



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF GOVERNMENT AFFAIRS

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GOVERNOR

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SECRETARY

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ASSISTANT SECRETARY FOR LEGISLATION

July 21, 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 27601-2808

The Honorable Tim Moore, Co-Chair
Joint Legislative Commission on
Governmental Operations
North Carolina General Assembly
Room 2304, Legislative Building
Raleigh, NC 27601-1096

Dear Chairmen:

The North Carolina State Auditor's *Medicaid Program Recipient Eligibility Determination Performance Audit* was published to the Office of the State Auditor website on January 12, 2017. North Carolina General Statute §143B-216.51(g) requires the Department of Health and Human Services' Office of Internal Auditor to monitor implementation of the Department's response to the *Audit Report* and to issue a report to the Secretary on the status of corrective actions implemented no later than six months after the State Auditor published 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 report.

Should you have any questions regarding this report, please contact Michael Zanchelli, Senior Audit Manager, Michael.Zanchelli@dhhs.nc.gov (919) 855-3659.

Sincerely,

Ben Popkin, JD, MPH
Assistant Secretary for Legislation

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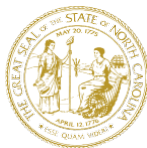
Office of the Internal Auditor
HEALTH AND HUMAN SERVICES

Follow-up Assessment of the FCA-2015-4440
North Carolina Medicaid Program Recipient
Eligibility Determination Performance Audit

Issued by the Office of the State Auditor
January 12, 2017

July 12, 2017

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DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF INTERNAL AUDITOR

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GOVERNOR

MANDY COHEN, MD, MPH
SECRETARY

MARK PAYNE
INTERIM DIRECTOR

July 12, 2017

Secretary Mandy Cohen, MD, MPH
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 North Carolina Medicaid Program Recipient Eligibility Determination, FCA-2015-4440. The report was issued by the Office of the State Auditor (OSA) on January 12, 2017.

Conclusion

OIA observed sufficient evidence to conclude that the Department of Health and Human Services (Department) has taken some action to reduce the risks identified by the four findings noted in OSA's audit report. The Department has adjusted their completion dates for the full implementation of the corrective action plans and recommendations. OIA will follow up with the Department to assure their work activities reduce the risk that the findings would continue to exist in subsequent periods. 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 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 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 four 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 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.

Status Definitions

The status of each finding is categorized as follows:

- Resolved: We evaluated evidence that actionable items were completed and implemented to reduce the risk that the finding would continue to exist in subsequent periods.
- Partially Resolved: We evaluated evidence that progress has been made toward the implementation of the actionable items in the Agency's response, and is ongoing, to reduce the risk that the finding would continue to exist in subsequent periods.
- Unresolved: Evidence was not provided to show progress has been made toward the implementation of the actionable items in the Agency's response, to 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.

Mark Payne,
Interim Director

Cc: Joint Legislative Commission on Governmental Operations

APPENDIX A

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

1. OSA FINDING AND RECOMMENDATION – NEW APPLICATION ELIGIBILITY DETERMINATIONS

The county departments of social services (county DSS) exhibited varying accuracy and timeliness error rates for new applications. Audit tests found that the 10 sample counties determined eligibility inaccurately ranging from 1.2% (Wilkes County) to 18.8% (Guilford County) of the cases tested. These accuracy errors include both approved applications for ineligible recipients and denials of applicants who should be eligible for benefits. In addition, the timeliness error rate ranged from 0.8% (Wilkes County) to 26.0% (Wake County).

Accuracy

Auditors discovered that two types of caseworker errors accounted for most errors. First, auditors found that caseworkers made mistakes in data input/keying errors such as typographical or mathematical errors or inaccurate recording of information. Next, auditors discovered cases in which the case file did not include all the necessary documentation upon which to make an eligibility determination, most often because the caseworker failed to verify income and/or assets.

These errors could be attributed to inadequate training on NC FAST by the Department as well as by the county departments of social services. Auditors discovered that the Department did not require county eligibility determination staff to complete NC FAST training and did not monitor whether counties completed the training. In addition, the training did not include instructions on completing job aids or interpreting Medicaid policy.

Timeliness

Because the county departments of social services did not always comply with timeliness standards, applicants may not have had access to Medicaid benefits when needing medical services.

The Code of Federal Regulations and North Carolina General Statutes established various Medicaid eligibility determination time requirements. Eligibility determinations on new Medicaid applications must be made within 45 days of the application date with the exception of applications for disability services which allow 90 days for determination. (paraphrased)

OSA recommended:

- a. County departments of social services should implement improved quality assurance review processes.
- b. County departments of social services should establish formal training programs for new caseworkers.
- c. The Department should provide more in-depth training for caseworkers regarding the NC FAST eligibility determination system and monitor whether counties’ caseworkers complete the training.

