



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
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Office of the Internal Auditor
HEALTH AND HUMAN SERVICES

Follow-up Assessment of the Division of Medical
Assistance – Medicaid Performance Audit

Issued by the Office of the State Auditor,
January 31, 2013

September 2, 2016

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Office of the Internal Auditor
HEALTH AND HUMAN SERVICES

RICHARD O. BRAJER
Secretary, DHHS

CHET SPRUILL, CPA
Director, Office of the Internal Auditor

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 findings and recommendations identified in the performance audit of the Department of Health and Human Services – Division of Medical Assistance – Medicaid, PER-2013-7291. The report was issued by the Office of the State Auditor (OSA) on January 31, 2013.

Conclusion

OIA observed sufficient evidence to conclude the Division of Medical Assistance (DMA) has taken appropriate corrective action to reduce the risks identified in 9 of the 10 findings noted in OSA's audit report. DMA implemented all of OSA's recommendations as given for these nine findings, and in our opinion, the corrective action taken in relation to each of those nine findings was adequate to reduce the risk that the finding would continue to exist in subsequent periods. DMA has not taken appropriate corrective action to reduce the risks identified in 1 of the 10 findings noted in OSA's audit report. DMA management revised the expected implementation date to January 1, 2017 for that finding. The Risk Mitigation and Audit Monitoring group will follow up with DMA after the revised expected implementation date and OIA will perform additional procedures to validate management's corrective actions are complete after RMAM confirms these actions are complete. A summary of each of OSA's findings and recommendations and OIA's observed results are included in Appendix A.

Objective

The objective of our follow-up assessment was to evaluate whether DMA 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 assessment 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 10 findings identified, we performed the following functions:

- We reviewed OSA's audit report in order to gain a better understanding of the findings.
- We discussed with DMA 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 DMA 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 Division of Medical Assistance and the Office of the State Auditor for their cooperation and assistance provided during this follow-up assessment.

Respectfully submitted,

Chet

Chet Spruill

Director, Office of the Internal Auditor

APPENDIX A

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

ADMINISTRATIVE FUNCTIONS

1. OSA FINDING AND RECOMMENDATION - The Division has consistently exceeded budgeted amounts for contracted administrative costs and interagency transfers due to an apparent lack of oversight.

DMA expenditures in Fund 1102 (for contracts for the fiscal agent and other private vendors, as well as interagency transfers) have significantly exceeded their certified budgets every year from SFY 2009-SFY 2012. About half of the administrative expenses within DMA are for contracted services. There is an overall need for more precise monitoring of administrative costs with both DMA and DHHS. The General Assembly's budget expects agencies to comply with amounts certified in each fund.

OSA Recommendation (paraphrased): DMA needs to ensure expenditures do not exceed certified budgeted amounts.

Agency Response (paraphrased): The Department agrees with this recommendation in concept. The Division will be implementing, within the next month, a system to track contract requirements and expenditures on a weekly basis. Under no circumstances will contractors be allowed to exceed the budgeted contract amounts without an approved amendment to the contract. In order to correct historical issues with the budget, we will be requesting a review of our certified budget to ensure that contracted amounts reflect accurate operational costs. For example, the line item for Hewlett Packard (HP) services has been held at the 2005 contracted amount; however, with the increase in the number of Medicaid eligibles and providers this contract amount has increased yet is not reflected in the budgeted line item for this contract.

OIA Follow-up Results

DMA developed a system to track administrative contracts. This system is used to convey actual expenditure data, update projected annual spending for each contract, and update contract administrators and DMA administration on total projected spending and budget surplus/shortfall status on an individual contract and fund-level basis. OIA reviewed the system to verify expenditures are tracked on a regular basis for all 98 administrative contracts. OIA also verified that actual amounts did not exceed budgeted amounts unless approved by the DHHS Controller, a contract amendment, or amended budget. OIA noted three instances that the total expenditures exceeded the budgeted amounts and obtained reasonable explanations for the variances. The total of these three instances account for less than 1% of the total administrative contract expenditures for State Fiscal Year 2014. OIA determined the corrective actions taken by DMA are adequate to address the finding and/or implement the recommendation. OIA considers this finding resolved.

