test the audit reports received in 2016.

The two subrecipient audit reports, for which management decisions had not been issued and which were noted in OSA's Single Audit Report, were reports for a county and a subsidiary of another county. RMAM could not provide definitive evidence that these two management responses had been sent to the respective counties.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-069.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

**26) OSA FINDING AND RECOMMENDATION 2015-070: MANAGEMENT DECISIONS WERE NOT COMMUNICATED TIMELY**

93.563 CHILD SUPPORT ENFORCEMENT

*DIVISION OF SOCIAL SERVICES*

Finding 2015-070: The Department did not communicate management decisions to subrecipients (in response to audit results) in a timely manner. See finding 2015-004 for description.

OSA Recommendation (see finding 2015-004): The Department should assure that priority is given to communicating management decisions timely to subrecipients.

Agency Response (see finding 2015-004): The Department agrees with the finding and will ensure management decision letters are issued in a timely manner.

Corrective Action Plan: The Department will implement a tracking database which will be used to produce a monthly report showing the upcoming due dates for management decision letters. The report will be reviewed by management to ensure letters are issued timely.

*Anticipated Completion Date:* June 30, 2016

**OIA Follow-up Results**

The Risk Management and Audit Monitoring (RMAM) team estimates the work on its database for local government grantees is 95% complete. It is currently in production use, however, the reports are still a work in progress and should be completed by the end of August 2016. RMAM estimates the report generation and review process should be available for review approximately six weeks after completion of the report format.

RMAM generally begins to receive current subrecipient audit reports in April of each year. RMAM has six months from receipt of the audit reports to issue the management decision letters and estimates their completion to be the end of October 2016. Due to this timing, OIA is unable to test the audit reports received in 2016.

The two subrecipient audit reports, for which management decisions had not been issued and which were noted in OSA's Single Audit Report, were reports for a county and a subsidiary of another county. RMAM could not provide definitive evidence that these two management responses had been sent to the respective counties.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-070.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

**27) OSA FINDING AND RECOMMENDATION 2015-072: DEFICIENCIES IN COUNTY ELIGIBILITY DETERMINATION PROCESSES**

93.659 ADOPTION ASSISTANCE -TITLE IV-E

*DIVISION OF SOCIAL SERVICES*

Finding 2015-072: County departments of social services offices had errors in eligibility determinations for the Adoption Assistance Title IV-E program.

Certified Public Accountants performing the county audits tested 506 case files and found eligibility documentation deficiencies in 28 (6%) cases. The auditors identified questioned costs of \$9,614.

The document deficiencies noted by the auditors were related to key eligibility requirements for the program. Specifically:

- 18 (3.6%) client files were missing documentation of child abuse and neglect registry checks.
- 4 (0.8%) client files were missing some element of eligibility determination documentation.
- 3 (0.6%) client files did not contain citizenship documentation.
- 2 (0.4%) clients were ineligible to receive funds under the Adoption Assistance Title IV-E program.
- 1 (0.2%) client received \$318 more than the amount for which they were eligible.

As a result of not doing the required background checks, children could be placed in an unsafe environment. Further, the issues identified result in at least \$9,614 of service payments that could have been used to provide services to other eligible participants.

In accordance with 42 USC 671, the state shall check any child abuse and neglect registry maintained by the state for information before the prospective parent or any other adult living in the home may be finally approved for placement of a child.

In accordance with 42 USC 675, a signed and dated adoption agreement must be completed to document the type of services and amount of the subsidy prior to the receipt of adoption assistance funding.

Similar aspects of this finding were reported in previous years, including no documentation of child abuse and neglect registry checks being performed reported in the prior year.

*Federal Award Information:* This finding affects the Adoption Assistance Title IV-E federal grant awards 1401NC1407 and 1501NC1407 for the federal fiscal years ended September 30, 2014, and 2015, respectively.

OSA Recommendation: The Department should monitor to ensure eligibility determinations are completed accurately and supporting documentation is maintained in case files.

Agency Response: The Department of Health and Human Services is the single State agency designated to administer or supervise the administration of the Adoption Assistance Title IV-E program. The North Carolina Adoption Assistance program is State supervised and county

administered. The Department will continue to provide training, monitoring and guidance to county departments of social services (DSS) to ensure the adequacy of eligibility determinations. Additional requirements will be established and shared with county DSS agencies. The Department will review questioned costs identified and make the appropriate recoupments/payments.

Corrective Action Plan: The on demand training for county staff determining eligibility and for supervisors verifying the accuracy of the eligibility was implemented January 1, 2016. This corrective action plan was outlined in the prior year and it was successfully implemented.

The Department implemented a process called “Everything IV-E calls” on March 14, 2016. The calls focus on issues related to IV-E eligibility determinations and quality assurance. The calls are recorded and made available to all county staff for each session through the NC DSS website. Additional opportunities to incorporate discussion of deficiencies and resolution will be utilized in the ongoing schedule of calls and will be performed monthly.

The Department will monitor the counties through onsite visits or desk reviews to ensure registry checks have been completed for children receiving Title IV-E adoption assistance. The cases with questioned costs identified will be assessed to determine the overpayment and recoupment amounts. The State monitors and the IV-E Coordinator will work closely with the counties in developing the corrective action plan to adequately address the deficiencies identified.

*Anticipated Completion Date:* June 30, 2016

### **OIA Follow-up Results**

Per OIA follow-up, the on-demand training for county staff determining eligibility and for supervisors verifying the accuracy of the eligibility was implemented January 1, 2016. In addition, the Division of Social Services (DSS) has monitored and is continuing to monitor to ensure eligibility determinations are completed accurately and supporting documentation is maintained in case files. DSS implemented a process called “Everything IV-E calls” on March 14, 2016 which focus on issues related to IV-E eligibility determinations and quality assurance. The calls are recorded and made available to all county staff through the NC DSS website. DSS has monitored the counties through on site visits to ensure registry checks have been completed for children receiving Title IV-E adoption assistance. The cases with questioned costs identified will be assessed to determine the overpayment and recoupment amounts by September 2, 2016.

DSS has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-072.

We consider this finding partially resolved with an anticipated completion date of September 2, 2016.

**28) OSA FINDING AND RECOMMENDATION 2015-073: MANAGEMENT DECISIONS WERE NOT COMMUNICATED TIMELY**

93.659 ADOPTION ASSISTANCE -TITLE IV-E

*DIVISION OF SOCIAL SERVICES*

Finding 2015-073: The Department did not communicate management decisions to subrecipients (in response to audit results) in a timely manner. See finding 2015-004 for a description.

OSA Recommendation (see finding 2015-004 also): The Department should assure that priority is given to communicating management decisions timely to subrecipients.

Agency Response (see finding 2015-004 also): The Department agrees with the finding and will ensure management decision letters are issued in a timely manner.

Corrective Action Plan: The Department will implement a tracking database which will be used to produce a monthly report showing the upcoming due dates for management decision letters. The report will be reviewed by management to ensure letters are issued timely.

*Anticipated Completion Date:* June 30, 2016

**OIA Follow-up Results**

The Risk Management and Audit Monitoring (RMAM) team estimates the work on its database for local government grantees is 95% complete. It is currently in production use, however, the reports are still a work in progress and should be completed by the end of August 2016. RMAM estimates the report generation and review process should be available for review approximately six weeks after completion of the report format.

RMAM generally begins to receive current subrecipient audit reports in April of each year. RMAM has six months from receipt of the audit reports to issue the management decision letters and estimates their completion to be the end of October 2016. Due to this timing, OIA is unable to test the audit reports received in 2016.

The two subrecipient audit reports, for which management decisions had not been issued and which were noted in OSA's Single Audit Report, were reports for a county and a subsidiary of another county. RMAM could not provide definitive evidence that these two management responses had been sent to the respective counties.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-073.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

**29) OSA FINDING AND RECOMMENDATION 2015-074: MANAGEMENT DECISIONS WERE NOT COMMUNICATED TIMELY**

93.714 ARRA- EMERGENCY CONTINGENCY FUND FOR TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) STATE PROGRAM  
*DIVISION OF SOCIAL SERVICES*

Finding 2015-074: The Department did not communicate management decisions to subrecipients (in response to audit results) in a timely manner. See finding 2015-004 for a description.

OSA Recommendation (see finding 2015-004 also): The Department should assure that priority is given to communicating management decisions timely to subrecipients.

Agency Response (see finding 2015-004 also): The Department agrees with the finding and will ensure management decision letters are issued in a timely manner.

Corrective Action Plan: The Department will implement a tracking database which will be used to produce a monthly report showing the upcoming due dates for management decision letters. The report will be reviewed by management to ensure letters are issued timely.

*Anticipated Completion Date:* June 30, 2016

**OIA Follow-up Results**

The Risk Management and Audit Monitoring (RMAM) team estimates the work on its database for local government grantees is 95% complete. It is currently in production use, however, the reports are still a work in progress and should be completed by the end of August 2016. RMAM estimates the report generation and review process should be available for review approximately six weeks after completion of the report format.

RMAM generally begins to receive current subrecipient audit reports in April of each year. RMAM has six months from receipt of the audit reports to issue the management decision letters and estimates their completion to be the end of October 2016. Due to this timing, OIA is unable to test the audit reports received in 2016.

The two subrecipient audit reports, for which management decisions had not been issued and which were noted in OSA's Single Audit Report, were reports for a county and a subsidiary of another county. RMAM could not provide definitive evidence that these two management responses had been sent to the respective counties.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-074.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

**30) OSA FINDING AND RECOMMENDATION 2015-075: ERRORS IN CHILDREN'S HEALTH INSURANCE PROVIDER BILLING AND PAYMENT PROCESS**

93.767 CHILDREN'S HEALTH INSURANCE PROGRAM

*DIVISION OF MEDICAL ASSISTANCE*

Finding 2015-075: The Department processed more than 11 million payments for services totaling \$437 million during state fiscal year 2015. Twenty-eight of a sample of 240 (12%) payments contained errors. The total errors identified resulted in net overpayments of \$4,825 and federal questioned costs of \$3,670.

The 28 items contained one or more errors. This resulted in 32 errors as follows:

- 13 claims totaling \$664 had insufficient or improper documentation to support the services rendered. For two of the 13 claims, the auditor's specialist in health care compliance questioned whether documentation supported the service paid. The Department stated that the documentation provided does not lend itself to a clear and defensible denial of service paid; and both were billing differences of less than \$150 which the Department does not consider cost effective to pursue recoupment.
- 10 claims totaling \$132 impacted by retroactive rate changes were not voided and replaced with claim payments at the new rate prior to the end of the fiscal year. Per the Department, they have corrected, or are currently implementing corrective action, on the claim errors resulting from retroactive rate changes.
- Eight claims totaling \$4,045 were payments to providers ineligible to render the services.
- One claim totaling \$96 did not have the required prior approval attained prior to rendering the service.

In accordance with OMB Circular A-133 Section .510(a)(3), auditors must report known questioned costs when likely questioned costs are greater than \$10,000. When the known errors (\$4,825) found in the sample are projected to the entire population, the likely total errors are \$81 million. Therefore, the overpayments of \$4,825 (federal share \$3,670) are being questioned.

As a result, the Department made improper payments with program funds that could have been used to provide additional services to other eligible beneficiaries, or reduce overall program cost.

Several of the errors noted were due to providers submitting documentation to the auditors that was inadequate to support the services rendered. Per the State's Plan, the Department pays provider claims, as submitted, and documentation supporting the claim is not required. However, as a part of the provider agreement with the State, the provider is required to submit the supporting documentation for the claim paid, upon request. As noted above, not all documentation provided for the claims tested by the auditors clearly supported the services for which they were paid. Also, errors resulted from providers improperly billing services or failure to comply with policy or the state plan.

According to the Department, other errors were the result of the Department not implementing payment rate and methodology changes timely or system edits to verify provider eligibility and prior approval not functioning as originally planned with the implementation of NCTracks.

Federal regulations require costs to be adequately documented; authorized; necessary and reasonable; and be consistent with program regulations that apply to the federal award.

In accordance with the 42 CFR 431.107, providers sign an agreement to participate in the program that requires them to maintain records disclosing the extent of services furnished to recipients and, on request, furnish the records to the Department.

Federal regulations dictates “the State Medicaid agency must require all ordering or referring physicians or other professionals providing services under the State plan or under a waiver of the plan to be enrolled as participating providers.”

Similar aspects of this finding were reported in previous years.

*Federal Award Information:* This finding affects the Children’s Health Insurance Program federal grant awards 05-1405NC5021 and 05-1505NC5021 for the federal fiscal years ended September 30, 2014, and 2015, respectively.

OSA Recommendations: The Department should enhance its control procedures to improve the accuracy of the claims payment process:

- Management should ensure the proper and timely implementation of system changes, including effective payment edits.
- Emphasis should be placed on educating providers as to proper coding and documentation standards necessary to support the medical services being provided.
- Identified over and underpaid claims should be followed up for timely and appropriate collection or payment.
- Enhance procedures to evaluate potential up-coding (billing at higher rates) by providers and take necessary action to ensure proper billing and claim payment.

Agency Response: As implied in the auditor’s comments, DMA clinical staff conducted an independent review for each of these individual claims that were cited as errors by OSA. As a result of this review, a determination was made that 2 of the 13 claims cited for errors were appropriately paid under Medicaid policy. These claims represent \$131 in total questioned costs cited (Federal share \$100).

With respect to each of the billing differences, the Department adheres to NC GS §108C-8 to determine if collecting recoupment amounts under \$150.00 is warranted. Due to the extensive appeal rights afforded providers when the Department seeks to recoup overpayments collection for an error less than \$150.00 has the potential to cost the Department in excess of \$500.00. It is both cost effective and in the best interest of Medicaid and the State of North Carolina to refrain from pursuing recoupments of less than \$150.00.

Rate changes in the Medicaid program are legislated by the General Assembly with an effective date for implementation. However, per CFRs 447 and 430, CMS approval is required prior to the implementation of any rate changes. In order to receive this approval, a State Plan Amendment (SPA) is prepared and submitted to CMS for review. The SPA approval process typically requires an extensive review period, which creates a delay in enacting rate adjustments. This requires DMA to retroactively adjust rates following CMS approval back to the legislative effective date.

Each of these claims were also impacted by the 3% Physician rate reduction enacted with Session Law 2013-360 requiring an effective date of January 1, 2014. CMS approved the SPA on June 27, 2014. Since ACA providers were excluded from the physician rate reductions, extensive analysis involving programming in the claims payment system was required to correctly identify the subset of providers impacted by the rate change. Upon completion of the analysis, implementation of the rate adjustments occurred in two (2) separate phases. Phase 1, which occurred on March 2, 2015, involved loading the rates into the claims payment system. Phase 2 involved the reprocessing of claims with dates of service from January 1, 2014 to March 2, 2015. The reprocessing began in April 2015 and is expected to be completed by December 31, 2016. As there currently is no state or federal regulation that requires claims reprocessing to occur within specific timeframes, the Department took the time needed to ensure the reprocessing plan was well designed and executed.

The Department chose to recalculate the estimated errors in the population adjusting the baseline to exclude the retroactive rate changes and the claims determined to be sufficiently documented. The Department recalculated this projection utilizing our standardized extrapolation process. Using this revised baseline results in a projected error total of \$78M across the total population, which closely aligns with the auditor's calculation.

Corrective Action Plan: The Department's Division of Medical Assistance (DMA) Program Integrity clinical staff investigated claims errors cited by the auditors and determined that 2 of 13 claims errors relevant to documentation of services rendered were appropriately paid under Children's Health Insurance Program policy. DMA will continue to investigate the remaining claims errors to determine if they can be resolved by obtaining additional documentation from the provider. Appropriate collection or payment will be made as required.

DMA recognizes that improper documentation is the top error type disclosed throughout the nation in Medicaid medical reviews that are identified through the Payment Error Rate Measurement program. DMA will continue efforts to educate providers about the proper documentation standards required to support the medical necessity and proper coding of services billed to the Children's Health Insurance Program.

DMA's Provider Reimbursement section implemented the correct payment methodology on November 2015 to ensure payments for claims are applied at the approved rate. A systematic reprocessing of claims has been initiated and will occur between March 29, 2016 and June 21, 2016.

DMA's Provider Enrollment section implemented monitoring activities with the fiscal agent on December 21, 2015. Monitoring enrollment activities are performed to ensure the accuracy in the eligibility determinations performed by the contractor, compliance to federal and state requirements, and that supporting documentation is maintained in provider files.

DMA will further evaluate the errors cited in the single audit to ascertain if certain provider types are consistently non-compliant with documentation standards. DMA will continue ongoing communications with providers as well as provide education and focused training based on their assessed training needs.

*Anticipated Completion Date:* December 31, 2016

### **OIA Follow-up Results**

Per OIA's follow-up the Division of Medical Assistance (DMA) has investigated the claims errors identified by OSA and attempted recoupment or repaid, as appropriate. The correct payment methodology was implemented in March 2016 and a systematic reprocessing of claims has been initiated, but is not yet complete.

The rate verification process was formalized August 2015 to help ensure rate changes are submitted to CSRA (the Fiscal Agent) and incorporated timely into NCTracks. The process requires DMA to verify rates in NCTracks within 10 business days. The Division's policy is to implement rate changes only after approval is obtained from the Centers for Medicare and Medicaid Services (CMS), so there is an inherent risk to the process. The Division has sufficiently addressed all risks within its control; however, the finding may reoccur due to the timing between the effective date of the rate change and the implementation in NCTracks.

DMA's Provider Enrollment section implemented monitoring activities with the fiscal agent to mitigate the risk of inaccurate enrollment determinations, and system edits have been initiated to correct issues with provider eligibility determinations. The Division is on track to complete efforts to educate providers about proper documentation standards and proper coding, complete efforts to assess the need for focused training, and complete claims reprocessing by December 31, 2016. These efforts are expected to mitigate the risk to an acceptable level to prevent the finding from recurring.

DMA has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-075.

We consider this finding partially resolved with an anticipated completion date of December 31, 2016.

### **31) OSA FINDING AND RECOMMENDATION 2015-076: DEFICIENCIES IN PROVIDER ENROLLMENT AND TERMINATION PROCESSES**

93.767 CHILDREN'S HEALTH INSURANCE PROGRAM

*DIVISION OF MEDICAL ASSISTANCE*

Finding 2015-076: The Department's contracted agent (contractor) is responsible for determining eligibility of providers participating in the Children's Health Insurance Program. The contractor processed and approved enrollment and update activities for 28,342 providers (out of 58,352 total providers) during state fiscal year 2015.

Sixty-seven of 117 (57%) sampled provider records had multiple types of errors including:

- In 27 of 117 (23%) provider records, there was no evidence the contractor conducted accreditation checks, background checks, and Office of Inspector General and/or North Carolina penalty searches for owners, office administrators, managing employees, and/or providers.
- In two of 117 (2%) provider records, there was no evidence of risk-based screening for high risk providers. Risk-based screening includes performing site visits prior to being determined eligible.
- In 12 of 117 (10%) provider records, the contractor's searches were performed using incorrect social security numbers and misspelled names.
- In 47 of the 117 (40%) sampled provider records, the licenses, certifications, or accreditations in the system were expired, but the provider remained active.

In addition, 23 of 194 (12%) providers with licenses suspended, surrendered, or revoked were not properly terminated in the claims processing system (NCTracks).

There is an increased risk that ineligible providers are treating Children's Health Insurance Program patients. There is also an increased risk of payments to ineligible providers that could result in federal funding being returned.

According to the Department, the errors were not detected because they did not have adequate monitoring procedures in place to ensure the contractor achieved expected results. In addition, the realignment of the responsible staff and management presented challenges to timely implement improved monitoring procedures.

In addition, the Department deactivated the program used to detect the expired dates for certifications, licenses, or accreditations.

In accordance with 42 CFR 455, the state agency must confirm the identity and determine the exclusion status of providers and any person with an ownership or control interest or who is an agent or managing employee of the provider through routine checks of federal databases. The state agency must also have a method for verifying providers' licenses and confirm that they have not expired or have no current limitations.

Similar aspects of this finding were reported in the prior year.

*Federal Award Information:* This finding affects the Children's Health Insurance Program federal grant awards 05-1405NC5021 and 05-1505NC5021 for federal fiscal years ended September 30, 2014, and 2015, respectively.

OSA Recommendations: The Department should monitor to ensure eligibility determinations are completed accurately and supporting documentation is maintained in the provider files.

The Department should also ensure that all sanctioned providers are properly removed from the claims payment system (NCTracks).

Agency Response: As a result of previous single audits, the Department implemented monitoring activities with the fiscal agent on December 21, 2015. Monitoring enrollment activities are performed to ensure the accuracy in the eligibility determinations performed by the contractor, compliance to federal and state requirements, and that supporting documentation is maintained in provider files.

Additionally, as enhancements to the monitoring activities stated above, system improvements and modifications are ongoing to detect errors related to providers with licenses suspended, surrendered, or revoked. April 2016 is the target date to implement an automated process to ensure that all sanctioned providers are terminated and properly removed from the claims payment system (NCTracks) as required. Additional system enhancements are also being developed to automate license, background, and penalty/sanction checks. Implementation is pending for August 2016.

The Department conducted an analysis of the 47 providers noted as errors due to license, certification and accreditation concerns. The Department completed an in-depth review of websites and contacted North Carolina Licensing Boards and the Division of Health Service Regulations. The review disclosed that only one provider had an expired license during SFY 2015. The Department also reviewed paid claims data for this provider. While the automation was partially in place during this audit period, the Department verified that the provider had zero claims submitted and paid by the Children's Health Insurance Program during SFY 2015.

Corrective Action Plan: The Department implemented monitoring activities with the fiscal agent on December 21, 2015. Monitoring enrollment activities are performed to ensure the accuracy in the eligibility determinations performed by the contractor, compliance to federal and state requirements, and that supporting documentation is maintained in provider files.

System improvements and modifications are ongoing to detect errors related to providers with licenses suspended, surrendered, or revoked. April 2016 is the target date to implement an automated process to ensure that all sanctioned providers are terminated and properly removed from the claims payment system (NCTracks). Additional system enhancements are also being developed to automate license, background, and penalty/sanction checks. Implementation is pending for August 2016.

DMA conducted an analysis of 47 providers received from OSA during the audit process due to license, certification and accreditation concerns. DMA completed an in-depth review of websites and contacted North Carolina Licensing Boards and the Division of Health Service Regulations. The review disclosed that only one provider had an expired license during SFY 2015. DMA also reviewed paid claims data for this provider. While the automation was partially in place during this

audit period, DHHS verified that the provider had zero claims submitted and paid by Children's Health Insurance Program during SFY 2015.

*Anticipated Completion Date:* August 31, 2016

### **OIA Follow-up Results**

Per OIA follow-up, DMA has fully implemented procedures to address the finding as of September 22, 2016. Monitoring procedures have been implemented to mitigate the risk of eligibility determinations being completed inaccurately and without supporting documentation. System enhancements have been initiated to mitigate the risk of sanctioned providers remaining active in the system. The Division implemented an automated process to suspend or terminate a credential if a provider does not update an expired license, certification, or accreditation. The Division also implemented an interface with the NC Medical Board whereby NCTracks will receive monthly interface files from the NC Medical Board for license renewals and adverse actions for providers. The files will be used during the credentialing processes to update provider records. OIA examined the monthly monitoring logs and verified that Provider Services staff and management reviewed provider applications in accordance with the monitoring plan. OIA also reviewed Customer Service Requests, screenshots, and sign-off forms to verify that the system updates were implemented.

DMA has fully implemented the corrective action plan and adequately mitigated the risk associated with finding 2015-076 to an acceptable level to prevent this finding from recurring.

We consider this finding resolved as of September 22, 2016.

### **32) OSA FINDING AND RECOMMENDATION 2015-077: DEFICIENCIES WITH THE RATE CHANGE PROCESS**

93.767 CHILDREN'S HEALTH INSURANCE PROGRAM

*DIVISION OF MEDICAL ASSISTANCE*

Finding 2015-077: The Department did not always ensure that the amounts reimbursed to providers for rendering services to Children's Health Insurance Program recipients were consistent with Medicaid plan and rates.

Sixteen rate changes from a sample of 97 (17%) lacked adequate documentation to support the Department's timely review of changes to the claims processing system (NCTracks).