2. OSA FINDING AND RECOMMENDATION - Other Department of Health and Human Services (DHHS) division administrative spending is not controlled by DMA and is not sufficiently monitored by DHHS to ensure proper drawdown of federal funds.

The main issue with Medicaid administrative claim expenses in other divisions pertains to oversight and responsibility. That is, to be allowable costs covered under the Medicaid program, costs must be necessary for the proper and efficient administration of the Medicaid State plan and not the responsibility of a non-Medicaid program. At the time of the audit, DHHS could not provide any evidence that DHHS as the Single State agency is fulfilling this oversight role, nor that DMA as the Medicaid unit has assumed this responsibility. (paraphrased)

OSA recommended DHHS and DMA ensure that proper measures are in place to monitor other divisions' Medicaid spending. Interagency memorandums of understanding (IMOU) or cost allocation plans (CAP) should address the Medicaid program costs being necessary for the proper and efficient administration of the Medicaid State Plan, and not the responsibility of a non-Medicaid program. (paraphrased)

Agency Response (paraphrased): The Department agrees with the recommendations. DMA provides a pass-through function for other DHHS Divisions to appropriately access federal Medicaid matching funds for administrative functions relating to Medicaid recipients. DMA does not directly audit other Divisions' expenditures for accuracy. However, financial reports are available that provide detail of the expenditures. The Division of Medical Assistance will work with other Divisions in order to ensure compliance with all Federal and State requirements. Program managers who have only been monitoring program issues will have their role increased to monitor compliance with federal requirements.

OIA Follow-up Results

Per the Assistant Director of Contracts and Procurement at DMA, this CAP is not ready for validation. Interagency memorandums of understandings are being developed to ensure they adequately address Medicaid program costs (approximately 1/4 complete). DMA provided OIA an updated follow-up status that indicated the Division anticipates this finding will be fully resolved January 1, 2017. Therefore, OIA considers the finding unresolved.

3. OSA FINDING AND RECOMMENDATION - The Department does not have a comprehensive Public Assistance Cost Allocation Plan that can be reviewed from a Medicaid perspective to ensure that costs are allocable and allowable for the proper and efficient administration of the Medicaid State Plan.

DHHS does not have a Public Assistance Cost Allocation Plan (PACAP) that allows for the effective monitoring of expenditures allocated to the Medicaid program by the various Divisions within DHHS. Therefore, there is an increased risk of inappropriate cost shifting, which can strain the Medicaid budget, and may lead to improper claims for the Federal Financing Participation (FFP).

OSA recommended DMA should (paraphrased):

- a. Prepare a department-wide comprehensive PACAP, even if to incorporate the divisional PACAPs through reference.

- b. Have individuals with a Medicaid programmatic and financial understanding review the comprehensive PACAP to ensure that costs are allocable and allowable for the proper and efficient administration of the State Plan.

Agency Response: The Department agrees with the finding. We will develop and implement a Public Assistance Cost Allocation Plan (PACAP) effective July 1, 2013.

OIA Follow-up Results

OIA reviewed the approved Cost Allocation Plan, effective July 1, 2013, on the Department's website and verified that it was approved by Laketha Miller, DHHS Controller, and was easily accessible to the Department staff. Through inquiry with the Accounting Manager and the Cost Accounting/Financial Reporting Section Chief in the Controller's Office, OIA determined that the Budget and Cost Accounting staff work together to ensure that costs are allowable and allocated to the appropriate benefiting program. OIA inspected the quarterly amendments as of December 2014 and verified that they show the changes that were made to allocated costs. OIA determined the corrective actions taken by DMA are adequate to address the finding and/or implement the recommendation. OIA considers this finding resolved.