Additional testing procedures identified one rate change was made using an incorrect calculation. The rate change was made to rates used to reimburse numerous providers for multiple procedures rendered to patients. The rate change was made to 913 claims totaling \$17,332 for the Children's Health Insurance Program. Auditors were unable to determine the overall cost impact; however the incorrect calculation could cause errors ranging from 1% to 15% of the actual amounts paid.

As a result, the Department will incur additional costs. The process of determining the overpayments and underpayments, the recoupment of the overpayments plus possible appeals, and the reprocessing of underpayments could result in significant use of agency resources and administrative costs.

According to the Department, they verbally discussed implementing new policies and procedures to review rates in the new claims processing system (NCTracks) in the last quarter of state fiscal year 2015 but the new policy was not formalized until July 2015.

The Department performed 133 rate changes after the verbal policy implementation. Auditors reviewed 34 of the 133 rate changes processed after the verbal policy implementation and no errors were found.

The Children's Health Insurance Program state plan dictates the methodology to calculate the reimbursement rates to providers that result in the costs to the programs. OMB Circular A-87 states that to be allowable under a grant program, the costs must be consistent with policies, regulations, procedures, and state plan and rates. It also states that costs must be adequately documented.

Similar aspects of this finding were reported in prior year.

*Federal Award Information:* This finding affects the Children's Health Insurance Program federal grant awards 05-1405NC5021 and 05-1505NC5021 for federal fiscal years ended September 30, 2014, and 2015, respectively.

OSA Recommendation: The Department should continue to ensure procedures over the independent verification of rate modifications in NCTracks are operating. The Department should follow-up on claims impacted by inaccurate rate modifications and make the appropriate collection or payment.

Agency Response: The Department agrees with the errors noted. The Department implemented procedures to ensure that appropriate documentation is reviewed timely and retained to support rate modifications in NCTracks. All errors noted resulted in underpayments so there is no questioned cost impact.

Corrective Action Plan: The Department implemented procedures to provide evidence that appropriate documentation is reviewed timely and retained to support rate modifications in NCTracks.

The appropriate rates will be entered into NCTracks by the end of March 2016 to correct cited errors and allow for sufficient notice to the providers. The claims will be reprocessed based on the approval of the relevant Customer Service Request (CSR).

The wrong rate that resulted in underpayments made to one isolated provider has been corrected and entered into NCTracks as of July 9, 2015.

*Anticipated Completion Date:* December 31, 2016

### **OIA Follow-up Results**

The Division of Medical Assistance (DMA) has formalized its rate verification policy to ensure timely review of rate changes and maintenance of supporting documentation. Approved rates have been entered into NCTracks and cited errors have been corrected. A memo was sent to the fiscal agent, CSRA, initiating the reprocessing of claims; however, reprocessing has not been completed.

DMA has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-077. Completion of claims processing is expected to mitigate the risk to an acceptable level to prevent the finding from recurring.

We consider this finding partially resolved with an anticipated completion date of December 31, 2016.

### **33) OSA FINDING AND RECOMMENDATION 2015-078: DEFICIENCIES IN COUNTY ELIGIBILITY DETERMINATION PROCESSES**

93.767 CHILDREN'S HEALTH INSURANCE PROGRAM

*DIVISION OF MEDICAL ASSISTANCE*

Finding 2015-078: County departments of social services offices had errors in Children's Health Insurance Program eligibility determinations.

Certified Public Accountants performing the county audits tested 1,362 case files and found eligibility documentation deficiencies in 97 (7%) cases. The auditors identified questioned costs of \$21,156.

The document deficiencies noted by the auditors were related to key eligibility requirements for the program. The deficiencies found are described below:

- Forty-six (3.4%) client files were missing or contained inaccurate budget calculations.
- Thirty-one (2.3%) client files were missing eligibility documentation.
- Eighteen (1.3%) client files did not contain all the required eligibility and budget documentation. These files were missing items to support the budget, verification of required data matches, and budget verification forms.
- Two (0.1%) client files did not meet the program income limitations; therefore, the recipient would be ineligible for the duration of the period for which the limitations were not met.

The issues identified resulted in at least \$21,156 of service payments that could have been used to provide services to other eligible participants. Even though sample results identified only \$21,156 in questioned costs, if tests were extended to the entire population, questioned costs could be significant to the program.

In accordance with 42 CFR 435, documentation must be obtained as needed to determine if a recipient meets specific income standards and documentation must be maintained to support eligibility determinations.

Similar aspects of this finding were reported in previous years.

*Federal Award Information:* This finding affects the Children's Health Insurance Program federal grant awards 05-1405NC5021 and 05-1505NC5021 for the federal fiscal years ended September 30, 2014, and 2015, respectively.

OSA Recommendation: The Department should monitor to ensure eligibility determinations are completed accurately and supporting documentation is maintained in case files.

Agency Response: The Department of Health and Human Services is the single State agency designated to administer or supervise the administration of the Medicaid program under title XIX and XXI of the Social Security Act. North Carolina Medicaid and North Carolina Children's Health Insurance Program are State supervised and county administered. The deficiencies cited from the county visits are recognized as repeat findings. The Department will continue to provide training, monitoring and guidance to county departments of social services (DSS) to ensure the adequacy of eligibility determinations. Additional requirements will be established and shared with

county DSS agencies. The Department will review the questioned costs identified and make the appropriate recoupments/payments.

Corrective Action Plan: The Department will continue to provide training, monitoring and guidance to county departments of social services (DSS) to ensure the adequacy of eligibility determinations and the proper maintenance of supporting documentation. Medicaid Eligibility staff will monitor the counties to ensure that applications are adequately processed and documented to adhere to federal guidelines.

The Department sent an administrative letter to county DSS offices on September 15, 2015 to provide instructions and convey the importance of documenting their audit findings, the relevant error corrections, and corrective action plans through implementation. The Department provided the following directives:

- Counties should correct identified deficiencies immediately following the exit interview with local CPA's.
- Counties should provide training to staff as necessary to prevent the noted deficiencies from reoccurring.
- County DSS Medicaid Eligibility staff should be required to attend Medicaid Eligibility webinar trainings.
- The county DSS offices will maintain all audit findings and required documentation to be collected and processed by the Department's Operational Support Team (OST).

Based on cumulative Single Audit findings for the program, the divisions will evaluate both the effectiveness of the programs' policy training and the need for focused training at specific DSS offices.

The Operational Support Team will continue to assist with calls, training, technical support, as well as update Webinar trainings on identified deficiencies from counties to monitor the effective implementation of the Medicaid Program.

*Anticipated Completion Date:* July 30, 2016

### **OIA Follow-up Results**

The Operational Support Team has provided training to the counties; letters have been sent to provide guidance regarding how to address identified errors, appropriately recoup/repay, and maintain documentation. The Division of Medical Assistance (DMA) has followed up on the counties' corrective action plans. DMA has resumed monitoring counties according to the application monitoring plan and has implemented a new process to require counties to perform second party reviews of eligibility determinations on a quarterly basis. Based on the results of the second party reviews, which are due September 9, 2016, DMA will evaluate the effectiveness of policy training and the need for focused training at specific DSS offices.

DMA has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-078. Completion of an evaluation of the need for focused training based on the results of second party reviews is expected to fully mitigate the risk to an acceptable level to prevent the finding from recurring.

We consider this finding partially resolved with an anticipated completion date of September 30, 2016.

**34) OSA FINDING AND RECOMMENDATION 2015-079: DEFICIENCIES IN SYSTEM ACCESS CONTROLS**  
93.767 CHILDREN'S HEALTH INSURANCE PROGRAM  
*DIVISION OF MEDICAL ASSISTANCE*

Finding 2015-079: The results of our audit disclosed deficiencies considered reportable under generally accepted *Government Auditing Standards*. These deficiencies regard security, which due to their sensitivity, are reported to the Department by separate sensitive letter. Pursuant to *North Carolina General Statute 132-6.1(c)*, the sensitive letter including your responses will not be publicly released.

*Federal Award Information:* This finding affects the Children's Health Insurance Program federal grant awards 05-1405NC5021 and 05-1505NC5021 for the federal fiscal years ended September 30, 2014, and 2015, respectively.

Agency Response: The Department is committed to maintaining adequate information security and system access controls. The Department has designed and/or implemented corrective actions to address the risks identified in this audit. These corrective actions have been detailed in a response separately submitted to the State Auditor. Security risks are given the highest priority by the Department and corrective actions will be monitored by senior leadership.

Corrective Action Plan: The Department is committed to maintaining information security and system access controls. As a result, we have implemented or are implementing corrective actions to address the risks identified by the audit team. These corrective actions have been detailed in a response separately submitted to OSA. Any potential security risks or noncompliance are given the highest priority by DHHS and corrective actions will be monitored by the DHHS senior leadership team.

*Corrective action was completed on:* February 12, 2016

**OIA Follow-up Results**

Per OIA follow-up, NC FAST has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-079. Due to the sensitivity of the finding, details of OIA's follow-up activities are not included in this report. A separate letter will be issued to the Secretary with detailed follow-up results.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

**35) OSA FINDING AND RECOMMENDATION 2015-080: MANAGEMENT DECISIONS WERE NOT COMMUNICATED TIMELY**

93.767 CHILDREN'S HEALTH INSURANCE PROGRAM

*DIVISION OF MEDICAL ASSISTANCE*

Finding 2015-080: The Department did not communicate management decisions to subrecipients (in response to audit results) in a timely manner. See finding 2015-004 for a description.

OSA Recommendation (see finding 2015-004 also): The Department should assure that priority is given to communicating management decisions timely to subrecipients.

Agency Response (see finding 2015-004 also): The Department agrees with the finding and will ensure management decision letters are issued in a timely manner.

Corrective Action Plan: The Department will implement a tracking database which will be used to produce a monthly report showing the upcoming due dates for management decision letters. The report will be reviewed by management to ensure letters are issued timely.

*Anticipated Completion Date:* June 30, 2016

**OIA Follow-up Results**

The Risk Management and Audit Monitoring (RMAM) team estimates the work on its database for local government grantees is 95% complete. It is currently in production use, however, the reports are still a work in progress and should be completed by the end of August 2016. RMAM estimates the report generation and review process should be available for review approximately six weeks after completion of the report format.

RMAM generally begins to receive current subrecipient audit reports in April of each year. RMAM has six months from receipt of the audit reports to issue the management decision letters and estimates their completion to be the end of October 2016. Due to this timing, OIA is unable to test the audit reports received in 2016.

The two subrecipient audit reports, for which management decisions had not been issued and which were noted in OSA's Single Audit Report, were reports for a county and a subsidiary of another county. RMAM could not provide definitive evidence that these two management responses had been sent to the respective counties.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-080.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

### **36) OSA FINDING AND RECOMMENDATION 2015-081: ERRORS IN MEDICAID PROVIDER BILLING AND PAYMENT PROCESS**

93.778 MEDICAL ASSISTANCE PROGRAM

*DIVISION OF MEDICAL ASSISTANCE*

Finding 2015-081: The Department processed more than 127 million payments for services totaling \$11 billion during state fiscal year 2015. Fifty of a sample of 396 (13%) payments contained errors. The total errors identified resulted in overpayments of \$4,288 and federal questioned costs of \$2,824.

The 50 items contained one or more errors. This resulted in 55 errors as follows:

- 19 claims totaling \$2,250 had insufficient or improper documentation to support the services rendered. For 3 of the 19 claims, the auditor's specialist in health care compliance questioned whether documentation supported the service paid. The Department stated that the documentation provided does not lend itself to a clear and defensible denial of the service paid; and 2 of the 3 were billing differences of less than \$150 which the Department does not consider cost effective to pursue recoupment.
- 15 claims totaling \$1,388 were payments to providers ineligible to render the services.
- 11 claims totaling \$38 impacted by retroactive rate changes were not voided and replaced with claim payments at the new rate prior to the end of the fiscal year. Per the Department, they have corrected, or are currently implementing corrective action, on the claim errors resulting from retroactive rate changes.
- Seven claims totaling \$336 had the incorrect payment methodology applied to the calculation of the claim payment. Per the Department, they have corrected, or are currently implementing corrective action, on the claim errors resulting from incorrect payment methodology.
- Two claims totaling \$424 did not have the required prior approval attained prior to the rendering of the service.
- One claim totaling \$269 was a payment to a provider for services that did not comply with Medicaid policy.