4. OSA FINDING AND RECOMMENDATION - DMA does not have a cost allocation plan for appropriately allocating indirect expenditures and tracking expenditures eligible for increased federal funding.

The Division's original position was that it is not required to have a cost allocation plan because all of its expenditures are direct to Medicaid. A cost allocation plan distributes indirect costs (expenditures that benefit two or more activities) in reasonable proportion to the amount of benefit the expenditures provide to each activity. General requirements for allocation of indirect costs to federal grants are included in 2 CFR Part 225 (formerly OMB Circular A-87). This regulation requires that all activities which benefit from a governmental unit's indirect costs must receive an appropriate allocation of indirect costs. (paraphrased)

OSA recommended DMA should reassess its conclusion that a DMA cost allocation plan is not necessary and develop and implement a plan, which would serve to allocate costs to all benefiting programs. (paraphrased)

Agency Response (paraphrased): The Department agrees with the recommendation. We will develop and implement a Public Assistance Cost Allocation Plan (PACAP) effective July 1, 2013.

OIA Follow-up Results

OIA reviewed the administrative cost allocation procedures, effective October 2014, within the Public Assistance Cost Allocation Plan. OIA verified that the procedures ensure expenditures eligible for increased federal funding are tracked and ensure indirect expenditures are appropriately allocated. OIA determined the corrective actions taken by DMA are adequate to address the finding and/or implement the recommendation. OIA considers this finding resolved.

BUDGET FORECASTING

1. OSA FINDING AND RECOMMENDATION - The Division's budget development and administration practices are potentially non-compliant with State statutes that have been enacted to ensure agency and legislative accountability for public expenditures.

DMA's actual expenditures have significantly exceeded Certified Budget authority in each of the past four fiscal years. This mismanagement jeopardizes the financial position of the State because, ultimately, federal funds that are improperly drawn or used must be repaid with General Funds. (paraphrased)

OSA recommended (paraphrased):

- a. DMA and DHHS should be required to submit reasonable estimates for all known Medicaid expenditures in their agency budget requests. If expenditures exceed allowable limits, DHHS, the Governor, or the General Assembly should take actions to reduce expenditures to stay within spending caps, rather than omit known expenditures from the budget.
- b. DMA's agency request budget should adjust expenditures for all known costs that increase or decrease with fluctuations in caseload, including costs in administrative funds 1101 and 1102. These requests should be accompanied by appropriate documentation.
- c. DMA should provide OSBM with documentation of unachievable savings that the General Assembly has included in their budgets at the beginning of the biennium or fiscal year, along with a forecast of the additional total dollars and State General Fund dollars that will be required to cover this unachievable savings.
- d. DMA should discontinue the practice of incurring liabilities for the State at the beginning of the fiscal year because they have overdrawn federal funds in the prior fiscal year to offset State General Fund shortfalls.
- e. The General Assembly should consider organizational changes that could improve the oversight needed to ensure that the Medicaid program is operated in compliance with legislative mandates.

Agency Response (paraphrased): Management agrees with the recommendations. The Division will implement, within 30 days, an operational policy in which the certified budget is compared to current expenditures by fund and budget code. The report will be updated no less frequently than once a month. Specifically:

- a. Beginning immediately, the Division will not only provide estimates for all costs/liabilities anticipated within the Medicaid program but will also provide detailed explanations regarding the expenditures.
- b. Beginning immediately, the Division will not only provide estimates for all costs/liabilities anticipated within the Medicaid program but will also provide detailed explanations regarding the expenditures.
- c. The Division will provide detailed, documented information regarding decisions before the General Assembly.
- d. DMA will work with the Department, OSBM and Fiscal Research Division of the Legislature (FRD) to manage cash and expenditures as appropriate.
- e. The Secretary and the Medicaid Director are committed to ensuring access to any and all information regarding the operations of the Medicaid program.

OIA Follow-up Results

DMA management provided OIA with an updated follow-up status indicating the Division has taken corrective action to resolve the finding and recommendations. DMA prepares a bottom-up budget that projects all known expenditures by fund and budget code including the assumptions underlying these projections. DMA also prepares budget variance reports on a monthly basis comparing actual expenditures to those budgeted. This data is included in the Monthly Financial Reporting Package. This monthly reporting package is assembled by analysts in the Financial Planning & Analysis (FP&A) section. An analyst submits the package to the Associate Director of FP&A for review. Once the package has satisfactorily passed that review, it is provided to the Director of Finance for a secondary review. The financial package is then shared with DMA and DHHS management. Additionally, a new process has been implemented to estimate Federal shares on drug rebate collections which are refunded to the Centers for Medicare and Medicaid Services (CMS) weekly, thus reducing the Federal liability carried over to the beginning of a subsequent fiscal year. DMA works with the Department, OSBM, FRD and OSC on financing of liabilities at the end of the fiscal year.

OIA obtained and reviewed copies of the Forecast Model and Process manuals and verified DMA developed procedures to manage cash and expenditures and to ensure costs are projected in agency budget requests. OIA then selected the Monthly Financial Reporting Package for two periods and confirmed budgets comparisons are completed for all funds and reviewed on a monthly basis by Division management.

Session Law 2015-245, House Bill 372 repealed language requiring the Department to obtain legislative approval prior to submitting amendments to the State Plan. DHHS is now authorized and required to take any necessary action to amend the State Plan in order to keep the program within the certified budget.

Lastly, to improve oversight in the Medicaid program, the Department contracted with Alvarez & Marsal to assist with the organizational re-alignment of DMA. At Alvarez & Marsal's recommendation, DMA created three new Sections within their division: Compliance & Oversight, Clinical, and Business Information. These sections are tasked with elevating and consolidating specific functions into a single section which is responsible for ensuring adherence to a compliance program, ensuring written policies are consistent with the requirements of law and CMS directives, and utilizing a dedicated unit to support each programmatic area with data and analytics. OIA obtained and reviewed DMA's organizational chart and verified the Division completed a reorganization to address the inefficient structure of the division. OIA determined the corrective actions taken by DMA are adequate to address the finding and/or implement the recommendation. OIA considers the finding resolved.

2. OSA FINDING AND RECOMMENDATION - The Division's budget forecasting methodology has not incorporated comprehensive multiyear projections and does not provide an accurate picture of the current year's financial position.

The Division prepares formal forecasts for only one of its funds, 1310 – Medical Assistance Payments. This does not provide a complete picture of the Medicaid program's status in complying

with the Certified Budget or achieving State General Fund reductions that have been mandated by the General Assembly.

OSA recommended DMA should:

- a. Forecast for all Medicaid funds, and these forecasts should be provided in an agreed upon format to OSBM and Fiscal Research Division at least quarterly.
- b. Maintain a comparison of forecasted expenditures and revenues to actual year end budget performance and subject it to analysis that can improve the ability to project expenditures and revenues.
- c. Prepare a five-year analysis to contribute to the Governor's budget message and should routinely forecast expenditures and revenues for a minimum of three years in the future.

Agency response (paraphrased): The Department agrees with these recommendations. Specifically:

- a. We will convene a discussion with the Office of State Budget and Management (OSBM), Fiscal Research and the Department to develop a consistent reporting package that addresses the needs of these entities.
- b. DMA will implement a process that incorporates the comparison of forecasts prepared in one period to forecasts prepared in subsequent periods to determine the source of changes in forecasting outcome. This will create opportunities for improvement. DMA prepares detailed analyses every month of variances between actual, forecasts and budget.
- c. The Division will improve its budget forecasting methodology. However, given the dramatic changes in the Medicaid program over the next two years, a long-term multiyear projection will decrease the accuracy of the forecast.