In accordance with OMB Circular A-133 Section .510(a)(3), auditors must report known questioned costs when likely questioned costs are greater than \$10,000. When the known errors (\$4,288) found in the sample are projected to the entire population, the likely total errors are \$835 million. When evaluated at a 90% confidence interval, the results are unlikely to be less than \$492 million, or more than \$1.2 billion. Therefore, the overpayments of \$4,288 (federal share \$2,824) are being questioned.

The known errors resulting from retroactive rate changes and improper payment methodology totaled \$374. When projected to the entire population, the likely total errors resulting from these two conditions are \$72 million of the \$835 million above.

As a result, the Department made improper payments of program funds that could have been used to provide additional services to other eligible beneficiaries, or reduce overall program cost.

Several of the errors noted were due to providers submitting documentation to the auditors that was inadequate to support the services rendered. Per the State's Plan, the Department pays provider

claims, as submitted, and documentation supporting the claim is not required. However, as part of the provider agreement with the State, the provider is required to submit the supporting documentation for the claim paid, upon request. As noted above, not all documentation provided for the claims tested by the auditors clearly supported the services for which they were paid. Also, errors resulted from providers improperly billing services or failure to comply with policy or the state plan.

According to the Department, other errors were the result of the Department not implementing payment rate and methodology changes timely or system edits to verify provider eligibility and prior approval not functioning as originally planned with the implementation of NCTracks.

Federal regulations require costs to be adequately documented; authorized; necessary and reasonable; and be consistent with program regulations that apply to the federal award.

In accordance with the 42 CFR 431.107, providers sign an agreement to participate in the program that requires them to maintain records disclosing the extent of services furnished to recipients and, on request, furnish the records to the Department.

Federal regulations dictates “the State Medicaid agency must require all ordering or referring physicians or other professionals providing services under the State plan or under a waiver of the plan to be enrolled as participating providers.”

Similar aspects of this finding were reported in previous years.

*Federal Award Information:* This finding affects the Medical Assistance Program federal grant awards 05-1405NC5MAP and 05-1505NC5MAP for the federal fiscal years ended September 30, 2014, and 2015, respectively.

OSA Recommendations: The Department should continue to enhance its control procedures to improve the accuracy of the claims payment process:

- Management should ensure the proper and timely implementation of system changes, including effective payment edits.
- Emphasis should be placed on educating providers as to proper coding and documentation standards necessary to support the medical services being provided.
- Identified over and underpaid claims should be followed up for timely and appropriate collection or payment.
- Enhance procedures to evaluate potential up-coding (billing at higher rates) by providers and take necessary action to ensure proper billing and claim payment.

Agency Response: The Department agrees with 31 of the 50 payments with errors noted from the sample of 396 payments, resulting in an error rate of 7.8%. This error rate closely aligns with the Department’s SFY 2013 PERM rate of 6.7% which at the time was lower than the 8.2% overall PERM rate for the 17 states that North Carolina is compared with. While the auditor’s error rate is based on the number of payment errors, the PERM error rate is based on the dollar value of payment errors.

As indicated in the auditor's comments, DMA clinical staff conducted an independent review for each of the individual claims that were cited as errors by OSA. As a result of this review, a determination was made that 3 of the 19 claims cited for errors related to documentation of services rendered were appropriately paid under Medicaid policy. These claims represent \$743 of the total questioned costs cited (federal share \$369).

With respect to each of the billing differences, the Department adheres to NCGS §108C-8 to determine if collecting recoupment amounts under \$150.00 is warranted. Due to the extensive appeal rights afforded providers when the Department seeks to recoup overpayments, collection efforts for an error less than \$150.00 has the potential to cost the Department in excess of \$500.00. It is both cost effective and in the best interest of Medicaid and the State of North Carolina to refrain from pursuing recoupments of less than \$150.00.

Rate changes in the Medicaid program are legislated by the General Assembly with an effective date for implementation. However, per CFRs 447 and 430, CMS approval is required prior to the implementation of any rate changes. In order to receive this approval, a State Plan Amendment (SPA) is prepared and submitted to CMS for review. The SPA approval process typically requires an extensive review period, which creates a delay in enacting rate adjustments. This requires DMA to retroactively adjust rates back to the legislative effective date once CMS approval is received.

Each of these claims were also impacted by the 3% Physician rate reduction enacted with Session Law 2013-360 requiring an effective date of January 1, 2014. CMS approved the SPA on June 27, 2014. Since ACA providers were excluded from the physician rate reductions, extensive analysis involving programming in the claims payment system was required to correctly identify the subset of providers impacted by the rate changes. Upon completion of the analysis, implementation of the rate adjustments occurred in two (2) separate phases. Phase 1, which occurred on March 2, 2015, involved loading the rates into the claims payment system. Phase 2 involved the reprocessing of claims with dates of service from January 1, 2014 to March 2, 2015. The reprocessing began in April 2015 and is expected to be completed by December 31, 2016. As there currently is no state or federal regulation that requires claims reprocessing to occur within specific timeframes, the Department took the time needed to ensure the reprocessing plan was well designed and executed.

The seven claims cited for the use of incorrect payment methodology resulted from the misinterpretation of a CMS Information Bulletin informing states of the obligation of Medicaid to reimburse providers for cost sharing that is due for a Qualified Medicare Beneficiary (QMB). The correct methodology was identified and implemented in November 2015. A systematic reprocessing of claims has been initiated and will occur between March 29, 2016 and June 21, 2016.

The Department chose to recalculate the estimated errors in the population adjusting the baseline to exclude the retroactive rate changes and the claims determined to be sufficiently documented. The Department recalculated this projection utilizing our standardized extrapolation process. Using this revised baseline results in a projected error total of \$690 million across the total population, not too distant from the auditor's calculation of \$763 million (\$835 million less \$72 million).

Corrective Action Plan: The Department's Division of Medical Assistance (DMA) Program Integrity clinical staff investigated claims errors cited by the auditors and determined that 3 of 19 claims errors relevant to documentation of services rendered were appropriately paid under

Medicaid policy. DMA will continue to investigate the remaining claims errors to determine if they can be resolved by obtaining additional documentation from the provider. Appropriate collection or payment will be made as required.

DMA recognizes that improper documentation is the top error type disclosed throughout the nation in Medicaid medical reviews that are identified through the Payment Error Rate Measurement program. DMA will continue efforts to educate providers about the proper documentation standards required to support the medical necessity and proper coding of services billed to the Medicaid Program.

DMA's Provider Reimbursement section implemented the correct payment methodology on November 2015 to ensure payments for claims are applied at the approved rate. A systematic reprocessing of claims has been initiated and will occur between March 29, 2016 and June 21, 2016.

DMA's Provider Enrollment section implemented monitoring activities with the fiscal agent on December 21, 2015. Monitoring enrollment activities are performed to ensure the accuracy in the eligibility determinations performed by the contractor, compliance to federal and state requirements, and that supporting documentation is maintained in provider files.

DMA will further evaluate the errors cited in the single audit to ascertain if certain provider types are consistently non-compliant with documentation standards. DMA will continue ongoing communications with providers as well as provide education and focused training based on their assessed training needs.

*Anticipated Completion Date:* December 31, 2016

### **OIA Follow-up Results**

The Division of Medical Assistance (DMA) has investigated the claims errors identified by OSA and attempted recoupment or repaid, as appropriate. The correct payment methodology was implemented in March 2016 and a systematic reprocessing of claims has been initiated, but is not yet complete.

The rate verification process was formalized August 2015 to help ensure rate changes are submitted to CSRA (the Fiscal Agent) and incorporated timely into NCTracks. The process requires DMA to verify rates in NCTracks within 10 business days. The Division's policy is to implement rate changes only after approval is obtained from the Centers for Medicare and Medicaid Services (CMS), so there is an inherent risk to the process. The Division has sufficiently addressed all risks within its control; however, the finding may reoccur due to the timing between the effective date of the rate change and the implementation in NCTracks.

DMA's Provider Enrollment section implemented monitoring activities with the fiscal agent to mitigate the risk of inaccurate enrollment determinations. DMA has initiated a system edit to activate the system's ability to suspend or terminate the taxonomy if the provider does not update an expired license, certification, or accreditation. The system update is set to be released by the end of July 2016. DMA is on track to complete efforts to educate providers about proper documentation standards and proper coding. DMA is also on track to complete efforts to assess the need for focused training, and complete claims reprocessing by December 31, 2016.

DMA has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-081.

We consider this finding partially resolved with an anticipated completion date of December 31, 2016.

### **37) OSA FINDING AND RECOMMENDATION 2015-082: DEFICIENCIES WITH THE RATE CHANGE PROCESS**

93.778 MEDICAL ASSISTANCE PROGRAM

*DIVISION OF MEDICAL ASSISTANCE*

Finding 2015-082: The Department did not always ensure that the amounts reimbursed to providers for rendering services to Medicaid recipients were consistent with Medicaid plan and rates. Sixteen rate changes from a sample of 97 (17%) lacked adequate documentation to support the Department's timely review of changes to the claims processing system (NCTracks).

Additional testing procedures identified the following errors:

- One rate change was made using an incorrect calculation. The rate change was made to rates used to reimburse numerous providers for multiple procedures rendered to patients. The rate change was made to 16,556 claims totaling \$792,768 for the Medicaid program. Auditors were unable to determine the overall cost impact; however the incorrect calculation could cause errors ranging from 1% to 15% of the actual amounts paid
- The Department entered the wrong rate for one provider's reimbursement rate change. The error was made to 112 claims totaling \$106,277 and resulted in an underpayment of \$214.

As a result, the Department will incur additional costs. The process of determining the overpayments and underpayments, the recoupment of the overpayments plus possible appeals, and the reprocessing of underpayments could result in significant use of agency resources and administrative costs.

According to the Department, they verbally discussed implementing new policies and procedures to review rates in the new claims processing system (NCTracks) in the last quarter of state fiscal year 2015, but the new policy was not formalized until July 2015.

The Department performed 133 rate changes after the verbal policy implementation. Auditors reviewed 34 of the 133 rate changes processed after the verbal policy implementation and no errors were found. The Medicaid state plan dictates the methodology to calculate the reimbursement rates to providers that result in the costs to the program. OMB Circular A-87 states that to be allowable under a grant program, the costs must be consistent with policies, regulations, procedures, and state Medicaid plan and rates. It also states that costs must be adequately documented.

Similar aspects of this finding were reported in the prior year.

*Federal Award Information:* This finding affects the Medical Assistance Program federal grant awards 05-1405NC5MAP and 05-1505NC5MAP for the federal fiscal years ended September 30, 2014, and 2015, respectively.

OSA Recommendations: The Department should continue to ensure procedures over the independent verification of rate modifications in NCTracks are operating.

The Department should follow-up on claims impacted by inaccurate rate modifications and make the appropriate collection or payment.

Agency Response: The Department agrees with the errors noted. The Department implemented procedures to ensure that appropriate documentation is reviewed timely and retained to support rate modifications in NCTracks. All errors noted resulted in underpayments so there is no questioned cost impact.

Corrective Action Plan: The Department implemented procedures to provide evidence that appropriate documentation is reviewed timely and retained to support rate modifications in NCTracks.

The appropriate rates will be entered into NCTracks by the end of March 2016 to correct cited errors and allow for sufficient notice to the providers. The claims will be reprocessed based on the approval of the relevant Customer Service Request (CSR).

The wrong rate that resulted in underpayments made to one isolated provider has been corrected and entered into NCTracks as of July 9, 2015.

*Anticipated Completion Date:* December 31, 2016

### **OIA Follow-up Results**

DMA has formalized the rate verification policy to ensure timely review of rate changes and maintenance of supporting documentation. Approved rates have been entered into NCTracks and cited errors have been corrected. A memo was sent to the fiscal agent, CSRA, initiating the reprocessing of claims; however, as of 8/2/2016, reprocessing has not been completed.

The root cause has been fully addressed with the implementation of new policies and procedures over the review of rates in NCTracks. However, DMA has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-082. Completion of claims reprocessing is expected to fully mitigate the risk to an acceptable level to prevent the finding from recurring.