OIA Follow-up Results

DMA management provided OIA with an updated follow-up status indicating the Division has taken corrective action to resolve the finding and recommendations. DMA created a forecast and budget model which forecasts all Medicaid funds using comprehensive multiyear projections. The Division also maintains a comparison of budgeted to actual expenditures. These comparisons are published in the Monthly Financial Reporting Packages. More in-depth internal analyses are performed each month by the budget team to improve the ability to project expenditures and revenues. To ensure accurate projections, OSBM prepares the Rebase Requests file, which is sent to DMA to review for accuracy. The file provides a summarized forecast of expenditures, receipts and appropriation by fund. This process was developed in conjunction with the Fiscal Research Division of the Legislature and the Office of State Budget Management. Although DMA does not have a policy or procedure in place documenting managerial approval for financial reporting, the division maintains a communication summary that documents e-mails shared between DMA, DHHS, OSBM and FRD regarding validation of the forecast model.

OIA obtained and reviewed a copy of the DMA Rebase Requests – Medicaid & Health Choice file along with correspondence between OSBM and DMA and confirmed DMA has incorporated multi-year projections in the forecasting methodology and the data is communicated with OSBM to provide an accurate picture of DMA's financial position. Although OIA determined the corrective actions taken by DMA are adequate to address the finding, OIA recommends DMA work with RMAM to strengthen controls as it relates to internal policies and procedures. OIA considers the finding resolved.

3. OSA FINDING AND RECOMMENDATION - The Division of Medical Assistance does not appropriately manage Medicaid costs that are subject to agency control.

The Medicaid program, which is a government health insurance program, should encourage controlling the cost of medical services. Providing more services may or may not benefit the recipient receiving the services; however, providing more services benefits the providers, who receive more total reimbursement for providing more units of service. (paraphrased)

OSA recommended (paraphrased):

- a. DMA should perform multiyear caseload projections to support multiyear expenditure forecasts, since caseload is a significant cost driver for Medicaid. These caseload projections should be tracked against actual caseload growth to evaluate the accuracy of the forecasting methodology.
- b. DMA should perform a study to evaluate alternative reimbursement methodologies, with a goal of implementing a methodology that does not increase automatically, but is only increased by actions approved by the General Assembly.
- c. The State of North Carolina should engage medical researchers to perform a scientifically valid study based on actual data to determine whether the CCNC model saves money and improves health outcomes.
- d. DMA or an outside agency should initiate actions to enforce a change in Division organizational culture to provide a focus on a health insurance perspective that encourages cost containment in an environment of increasing medical services and expanding payments to providers.

Agency response (paraphrased): The Department agrees with the recommendations. Specifically:

- a. DMA provides a multiyear caseload projection utilizing the Statistical Analysis System (SAS) statistical forecasting tool. We will enhance the caseload forecasting to support multiyear expenditures. Should it be determined that the Department, OSBM and the Legislature require forecasts beyond the 2-year biennium cycle, DMA will implement an extension of the forecast to accommodate whatever time period is requested.
- b. Payment reform is a critical long term issue for the NC Medicaid program. The reform should include the design of a Medicaid program that defines the health outcomes and objectives of the state, including a payment system that supports the achievement of those goals.
- c. As we work to control costs and improve the quality within the Medicaid program, it is critically important that the data available is analyzed by a reputable research organization.
- d. The Secretary and Medicaid Director are committed to providing the leadership and tools necessary to ensure the proper staffing and focus for this health insurance program.

OIA Follow-up Results

DMA management provided OIA with an updated follow-up status that indicates the Division has taken corrective action to resolve the finding and recommendations. The Division created the expenditure model which incorporates caseload projections into current projections and performs variance analysis to determine where forecasts differ from actuals. DMA has increased the sophistication of its expenditure modeling to include projections of enrollment, utilization, recipients, and average costs per recipient. Those items are projected for each of the general ledger service accounts and Program Aid Category. Those projections are determined as the result of working

sessions between the Division's budget and program staff. Results are monitored against budgeted projections on a monthly basis and reviewed with management when the Division approaches a significant event. OIA met with DMA's Finance Planning & Analysis Section and reviewed documentation confirming DMA is maintaining the expenditure model and communicating the results with management. DMA retained the appropriate documentation of communications pertaining to the review of the model results; however, DMA does not have a formalized process developed for the review and approval.

House Bill 372 restructures the way payments and receipts will be made; therefore, the case study listed in recommendation 7b is not warranted at this time. In the Bill, a reorganization of Medicaid and NC Health Choice Programs will occur under the new division referred to as the Division of Health Benefits. This division will be responsible for implementing Medicaid transformation as stated in the House Bill, and will administer and operate all functions, powers, duties, obligations and services related to the Medicaid and NC Health Choice programs. The intent of this Bill is to ensure budget predictability and efficient cost-effective administrative systems and structures.

Furthermore, OSA engaged nationally recognized medical researchers to perform a scientifically valid study of Community Care of North Carolina's (CCNC) services to determine the savings realized. The report, issued on August 20, 2015, noted that the CCNC model saved money during the 10-year time frame that was analyzed.

Lastly, the Department contracted Alvarez & Marsal to assist with the organizational re-alignment of DMA. At Alvarez & Marsal's recommendation, DMA created three new Sections within their division: Compliance & Oversight, Clinical and Business Information. The intent of these three sections is to assist the Division in maintaining compliance. These sections are tasked with elevating and consolidating specific functions into a single section which is responsible for ensuring adherence to a compliance program, ensuring written policies are consistent with the requirements of law and CMS directives, and utilizing a dedicated unit to support each programmatic area with data and analytics. OIA obtained and reviewed DMA's organizational chart and verified the Division completed a reorganization to address the inefficient structure of the division.

Although OIA determined the corrective actions taken by DMA are adequate to address the finding, OIA recommends DMA work with RMAM to formalize a process for the review and approval of the expenditure model results. OIA considers the finding resolved.

4. OSA FINDING AND RECOMMENDATION - DMA failed to comply with a legislative mandate to eliminate inflationary increases for nursing facilities.

In fiscal year 2012, DMA did not comply with a legislative mandate to eliminate inflationary increases for Medicaid providers. Instead, it approved an increase for nursing facilities that resulted in a \$12.9 million budget shortfall. (paraphrased)

OSA recommended DMA should give complete and accurate information to the General Assembly when seeking approval to violate legislative mandates. Approval by the General Assembly should occur in a recognized forum with authority to provide this approval, rather than in informal discussions with individual legislators.

Agency Response (paraphrased): The Department agrees with this recommendation. The Division will ensure compliance with any and all state and federal mandates. In addition, we will maintain complete transparency with the General Assembly regarding issues and financing of the Medicaid program.

OIA Follow-up Results

DMA management provided OIA with an updated follow-up status that indicates the Division has taken corrective action to resolve the finding and recommendations. DMA has created three new areas of focus to ensure that complete and accurate information is given to the General Assembly. These new areas include Compliance & Oversight, Clinical, and Business Information. The Compliance and Oversight area specifically focuses on ensuring enterprise application and adherence to a robust compliance program, including written policies consistent with the requirements of law and CMS directives, training, and monitoring and remediation of compliance issues. Furthermore, DMA has taken steps to work with the General Assembly in a more formal manner, and now provides the General Assembly with a Monthly Reporting Package, as well as the expenditure model described above. This information is shared monthly with the General Assembly's Fiscal Research Division, as well as its Joint Legislative Oversight Committee.

The Division filed the State Plan Amendments as required by current legislation and OIA confirmed that CMS approved the amendment to the State Plan that adjusted the Nursing Home rates. The Division also created the Monthly Financial Reporting Package to be shared among key stakeholders to provide an accurate depiction of DMA's financial position. OIA determined the corrective actions taken by DMA are adequate to address the finding and/or implement the recommendation. OIA considers the finding resolved.