We consider this finding partially resolved with an anticipated completion date of December 31, 2016.

### **38) OSA FINDING AND RECOMMENDATION 2015-083: DEFICIENCIES IN COUNTY ELIGIBILITY DETERMINATION PROCESSES**

93.778 MEDICAL ASSISTANCE PROGRAM

*DIVISION OF MEDICAL ASSISTANCE*

Finding 2015-083: County departments of social services offices had errors in Medicaid eligibility determinations.

Certified Public Accountants auditing the counties tested 5,771 case files and found eligibility documentation deficiencies in 239 (4.1%) cases. The auditors identified questioned costs of \$74,072.

The document deficiencies noted by the auditors were related to key eligibility requirements for the program. The deficiencies found are described below:

- One hundred thirty-three (2.3%) client files did not contain all the required eligibility documentation. These case files were missing signed applications, proof of residency, and online verification documentation.
- Fifty-two (0.9%) client files were missing or contained inaccurate calculations related to the budget. These inaccurate calculations included errors in the computation of income and documentation of wages.
- Forty-three (0.7%) client files did not contain all the required eligibility and budget documentation. These case files were missing budget verification forms and verification of medical expenses.
- Eleven (0.2%) client files contained ineligible recipients for a part or the entire Medicaid coverage period. The errors included a case file that was not terminated at the end of the approved certification period and a case that did not indicate the correct certification period.

The issues identified resulted in at least \$74,072 of service payments that could have been used to provide services to other eligible participants. In accordance with 42 CFR 435, documentation must be obtained as needed to determine if a recipient meets specific income standards and documentation must be maintained to support eligibility determinations.

Similar aspects of this finding were reported in previous years.

*Federal Award Information:* This finding affects the Medical Assistance Program federal grant awards 05-1405NC5MAP and 05-1505NC5MAP for the federal fiscal years ended September 30, 2014, and 2015, respectively.

OSA Recommendation: The Department should monitor to ensure eligibility determinations are completed accurately and supporting documentation is maintained in case files.

Agency Response: The Department of Health and Human Services is the single State agency designated to administer or supervise the administration of the Medicaid program under title XIX and XXI of the Social Security Act. North Carolina Medicaid and North Carolina Children's Health Insurance Program are State supervised and county administered. The deficiencies cited from the county visits are recognized as repeat findings. The Department will continue to provide

training, monitoring and guidance to county departments of social services (DSS) to ensure the adequacy of eligibility determinations. Additional requirements will be established and shared with county DSS agencies. The Department will review questioned costs identified and make the appropriate recoupments/payments.

Corrective Action Plan: The Department will continue to provide training, monitoring and guidance to county departments of social services (DSS) to ensure the adequacy of eligibility determinations and the proper maintenance of supporting documentation. Medicaid Eligibility staff will monitor the counties to ensure that applications are adequately processed and documented to adhere to federal guidelines.

The Department sent an administrative letter to county DSS offices on September 15, 2015 to provide instructions and convey the importance of documenting their audit findings, the relevant error corrections, and corrective action plans through implementation. The Department provided the following directives:

- Counties should correct identified deficiencies immediately following the exit interview with local CPA's.
- Counties should provide training to staff as necessary to prevent the noted deficiencies from reoccurring.
- County DSS Medicaid Eligibility staff should be required to attend Medicaid Eligibility webinar trainings.
- The county DSS offices will maintain all audit findings and required documentation to be collected and processed by the Department's Operational Support Team (OST).

Based on cumulative Single Audit findings for the program, the divisions will evaluate both the effectiveness of the programs' policy training and the need for focused training at specific DSS offices.

The Operational Support Team will continue to assist with calls, training, technical support, as well as update Webinar trainings on identified deficiencies from counties to monitor the effective implementation of the Medicaid Program.

*Anticipated Completion Date:* July 30, 2016

### **OIA Follow-up Results**

The Operational Support Team has provided training to the counties; letters have been sent to provide guidance regarding how to address identified errors, appropriately recoup/repay, and maintain documentation. The Division of Medical Assistance (DMA) has followed up on the counties' corrective action plans. DMA has resumed monitoring counties according to the application monitoring plan and has implemented a new process to require counties to perform second party reviews of eligibility determinations on a quarterly basis. Based on the results of the second party reviews, which are due September 9, 2016, DMA will evaluate the effectiveness of policy training and the need for focused training at specific DSS offices.

DMA has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-083. Completion of an evaluation of the need for focused training based on the

results of second party reviews is expected to fully mitigate the risk to an acceptable level to prevent the finding from recurring.

We consider this finding partially resolved with an anticipated completion date of September 30, 2016.

**39) OSA FINDING AND RECOMMENDATION 2015-084: DEFICIENCIES IN SYSTEM ACCESS CONTROLS**  
93.778 MEDICAL ASSISTANCE PROGRAM  
*DIVISION OF MEDICAL ASSISTANCE*

Finding 2015-084: The results of our audit disclosed deficiencies considered reportable under generally accepted *Government Auditing Standards*. These deficiencies regard security, which due to their sensitivity, are reported to the Department by separate sensitive letter. Pursuant to *North Carolina General Statute 132-6.1(c)*, the sensitive letter including your responses will not be publicly released.

*Federal Award Information:* This finding affects the Medical Assistance Program federal grant awards 05-1405NC5MAP and 05-1505NC5MAP for the federal fiscal years ended September 30, 2014, and 2015, respectively.

Agency Response: The Department is committed to maintaining adequate information security and system access controls. The Department has designed and/or implemented corrective actions to address the risks identified in this audit. These corrective actions have been detailed in a response separately submitted to the State Auditor. Security risks are given the highest priority by the Department and corrective actions will be monitored by senior leadership.

Corrective Action Plan: The Department is committed to maintaining information security and system access controls. As a result, we have implemented or are implementing corrective actions to address the risks identified by the audit team. These corrective actions have been detailed in a response separately submitted to OSA. Any potential security risks or noncompliance are given the highest priority by DHHS and corrective actions will be monitored by the DHHS senior leadership team.

*Corrective action was completed on:* February 12, 2016

**OIA Follow-up Results**

Per OIA follow-up, NC FAST has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-084. Due to the sensitivity of the finding, details of OIA's follow-up activities are not included in this report. A separate letter will be issued to the Secretary with detailed follow-up results.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

**40) OSA FINDING AND RECOMMENDATION 2015-085: MANAGEMENT DECISIONS WERE NOT COMMUNICATED TIMELY**

93.778 MEDICAL ASSISTANCE PROGRAM

*DIVISION OF MEDICAL ASSISTANCE*

Finding 2015-085: The Department did not communicate management decisions to subrecipients (in response to audit results) in a timely manner. See finding 2015-004 for a description.

OSA Recommendation (see finding 2015-004 also): The Department should assure that priority is given to communicating management decisions timely to subrecipients.

Agency Response (see finding 2015-004 also): The Department agrees with the finding and will ensure management decision letters are issued in a timely manner.

Corrective Action Plan: The Department will implement a tracking database which will be used to produce a monthly report showing the upcoming due dates for management decision letters. The report will be reviewed by management to ensure letters are issued timely.

*Anticipated Completion Date:* June 30, 2016

**OIA Follow-up Results**

The Risk Management and Audit Monitoring (RMAM) team estimates the work on its database for local government grantees is 95% complete. It is currently in production use, however, the reports are still a work in progress and should be completed by the end of August 2016. RMAM estimates the report generation and review process should be available for review approximately six weeks after completion of the report format.

RMAM generally begins to receive current subrecipient audit reports in April of each year. RMAM has six months from receipt of the audit reports to issue the management decision letters and estimates their completion to be the end of October 2016. Due to this timing, OIA is unable to test the audit reports received in 2016.

The two subrecipient audit reports, for which management decisions had not been issued and which were noted in OSA's Single Audit Report, were reports for a county and a subsidiary of another county. RMAM could not provide definitive evidence that these two management responses had been sent to the respective counties.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-085.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

**41) OSA FINDING AND RECOMMENDATION 2015-086: DEFICIENCIES IN PROVIDER ENROLLMENT AND TERMINATION PROCESSES**

93.778 MEDICAL ASSISTANCE PROGRAM

*DIVISION OF MEDICAL ASSISTANCE*

Finding 2015-086: The Department's contracted agent (contractor) is responsible for determining eligibility of providers participating in the Medicaid program. The contractor processed and approved enrollment and update activities for 28,342 providers (out of 58,352 total providers) during state fiscal year 2015.

Sixty-seven of 117 (57%) sampled provider records had multiple types of errors including:

- In 27 of 117 (23%) provider records, there was no evidence the contractor conducted accreditation checks, background checks, and Office of Inspector General and/or North Carolina penalty searches for owners, office administrators, managing employees, and/or providers.
- In two of 117 (2%) provider records, there was no evidence of risk-based screening for high risk providers. Risk-based screening includes performing site visits prior to being determined eligible.
- In 12 of 117 (10%) provider records, the contractor's searches were performed using incorrect social security numbers and misspelled names.
- In 47 of the 117 (40%) sampled provider records, the licenses, certifications, or accreditations in the system were expired, but the provider remained active.

In addition, 23 of 194 (12%) providers with licenses suspended, surrendered, or revoked were not properly terminated in the claims processing system (NCTracks).

There is an increased risk that ineligible providers are treating Medicaid patients. There is also an increased risk of payments to ineligible providers that could result in federal funding being returned.

According to the Department, the errors were not detected because they did not have adequate monitoring procedures in place to ensure the contractor achieved expected results. In addition, the realignment of the responsible staff and management presented challenges to timely implement improve monitoring procedures.

In addition, the Department deactivated the program used to detect the expired dates for certifications, licenses, or accreditations.

In accordance with 42 CFR 455, the state agency must confirm the identity and determine the exclusion status of providers and any person with an ownership or control interest or who is an agent or managing employee of the provider through routine checks of federal databases. The state agency must also have a method for verifying providers' licenses and confirm that they have not expired or have no current limitations.

Significant aspects of this finding were reported in previous years.

*Federal Award Information:* This finding affects the Medical Assistance Program federal grant awards 05-1405NC5MAP and 05-1505NC5MAP for the federal fiscal years ended September 30, 2014, and 2015, respectively.

OSA Recommendations: The Department should monitor to ensure eligibility determinations are completed accurately and supporting documentation is maintained in the provider files. The Department should also ensure that all sanctioned providers are properly removed from the claims payment system (NCTracks).

Agency Response: As a result of previous single audits, the Department implemented monitoring activities with the fiscal agent on December 21, 2015. Monitoring enrollment activities are performed to ensure the accuracy of the eligibility determinations performed by the contractor, compliance to federal and state requirements and that supporting documentation is maintained in provider files.

Additionally, as enhancements to the monitoring activities stated above, system improvements and modifications are ongoing to detect errors related to providers with licenses suspended, surrendered, or revoked. April 2016 is the target date to implement an automated process to ensure that all sanctioned providers are terminated and properly removed from the claims payment system (NCTracks) as required. Additional system enhancements are also being developed to automate license, background, and penalty/sanction checks. Implementation is pending for August 2016.

The Department conducted an analysis of the 47 providers noted as errors due to license, certification and accreditation concerns. The Department completed an in-depth review of websites and contacted North Carolina Licensing Boards and the Division of Health Service Regulations. The review disclosed that only one provider had an expired license during SFY 2015. The Department also reviewed paid claims data for this provider. While the automation was partially in place during this audit period, the Department verified that the provider had zero claims submitted and paid by Medicaid during SFY 2015.

Corrective Action Plan: The Department implemented monitoring activities with the fiscal agent on December 21, 2015. Monitoring enrollment activities are performed to ensure the accuracy in the eligibility determinations performed by the contractor, compliance to federal and state requirements, and that supporting documentation is maintained in provider files.

System improvements and modifications are ongoing to detect errors related to providers with licenses suspended, surrendered, or revoked. April 2016 is the target date to implement an automated process to ensure that all sanctioned providers are terminated and properly removed from the claims payment system (NCTracks). Additional system enhancements are also being developed to automate license, background, and penalty/sanction checks. Implementation is pending for August 2016.