STATE PLAN AMENDMENTS

1. OSA FINDING AND RECOMMENDATION – The cost savings incorporated into the budget for specific State Plan Amendments (SPAs) are not always realized due to varying factors – some within DMA's control.

DMA did not take the necessary actions to realize budgeted savings in the following ways:

- DMA submitted SPAs with unreasonable effective dates given the time needed for the CMS approval process.
- These SPAs would have required retroactive implementation that DMA had no intention of doing. DMA did not plan for retroactively implementing SPAs in cases where DMA should have been reasonably certain that the SPA would not be approved and implemented by the budgeted implementation date.

Federal law allows states to retroactively implement Medicaid program changes back to the "effective date" which can be earlier than the CMS approval date. Retroactive implementation would have allowed DMA to achieve the planned savings because of the "effective date" for each SPA was either the same as or earlier than the SPAs budget implementation date. DMA provided several reasons for not retroactively implementing the SPAs. DMA's plan for saving \$72.2 million through these SPAs was never reasonable to achieve. (paraphrased)

OSA recommended DMA should more realistically calculate the savings incorporated into the state budget with consideration of costs of implementation and realistic implementation dates given current system constraints. (paraphrased)

Agency response (paraphrased): The Department agrees with the finding and recommendation and will review ways to improve the calculations of cost savings.

OIA Follow-up Results

DMA management provided OIA with an updated follow-up status that indicates the Division has taken corrective action to resolve the finding and recommendations. Per management, DMA has established a rigorous process to calculate the fiscal impact of program and policy savings. This process is referred to as Fiscal Note Preparation.

OIA obtained and reviewed the Fiscal Note Procedure form and confirmed DMA created a process to improve calculations of cost savings. The preparation of the fiscal note will explain a policy that is changing or being proposed and estimate its financial impact to NC Medicaid and NC Health Choice. OIA also obtained a copy of a completed fiscal note and confirmed DMA is currently utilizing the process. Per DMA, this process has been in use for at least one year and the procedures were recently reviewed to ensure they were accurately capturing the process. The fiscal note procedures went into effect in June 2016. OIA determined the corrective actions taken by DMA are adequate to address the finding and/or implement the recommendation. OIA considers the finding resolved.

REPORTING

1. OSA FINDING AND RECOMMENDATION – Medicaid reports do not provide easily understood and timely data.

DMA does not issue readily understandable and timely Medicaid performance reports to government officials who oversee the Medicaid program.

OSA recommended DMA should (paraphrased):

- a. Consult with the DHHS Secretary, Office of the Governor, OSBM, and Fiscal Research Division of the North Carolina General Assembly to determine the informational needs of those charged with governance over the State's Medicaid program. Medicaid reporting requirements, including report formats and timeframes, should be formally established and followed.
- b. Be held accountable for providing accurate and timely reports to stakeholders once reporting formats and timeframes have been established.

Agency response (paraphrased): The Department agrees with the finding and will attempt to make reports more reader friendly. We will work with OSBM and Fiscal Research to ensure more user friendly reports.

OIA Follow-up Results

DMA management provided OIA with an updated follow-up status that indicates the Division has taken corrective action to resolve the finding and recommendations. The Division, along with the Fiscal Research Division and the Office of State Budget and Management, worked together to create

more user friendly reporting to be shared among key stakeholders. The Division developed the Monthly Financial Reporting Package for DHHS and DMA leadership. The Division also established and upgraded monthly executive briefs and monthly program-level financial reporting to program administrators. Lastly, the Division has also enhanced its reporting of the weekly check write, through which the bulk of the Divisions' claims dollars are paid.

OIA obtained copies of the Monthly Financial Reporting Package and Outlook meeting requests for reporting periods 1/31/16 and 2/29/16 and confirmed DMA provided accurate and timely reports to stakeholders. OIA determined the corrective actions taken by DMA are adequate to address the finding and/or implement the recommendation. OIA considers the finding resolved.