DMA conducted an analysis of 47 providers received from OSA during the audit process due to license, certification and accreditation concerns. DMA completed an in-depth review of websites and contacted North Carolina Licensing Boards and the Division of Health Service Regulations. The review disclosed that only one provider had an expired license during SFY 2015. DMA also reviewed paid claims data for this provider. While the automation was partially in place during this

audit period, DHHS verified that the provider had zero claims submitted and paid by Medicaid during SFY 2015.

*Anticipated Completion Date:* August 31, 2016

**OIA Follow-up Results** (also see Follow-up Results for findings 2015-046 and 2016-087)

Per OIA follow-up, DMA has fully implemented procedures to address the finding as of September 22, 2016. Monitoring procedures have been implemented to mitigate the risk of eligibility determinations being completed inaccurately and without supporting documentation. System enhancements have been initiated to mitigate the risk of sanctioned providers remaining active in the system. The Division implemented an automated process to suspend or terminate a credential if a provider does not update an expired license, certification, or accreditation. The Division also implemented an interface with the NC Medical Board whereby NCTracks will receive monthly interface files from the NC Medical Board for license renewals and adverse actions for providers. The files will be used during the credentialing processes to update provider records. OIA examined the monthly monitoring logs and verified that Provider Services staff and management reviewed provider applications in accordance with the monitoring plan. OIA also reviewed Customer Service Requests, screenshots, and sign-off forms to verify that the system updates were implemented.

DMA has fully implemented the corrective action plan and adequately mitigated the risk associated with finding 2015-086 to an acceptable level to prevent this finding from recurring.

We consider this finding resolved as of September 22, 2016.

**42) OSA FINDING AND RECOMMENDATION 2015-087: MANAGEMENT DID NOT TAKE FULL CORRECTIVE ACTION ON PRIOR RECOMMENDATIONS**

93.778 MEDICAL ASSISTANCE PROGRAM

*DIVISION OF MEDICAL ASSISTANCE*

Finding 2015-087: The Department of Health and Human Services (Department) management did not take full corrective action on prior year audit findings for three major federal programs audited for the current fiscal year ended June 30, 2015.

• **Medical Assistance Program**

- Deficiencies in Provider Enrollment and Termination Processes – The Department continued to inadequately monitor the contracted service provider to ensure eligible medical providers are enrolled and ineligible providers are terminated from the program. As described in current year finding #86, audit tests indicated an increase in enrollment and termination errors.

See finding 2015-046 for a description.

OSA Recommendation (see finding 2015—046 also): The Department should ensure corrective action plans are finalized by planned completion dates.

Agency Response (see findings 2015-046 and 2015-086 also):

As a result of previous single audits, the Department implemented monitoring activities with the fiscal agent on December 21, 2015. Monitoring enrollment activities are performed to ensure the accuracy of the eligibility determinations performed by the contractor, compliance to federal and state requirements and that supporting documentation is maintained in provider files.

Additionally, as enhancements to the monitoring activities stated above, system improvements and modifications are ongoing to detect errors related to providers with licenses suspended, surrendered, or revoked. April 2016 is the target date to implement an automated process to ensure that all sanctioned providers are terminated and properly removed from the claims payment system (NCTracks) as required. Additional system enhancements are also being developed to automate license, background, and penalty/sanction checks. Implementation is pending for August 2016.

The Department conducted an analysis of the 47 providers noted as errors due to license, certification and accreditation concerns. The Department completed an in-depth review of websites and contacted North Carolina Licensing Boards and the Division of Health Service Regulations. The review disclosed that only one provider had an expired license during SFY 2015. The Department also reviewed paid claims data for this provider. While the automation was partially in place during this audit period, the Department verified that the provider had zero claims submitted and paid by Medicaid during SFY 2015.

Corrective Action Plan:

The Department implemented monitoring activities with the fiscal agent on December 21, 2015. Monitoring enrollment activities are performed to ensure the accuracy in the eligibility determinations performed by the contractor, compliance to federal and state requirements, and that supporting documentation is maintained in provider files.

System improvements and modifications are ongoing to detect errors related to providers with licenses suspended, surrendered, or revoked. April 2016 is the target date to implement an automated process to ensure that all sanctioned providers are terminated and properly removed from the claims payment system (NCTracks). Additional system enhancements are also being developed to automate license, background, and penalty/sanction checks. Implementation is pending for August 2016.

DMA conducted an analysis of 47 providers received from OSA during the audit process due to license, certification and accreditation concerns. DMA completed an in-depth review of websites and contacted North Carolina Licensing Boards and the Division of Health Service Regulations. The review disclosed that only one provider had an expired license during SFY 2015. DMA also reviewed paid claims data for this provider. While the automation was partially in place during this audit period, DHHS verified that the provider had zero claims submitted and paid by Medicaid during SFY 2015.

*Anticipated Completion Date:* August 31, 2016

### **OIA Follow-up Results**

Per OIA follow-up, DMA has fully implemented procedures to address the finding as of September 22, 2016. Monitoring procedures have been implemented to mitigate the risk of eligibility determinations being completed inaccurately and without supporting documentation. System enhancements have been initiated to mitigate the risk of sanctioned providers remaining active in the system. The Division implemented an automated process to suspend or terminate a credential if a provider does not update an expired license, certification, or accreditation. The Division also implemented an interface with the NC Medical Board whereby NCTracks will receive monthly interface files from the NC Medical Board for license renewals and adverse actions for providers. The files will be used during the credentialing processes to update provider records. OIA examined the monthly monitoring logs and verified that Provider Services staff and management reviewed provider applications in accordance with the monitoring plan. OIA also reviewed Customer Service Requests, screenshots, and sign-off forms to verify that the system updates were implemented.

See additional details at finding 2015-086.

DMA has fully implemented the corrective action plan and adequately mitigated the risk associated with finding 2015-087 to an acceptable level to prevent this finding from recurring.

We consider this finding resolved as of September 22, 2016.

**43) OSA FINDING AND RECOMMENDATION 2015-088: BENEFITS PAID TO INELIGIBLE PARTICIPANTS**  
93.917 HIV CARE FORMULA GRANTS  
*DIVISION OF PUBLIC HEALTH*

Finding 2015-088: The Department paid benefits from the Ryan White HIV Formula Grant on behalf of individuals that were not eligible to participate in the program. During the audit period the Department disbursed over \$27 million for 9,246 participants for the AIDS Drug Assistance Program (ADAP).

Auditors tested the eligibility determinations for 112 participants and found \$55,727 in payments made for 10 (9%) ineligible participants. The entire amount is questioned costs. Specifically,

- 4 (3.6%) were ineligible because their income was higher than that allowed by the program. Payments for these recipients were \$28,704.
- 3 (2.7%) were ineligible because the documentation from the local detention center did not explicitly state that there was an inability to pay for medications. Payments for these recipients were \$15,458.
- 1 (0.9%) was ineligible because they had private insurance. Payments made for this recipient were \$5,769.
- 1 (0.9%) was ineligible because they did not have updated lab results in their case file. Payments for this recipient were \$4,848.
- 1 (0.9%) was ineligible because they were in the custody of the state. Payments for this recipient were \$948.

As a result, ineligible participants received \$55,727 of benefits that could have been used to provide services to other eligible participants.

According to the Department, ineligible participants received benefits because of vague policy and a lack of access to information. They did not have a clearly documented policy which defines when a participant is in the custody of the state. Additionally, those responsible for eligibility determinations did not have access to the Department's Online Verification (OLV) system to verify participants' income.

Per Federal Regulations, to be eligible to receive assistance, an individual must have a medical diagnosis of HIV/AIDS, be a low-income individual, be a resident of the state and also be uninsured or underinsured, as defined by the State.

Further, North Carolina policy states that individuals in a local detention center (county jail) may be eligible for the AIDS Drug Assistance Program (ADAP), but those in State or Federal prisons, or in State or Federal custody, are not eligible for ADAP.

*Federal Award Information:* This finding affects the HIV Care Formula Grants federal grant award X07HA0051 for the fiscal year ended March 31, 2015.

OSA Recommendations: The Department should clearly document policies and procedures to ensure verification of information is performed. The Department should provide Online Verification access to staff making program eligibility determinations.

Agency Response: The Department agrees with these eligibility findings. The Division remains committed to maintaining controls and processes to ensure appropriate compliance with federal and state requirements for this vitally important program. The Division believes in this program because of the value to many individuals. However, we also realize that accountability and the adherence to rules and regulations is an extremely important part of operating any program. Therefore, the Division will implement appropriate actions to help mitigate the identified risks.

Corrective Action Plan: The Program will request a new statement of financial need from Wake County Detention Center that explicitly states there is an inability to pay for medications. The Program will also document the jail eligibility process to include the requirement that all statements of financial need contain the exact verbiage delineated in the policy. Once received, the documentation will be reviewed to determine that the required language is included. If not, eligibility will not be confirmed and the request will be returned to the Detention Center for update and resubmission. Local procedures will be updated to confirm these changes.

*Anticipated Completion Date:* April 1, 2016

Periodically, the Purchase of Medical Care (POMC) staff will meet under the direction of the supervisor to discuss and review the importance of checking and ensuring all relevant eligibility data is both entered accurately in the POMC system and maintained in the appropriate client file. The potential for improving new processes will be discussed in this meeting as appropriate.

On a quarterly basis, the POMC Staff with the assistance of DHHS IT Staff, will randomly select a sample of ADAP records for review. This will be done in order to ensure all required eligibility information is accurate and filed in the appropriate folder. In the event any error(s) is/are found in the selected files, another random sample will be pulled and reviewed. The same process regarding the checking of records for this sample will be the same as the first sample. This sampling process has begun.

In the event any system updates are necessary as a result of issues which are discovered, they will be corrected in the POMC system.

A log of records reviewed and issues found and corrected will be maintained.

*Anticipated Completion Date:* April 30, 2016

### **OIA Follow-up Results**

Per OIA follow-up, the Division of Public Health (DPH) has clearly documented policies and procedures, to ensure verification of information is performed. Each quarter the Purchase of Medical Care (POMC) staff randomly selects samples of AIDS Drug Assistance Program (ADAP) records to review. Auditor reviewed ADAP records to verify that the issues found had been corrected and also noted that a log of issues found and corrected was maintained by the POMC staff. Periodically, the POMC supervisor meets with the POMC staff to discuss and review the importance of checking and ensuring that accurate data is entered and maintained in the POMC system.

The Division requested and received a new statement of financial need from Wake County Detention Center that explicitly states there is an inability to pay for medications. The Division has also

documented the jail eligibility process to include the requirement that all statements of financial need contain the exact verbiage delineated in the policy. The documentation was reviewed to determine that the required language was included. Policies and procedures were updated to include local procedures.

At this time, the Division has not provided Online Verification access to staff making program eligibility determinations. Due to the planning involved, implementation of the OLV system will take an undetermined amount of time. The DPH Business Director is researching the logistics of implementing the OLV system. The Division agreed to complete the following regarding OLV by March 31, 2017:

1. Determine if the Program can gain access.
2. Determine if the OLV will serve eligibility determination needs for ADAP.
3. Determine if adjustments need to be made in the Program's eligibility determination policy.

By June 30, 2017, DPH will implement the use of the OLV system to staff and have adjustments made to the Program's eligibility determination policy, or DPH will continue to use the current eligibility process. By selecting the second option, DPH management will be electing to accept the risk of not implementing the OSA recommendation.

DPH has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-088.

We consider this finding partially resolved with an anticipated completion date of June 30, 2017.

**44) OSA FINDING AND RECOMMENDATION 2015-089: DEFICIENCIES IN RATE CHANGE PROCESS**  
93.959 BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE  
*DIVISION OF MENTAL HEALTH, DEVELOPMENTAL DISABILITIES AND SUBSTANCE ABUSE SERVICES*

Finding 2015-089: The Department did not have adequate documentation to justify substance abuse payment rate changes and to show rates were properly approved prior to changes. Additionally, the Department did not have documentation to show that rate changes in the claims processing system (NCTracks) were verified for accuracy. The Department submitted changes to the system rate tables 29 times during state fiscal year 2015, affecting 292 substance abuse service rates.

Auditors tested six of the 29 rate change submissions, affecting 28 substance abuse service rates. The following errors were noted:

- 22 out of 28 rate changes did not have documentation to support that proper approvals were obtained prior to changing the rates.
- 22 out of 28 rate changes did not have adequate supporting documentation to justify the rate change request.
- 28 of the 28 rate changes did not have documentation verifying the accuracy of the changes made in the system.

Inadequate documentation and review could result in improper rates being implemented in the claims processing system causing substance abuse claims to be paid in error, similar to the errors noted in the finding above.

Per the Department's management, they are reviewing Local Management Entities/Managed Care Organizations (LME/MCO) rate change requests for reasonableness prior to implementing the changes to the system, but had become complacent and failed to maintain adequate documentation to support the rate reviews and approvals. Additionally, it relied on documentation from the claims processing contractor and did not evidence independent end user verification of the rate changes in NCTracks.

The Department's internal policy requires:

- One level of review and approval for all rate modification requests.
- Rate modifications requesting changes that exceed the state rate must be accompanied by additional justification documentation and a second level of review prior to implementation.
- Verification that the new approved rate has been uploaded correctly into the claims processing system.

Similar aspects of this finding were reported in the prior year.

*Federal Award Information:* This finding affects the Block Grants for Prevention and Treatment of Substance Abuse federal grant awards TI010032-13, TI010032-14, and TI010032-15 for the federal fiscal years ended September 30, 2013 to 2015.

OSA Recommendations: The Department should maintain documentation to ensure rate changes are justified and approved before being put into the claims processing system. The Department

staff should document verification of rate changes once entered into the claims processing system for accuracy.

Agency Response: The Department agrees with the finding and has implemented procedures to ensure documentation of rate change approvals and verifications are maintained.

Corrective Action Plan:

- Effective February 9, 2016, as part of the rate approval process, the Budget and Finance Section staff will consistently document the current active state rates and other rates on the Rate Request Form.
- All supporting documentation will be attached to the completed rate request file.
- As part of the rate verification, one staff will enter the rate into NCTracks and a separate staff will review all required documentation.
- The second staff person will review the rate in NCTracks for accuracy before signing off on the DMH Rate Accepted Transaction Report.
- The report will be reviewed and signed by both staff in accordance with the existing procedure.
- The rate change policy will be revised to include the second level review.

*Anticipated Completion Date:* June 30, 2016

**OIA Follow-up Results**

Per OIA follow-up, the Division of Mental Health, Developmental Disabilities and Substance Abuse Services (DMH/DD/SAS) has fully implemented the CAP outlined in the response to the OSA's Single Audit Report. The Division has revised the DMH/DD/SAS Rate Procedure to include a second level review. The review of the DMH Rate Accepted Transaction Reports contained expected evidence of a second review and supporting documentation, where appropriate. OIA reviewed the updated rate change policy to ensure revisions were included and tested a sample of rate change requests to ensure proper reviews and approvals were documented.

DMH/DD/SAS has fully implemented procedures and adequately mitigated the risk associated with finding 2015-089 to an acceptable level to prevent the finding from recurring.

We consider this finding resolved, as of July 29, 2016.

**45) OSA FINDING AND RECOMMENDATION 2015-090: DEFICIENCIES IN FILE MAINTENANCE REQUEST CHANGE CONTROLS**

93.959 BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE

*DIVISION OF MENTAL HEALTH, DEVELOPMENTAL DISABILITIES AND SUBSTANCE ABUSE SERVICES*

Finding 2015-090: The Department did not maintain documentation to support that File Maintenance Requests (FMRs) changes by the substance abuse claims processor were operating as expected after implementation. FMRs include provider service changes, medical policy changes and payment processing changes that affect how substance abuse claims are paid.

During the year, there were 23 FMRs submitted and 19 (83%) of the changes did not have documentation of review by Department staff after implementation.

Without review of file maintenance changes, the claims processor could make inaccurate or unauthorized changes or fail to make requested changes that result in improper claim payments.

Per the Department, the claims processor provides before and after evidence of the file maintenance changes to Department staff via email; however, it does not maintain the change evidence or document approval of all changes once implemented in the claims processing system (NCTracks).

The Statewide Information Security Manual, Section 040405 – Managing Change Control Procedures, states that adequate change control processes require proper authorization and approvals as well as testing of implemented changes to ensure operating as expected.

Similar aspects of this finding were reported in the prior year.

*Federal Award Information:* This finding affects the Block Grants for Prevention and Treatment of Substance Abuse federal grant awards TI010032-13, TI010032-14, and TI010032-15 for the federal fiscal years ended September 30, 2013 to 2015.

OSA Recommendation: The Department should establish procedures to test and maintain documentation that file maintenance changes are operating as expected.

Agency Response: The Department agrees with the finding. The Division's NCTracks Team reviewed File Maintenance Requests (FMR) as they were completed by the Fiscal Agent; however, these reviews were not consistently documented. The Department has enhanced its review process to ensure adequate documentation is maintained.

Corrective Action Plan:

- The Fiscal Agent implemented the File Maintenance Request (FMR) Tool on February 8, 2016. The Division's NCTracks Team will utilize the FMR Tool to record the name and date of the person reviewing the FMR.
- A standard operating procedure will be implemented and documented to segregate the duties of initiating and reviewing FMRs.

*Anticipated Completion Date:* June 30, 2016

**OIA Follow-up Results**

The File Maintenance Request Tool was implemented by the Division of Mental Health on February 8, 2016. OIA confirmed the tools are in use by the Division of Mental Health, Developmental Disabilities, and Substance Abuse (DMH/DD/SAS) and contain the expected name and date of the person completing the review of the File Maintenance Requests (FMR) changes. In addition, DMH/DD/SAS created standard operating procedures to address the initiating and reviewing of FMRs through use of the FMR Tool. OIA reviewed the updated standard operating procedures that address the initiating and reviewing of FMRs and tested a sample of completed FMRs to ensure DMH/DD/SAS is tracking the name and date of the review as well as the approval of the FMR.

DMH/DD/SAS has fully implemented procedures and adequately mitigated the risk associated with finding 2015-090 to an acceptable level to prevent the finding from recurring.

We consider this finding resolved as of August 4, 2016.

**46) OSA FINDING AND RECOMMENDATION 2015-091: DEFICIENCIES AND ERRORS IN PROVIDER BILLING AND PAYMENT PROCESS**

93.959 BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE

*DIVISION OF MENTAL HEALTH, DEVELOPMENTAL DISABILITIES AND SUBSTANCE ABUSE SERVICES*

Finding 2015-091: The Department used NCTracks to process more than 111,000 payments for substance abuse services totaling \$6.5 million during state fiscal year 2015. Twelve of 194 (6.7%) claims tested had errors that resulted in net overpayments of \$271.

Specifically, the following errors were identified:

- Private third-party insurance was not considered for four (2.1%) of 194 claims tested, resulting in overpayments and questioned costs of \$406.
- Claims were paid at the incorrect rate for four (2.1%) of 194 claims tested, resulting in an underpayment of \$202.
- Medicaid and Medicare coverage was not considered for two (1%) of 194 claims tested, resulting in overpayments and questioned costs of \$67.
- There were six active payment rates for two (1%) of 194 claims tested, when there should have been only one active rate for the specific service in the claim processing system. Therefore, the accuracy of the rate and amount paid on the claim could not be determined.

In accordance with OMB Circular A-133 Section .510(a)(3), auditors must report known questioned costs when likely questioned costs are greater than \$10,000. Therefore, the actual overpayments of \$473 are being questioned.

The Department's failure to consider other insurance coverages could result in payments for services with substance abuse funds that should have been covered by other insurance. Paying at incorrect rates results in improper payments that reduce funds available for additional claim payments and increases program costs.

According to the Department, NCTracks was designed to ensure proper payments. However, the Department did not have a quality control review of claim payments to ensure NCTracks was accurately processing claims.

Additionally, the claims processing system (NCTracks) did not have the proper payment program logic in place as follows:

- The system was programmed to bypass sending claims for certain residential treatment services to third party insurance companies for payment consideration.
- The system was not programmed to prevent multiple active payment rates during the same period for a specific substance abuse service.
- The system was not programmed to reprocess claims when additional insurance coverage or rate changes are added retroactively to the system.

Per 2 CFR 225, in order for a cost to be allowable under a federal program it must be authorized by and consistent with policies, regulations and procedures that apply uniformly to both federal awards and other activities of the governmental unit. The *State-Funded Enhanced Mental Health*

and Substance Abuse Services manual requires that “other third-party payors, including Medicaid...and Medicare” be billed before claims are reimbursed by the state’s substance abuse program.

Similar aspects of this finding were reported in the prior year.

*Federal Award Information:* This finding affects the Block Grants for Prevention and Treatment of Substance Abuse federal grant awards TI010032-13, TI010032-14, and TI010032-15 for the federal fiscal years ended September 30, 2013 to 2015.

OSA Recommendations: The Department should enhance its procedures to improve the accuracy of the claims payment process.

Specifically, the Department should:

- Ensure the necessary programming changes are implemented promptly and accurately to properly process claims, and
- Develop a quality control process to select claims for review to ensure claims are paid correctly, subsequent to program changes.

Agency Response: The Department agrees with the finding and will enhance procedures to review claims to ensure that they are being paid correctly. The Department is following up on the 12 claims which were identified as not processing correctly.

Corrective Action Plan: The Division will continue to review claims after each checkwrite to ensure they are being paid correctly.

- Claims for state-specific procedure codes were not sent to private third party insurance carriers. These procedure codes are not National Standard codes (CPT and HCPCS). The Division will discuss a plan of action to review these unique codes in light of changes in the healthcare marketplace.
- The Division NCTracks Team has written system defects to correct and prevent the six claim error types identified from occurring again in the NCTracks system. All system defects will be implemented by the Fiscal Agent by March 31, 2016.
- The Division NCTracks Team created a change service request (CSR) to correct retroactive eligibility for third party insurances. This should be implemented in the Fiscal Agent’s July 2016 production release.
- The Division will send a communication bulletin to the LME-MCOs explaining how NCTracks selects a rate when there are different rates for a provider’s multiple locations.
- The Division will work with the LME-MCOs to review provider rates and end date any rates which are no longer needed.

*Anticipated Completion Date:* July 31, 2016

### **OIA Follow-up Results**

Per OIA, four out of five steps in the corrective action plan have been implemented.

- The Division of Mental Health's (DMH) clinical staff reviewed various documents published on the Medicare website to validate the services for which Medicare will not pay. After review of the documents, DMH developed a list of procedure codes DMA allows the LME-MCOs to bypass sending to Medicare. OIA reviewed the Medicare Bypass Matrix to verify DMH/DD/SAS researched and compiled a list of procedure codes for services which Medicare will not pay. Resolved.
- The Division's NCTracks team corrected three system defects to prevent the six identified claim error type for recurring. OIA reviewed screenshots from NCTracks' Issue Tracking tab showing the history and disposition of the system defects to ensure the defects were corrected. Resolved.
- The Division's NCTracks team created a change service request (CSR) 1874 to correct retroactive eligibility for third party insurance companies. CSR 1874 is scheduled for implementation on September 25, 2016. A second CSR is required to fully implement the correction and identify recoupments for payments for ineligible services. CSR 1874.1 is still in development phase and is not expected to be implemented until 2017. Unresolved.
- The Division created a web based report, DMH Rate Report, which allows the LME-MCOs to review their active rates for each provider location in NCTracks. In addition, the Division sends out an email, approximately every three months, to the LME-MCOs with an attachment containing all the active rates for DMH. OIA reviewed the DMH Rate Report and accompanying email to verify the Division is notifying the LME-MCOs of the active billing rates. Resolved.
- The Division has a conference call twice a month with all LME-MCOs to review provider rates and to establish end dates for those no longer needed. OIA reviewed a copy of NCTracks DMH Core Team Meeting Agendas to ensure the Division maintains regular communication with the LME-MCOs concerning provider rates. Resolved.

DMH/DD/SAS has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-091.

We consider this finding partially resolved with an anticipated completion date of July 31, 2017.

**47) OSA FINDING AND RECOMMENDATION 2015-092: MAINTENANCE OF EFFORT SPENDING NOT SUPPORTED**

93.959 BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE

*DIVISION OF MENTAL HEALTH, DEVELOPMENTAL DISABILITIES AND SUBSTANCE ABUSE SERVICES*

Finding 2015-092: The Department did not have adequate documentation to support the expenditures reported for state fiscal year 2014 to meet the substance abuse program maintenance of effort requirement. The Department reported \$124.6 million of expenditures; however, \$9 million were estimates and were not supported by actual expenditures.

The Department met the preceding two-year average state expenditures calculation for maintenance of effort including the expenditure estimates; however, if the estimates were excluded the Department would not have met the requirement. Auditors were unable to determine the reasonableness of the estimate or obtain actual expenditures prior to completion of the audit.

If maintenance of effort spending requirements were not met, it could result in the reduction of future federal allotments and lead to increased state spending to maintain substance abuse services and/or possible reductions in substance abuse services.

Per the Department, the claims processing system was not able to provide reliable Medicaid matching substance abuse expenditure data to support the maintenance of effort calculation. Additionally, the Department did not request the data from two managed care organizations due to time constraints and chose to estimate those expenditures using existing data from other managed care organizations.

In accordance with 42 USC 300x-30 for the maintenance of effort regarding state expenditures, the State “agency will for such year maintain aggregate State expenditures for authorized activities at a level that is not less than the average level of such expenditures maintained by the State for the 2-year period preceding the fiscal year for which the State is applying for the grant.”

Similar aspects of this finding were reported in the prior year.

*Federal Award Information:* This finding affects the Block Grants for Prevention and Treatment of Substance Abuse federal grant awards TI010032-13, TI010032-14, and TI010032-15 for the federal fiscal years ended September 30, 2013 to 2015.

OSA Recommendations: The Department should ensure that amounts reported to meet the required maintenance of effort are actual expenditures and are supported by accounting records.

The Department should implement procedures to ensure all the necessary substance abuse expenditure data can be captured for use in computing expenditures for compliance with the maintenance of effort requirement.

Agency Response: The Division requested the actual expenditure data from the two managed care organizations for state fiscal year (SFY) 2014. The requested data was subsequently obtained and supported the numbers that had been previously provided in the estimate, confirming that the Department did meet the required maintenance of effort expenditure. The Division will revise its previously estimated reports with actual expenditure data to the Federal Government for SFY 2014.

All managed care organizations have submitted data for SFY 2015 and are now submitting data on a monthly basis.

Corrective Action Plan:

- The Division obtained the actual expenditure data from the two managed care organizations for state fiscal year (SFY) 2014.
- The Division will revise its previously estimated reports with actual expenditure data to the Federal Government for SFY 2014.
- All LME-MCOs have submitted data for SFY 2015 and are now submitting data on a monthly basis.
- For the current state fiscal year, the Division has assigned each LME-MCO with a required maintenance of effort (MOE) expenditure amount.
- The Division's efforts to strengthen and improve its guidance to LME-MCOs on the required reporting of MOE expenditures continue as a work progress.

*Anticipated Completion Date:* June 30, 2016

**OIA Follow-up Results**

Per OIA follow-up, DMH/DD/SAS obtained the actual expenditure data from the two LME-MCOs for which estimates were originally used. The Division requested access to the reporting system from the US Department of Health & Human Services Substance Abuse & Mental Health Services Administration (SAMHSA), in order to revise the MOE amounts. SAMHSA granted access and the Division revised the 2015 SABG Behavioral Health Report on July 26, 2016.

DMH/DD/SAS also began requiring the LME-MCOs to submit data on a monthly basis. DMH established a secure FTP folder for each LME that is used to exchange confidential information. Generally, the data files are posted to the folder for DMH review within the first week of the month. For State fiscal year 2015, the Division notified each LME-MCO of their required MOE amount. OIA reviewed email correspondence between DMH/DD/SAS and the federal agency SAMHSA, and OIA reviewed the revised 2015 SABG Behavioral Health Report, assigned MOE, and LME-MCO tracking spreadsheets to verify that the CAP had been implemented.

DMH/DD/SAS has fully implemented procedures and adequately mitigated the risk associated with finding 2015-092 to an acceptable level to prevent the finding from recurring.

We consider this finding resolved, as of July 29, 2016.

**48) OSA FINDING AND RECOMMENDATION 2015-093: MANAGEMENT DID NOT TAKE FULL CORRECTIVE ACTION ON PRIOR RECOMMENDATIONS**

93.959 BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE

*DIVISION OF MENTAL HEALTH, DEVELOPMENTAL DISABILITIES AND SUBSTANCE ABUSE SERVICES*

Finding 2015-093: The Department of Health and Human Services (Department) management did not take full corrective action on prior year audit findings for three major federal programs audited for the current fiscal year ended June 30, 2015.

- Block Grants For Prevention and Treatment of Substance Abuse
  - Monitoring Procedures Need Improvement – As described in current year finding #94, the Department did not ensure Local Management Entities and Managed Care Organizations complied with applicable laws and regulations.

Failure to implement corrective action in a timely way to ensure compliance allows federal funds to potentially be used for unallowable expenditures.

Although the Department identified corrective action plans to address these deficiencies in prior years, management did not follow through to ensure corrective actions were taken. OMB Circular A-133 section .300 states that auditees are responsible for following up and taking corrective action on audit findings.

Significant aspects of this finding were reported in the prior year.

See finding 2015-046 for a description.

OSA Recommendation (see finding 2015-046 also): The Department should ensure corrective action plans are finalized by planned completion dates.

Agency Response (see findings 2014-046 and 2015-094): While Plans of Correction were not completed during the audit period, disallowed costs found during the settlement reviews were refunded back to the Department. The Division's Plan of Correction Policy was revised and approved on March 13, 2015 and will be updated periodically as needed. The Financial Audit Team has been moved under new leadership and management for increased guidance, supervision, direction and oversight of the settlement review process.

Corrective Action Plan: In addition to the recoupment of disallowed costs, the following steps will be taken to ensure that plans of correction (POC) are required for noncompliant findings identified during the settlement review process:

- The Financial Audit Team will receive training on the POC policy, training on the compliance requirements of the Substance Abuse Prevention and Treatment Block Grant and on the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards.
- The Financial Audit Team will initiate POCs in accordance with the POC policy.
- Management staff will review, approve and monitor implementation of the POCs submitted by the LME-MCOs until the identified deficiencies have been satisfactorily resolved.

- The POC policy will be reviewed periodically in collaboration with the State Services Committee and revised in light of new requirements as needed.

*Anticipated Completion Date:* June 30, 2016

### **OIA Follow-up Results**

The Division of Mental Health, Developmental Disabilities and Substance Abuse Services (DMH/DD/SAS) Financial Audit Team received training on the items noted in their corrective action plan. These items include the POC policy, the compliance requirements for the SAPT Block Grant and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. In addition, the Financial Audit Team has initiated the LME-MCO settlement review process. However, the full cycle of the process including review, approval and monitoring of POC implementation has not yet been completed. Based on OIA's review, DMH/DD/SAS has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-093.

See additional details at finding 2015-094.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

**49) OSA FINDING AND RECOMMENDATION 2015-094: MONITORING PROCEDURES NEED IMPROVEMENT**

93.959 BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE  
*DIVISION OF MENTAL HEALTH, DEVELOPMENTAL DISABILITIES AND SUBSTANCE ABUSE SERVICES*

Finding 2015-094: The Department did not require corrective action plans to address deficiencies noted during the Local Management Entities/Managed Care Organizations (LME/MCO) fiscal monitoring reviews. LME/MCOs received and administered \$24.3 million of substance abuse federal funding during the audit period.

We reviewed 4 out of 17 fiscal monitoring reviews performed by the Department. In all 4 cases (100%), multiple deficiencies were noted per review, but corrective action plans were not required by the Department from the LME/MCOs. Deficiencies identified that required corrective action included:

- 4 LME/MCOs had unallowable costs due to invoices without supporting documentation or expenditures paid outside grant period.
- 2 LME/MCOs had advance payments to providers before contracts with providers were signed.
- 2 LME/MCOs paid sales tax to non-profit entity.
- 2 LME/MCOs were missing required certification statement that expenditures were for allowable activities/costs.
- 1 LME/MCO had disallowed expenses to a for-profit entity.

The Department's failure to require corrective action plans could result in noncompliance at the LME/MCOs not being corrected in a timely manner.

According to the Department, monitors focused on recouping the funds that were found to be disallowed. They did not focus attention on obtaining the required corrective action plans. The Department's *Plans of Correction* policy states when noncompliance is identified during a fiscal monitoring review, "a corrective action plan (or Plan of Correction) is due no more than 15 calendar days from the date of receipt by or attempted delivery of the identified out of compliance finding document." The Department must review the Plan of Correction and notify the LME/MCO if the plan is appropriate or not.

Significant aspects of this finding were reported in previous years.

*Federal Award Information:* This finding affects the Block Grants for Prevention and Treatment of Substance Abuse federal grant awards TI010032-13, TI010032-14, and TI010032-15 for the federal fiscal years ended September 30, 2013 to 2015.

OSA Recommendation: The Department should follow its monitoring policy and ensure required subrecipient corrective action plans are obtained, approved, and implemented to correct federal block grant noncompliance.

Agency Response: While Plans of Correction were not completed during the audit period, disallowed costs found during the settlement reviews were refunded back to the Department. The Division's Plan of Correction Policy was revised and approved on March 13, 2015 and will be

updated periodically as needed. The Financial Audit Team has been moved under new leadership and management for increased guidance, supervision, direction and oversight of the settlement review process.

Corrective Action Plan: In addition to the recoupment of disallowed costs, the following steps will be taken to ensure that plans of correction (POC) are required for noncompliant findings identified during the settlement review process:

- The Financial Audit Team will receive training on the POC policy, training on the compliance requirements of the Substance Abuse Prevention and Treatment Block Grant and on the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards.
- The Financial Audit Team will initiate POCs in accordance with the POC policy.
- Management staff will review, approve and monitor implementation of the POCs submitted by the LME-MCOs until the identified deficiencies have been satisfactorily resolved.
- The POC policy will be reviewed periodically in collaboration with the State Services Committee and revised in light of new requirements as needed.

*Anticipated Completion Date:* June 30, 2016

#### **OIA Follow-up Results**

The Division of Mental Health, Developmental Disabilities and Substance Abuse Services (DMH/DD/SAS) Financial Audit Team received training on the items noted in their corrective action plan. These items include the POC policy, the compliance requirements for the SAPT Block Grant and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. In addition, the Financial Audit Team has initiated the LME-MCO settlement review process. However, the full cycle of the process including review, approval and monitoring of POC implementation has not yet been completed. Based on OIA's review, DSS has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-094.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.

**50) OSA FINDING AND RECOMMENDATION 2015-095: MANAGEMENT DECISIONS WERE NOT COMMUNICATED TIMELY**

93.959 BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE

*DIVISION OF MENTAL HEALTH, DEVELOPMENTAL DISABILITIES AND SUBSTANCE ABUSE SERVICES*

Finding 2015-095: The Department did not communicate management decisions to subrecipients (in response to audit results) in a timely manner. See finding 2015-004 for a description.

OSA Recommendation (see finding 2015-004 also): The Department should assure that priority is given to communicating management decisions timely to subrecipients.

Agency Response (see 2015-004 also): The Department agrees with the finding and will ensure management decision letters are issued in a timely manner.

Corrective Action Plan: The Department will implement a tracking database which will be used to produce a monthly report showing the upcoming due dates for management decision letters. The report will be reviewed by management to ensure letters are issued timely.

*Anticipated Completion Date:* June 30, 2016

**OIA Follow-up Results**

The Risk Management and Audit Monitoring (RMAM) team estimates the work on its database for local government grantees is 95% complete. It is currently in production use, however, the reports are still a work in progress and should be completed by the end of August 2016. RMAM estimates the report generation and review process should be available for review approximately six weeks after completion of the report format.

RMAM generally begins to receive current subrecipient audit reports in April of each year. RMAM has six months from receipt of the audit reports to issue the management decision letters and estimates their completion to be the end of October 2016. Due to this timing, OIA is unable to test the audit reports received in 2016.

The two subrecipient audit reports, for which management decisions had not been issued and which were noted in OSA's Single Audit Report, were reports for a county and a subsidiary of another county. RMAM could not provide definitive evidence that these two management responses had been sent to the respective counties.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2015-095.

We consider this finding partially resolved with an anticipated completion date of October 31, 2016.