Agency Response (paraphrased)

The Department agrees with the findings and recommendations. Utilizing the authority granted to the Department by Senate bill 841, the Department will engage the NC Association of County Commissioners, NC Association of County Directors of Social Services, NC FAST, Division of Social Services (DSS) and Division of Medical Assistance (DMA) leadership to develop a plan which will ensure the State's Medicaid eligibility goals are met. The Department will convene discussions so that a plan forward is identified with implementation beginning in February 2017.

Effective June 1, 2016, the Department required each county DSS office to establish an approved quality assurance plan. Second party reviews were conducted monthly by supervisors and/or lead workers and results for the first quarter of SFY 2017 were provided to the Department to identify deficiencies. The Department consolidated those findings and provided instructions through a dear county director letter for county to implement additional training in the deficient areas noted.

The following actions have/will be taken to improve the quality assurance process:

- County staff will attend Operational Support Team cluster meetings that focus on identified areas and refresher training
- The Department will require all new and existing county DSS staff to use the available standardized Medicaid/ North Carolina Health Choice (NCHC) policy training on the NC FAST Gateway. A tracking method will be utilized for these measures.
- Revisions to the learning gateway Medicaid/NCHC training material will be made as needed by Department staff. County staff will be advised of all revisions when Medicaid/NCHC policy changes are required.
- NC FAST will re-employ the testing function used to determine caseworker ability to navigate the system. Test results will be provided to the Department quarterly for new staff.
- NC FAST will continue to communicate system changes to affected personnel immediately to ensure county staff are aware of system modifications.

OIA Follow-up Results

The Department is continuing the implementation of the actionable items noted in the Agency Response. The Department has engaged the NC Association of County Commissioners, NC Association of County Directors of Social Services, NC FAST, DSS and DMA in discussions concerning eligibility determination issues and a plan of action to address these issues. DMA representatives indicated the intention to incorporate OSA's recommendations into the plan. However, the plan remains in the development stage.

The Department has fulfilled its pledge to require each county to establish a quality assurance plan and is tracking each county's results. Updated training on Medicaid policy and the NC FAST system is underway as identified in its Agency Response. The Department has created and added approximately ten PowerPoint training courses to the NC FAST Learning Gateway; however, DMA indicated additional courses and a formalized testing function are still under development. The Department is working with NC FAST to provide more relevant system training and includes a testing function to determine county caseworkers' ability to navigate through the system. The Department anticipates all aspects of the Agency Response will be completed by December 31, 2017.

OIA held a meeting with DMA's Associate Director for Medicaid Eligibility Services and the Eligibility Services Manager on April 19, 2017 to discuss the response to OSA's audit report. OIA reviewed evidence of meetings between the Department, NC Association of County Commissioners, NC Association of County Directors of Social Services, NC FAST, DSS and DMA to discuss Medicaid eligibility issues. OIA reviewed county notification letters and tracking spreadsheets used by the Department to implement and monitor the quality assurance process. OIA also reviewed county notification letters, sign in sheets and course materials to demonstrate the Department's implementation of Medicaid policy and NC FAST training.

When the planned actions are fully implemented, OIA feels the Department will have taken adequate steps to significantly reduce the risks associated with the OSA's findings and recommendations. OIA considers this finding partially resolved.

2. OSA FINDING AND RECOMMENDATION – RE-ENROLLMENT ELIGIBILITY DETERMINATIONS

The county departments of social services exhibited varying accuracy and timeliness error rates for re-certifications. Audit tests found that the 10 sample counties determined eligibility inaccurately ranging from 1.2% (Wilkes County) to 23.2% (Mecklenburg County) of the cases tested. These accuracy errors include both approved re-certifications for ineligible recipients and denials of re-certifications for those who should continue to be eligible for benefits. In addition, the timeliness error rate ranged from 0.0% (Wilkes County) to 12.4% (Guilford County).

Accuracy

Auditors discovered that two types of caseworker errors accounted for most errors. First, auditors found that caseworkers made mistakes in data input/keying errors such as typographical or mathematical errors or inaccurate recording of information. Next, auditors discovered cases in which the case file did not include all the necessary documentation upon which to make an eligibility determination, most often because the caseworker failed to verify income and/or assets.

These errors could be attributed to inadequate training on NC FAST by the Department as well as by the county departments of social services. Auditors discovered that the Department did not require county eligibility determination staff to complete NC FAST training and did not monitor whether counties completed the training. In addition, the training did not include instructions on completing job aids or interpreting Medicaid policy.

Timeliness

Because the county departments of social services did not always comply with timeliness standards, applicants may not have had access to Medicaid benefits when needing medical services.

According to county departments of social services management, counties failed to meet Federal and State timeliness standards for determining eligibility for re-certifications. (paraphrased)

OSA recommended:

- a. County departments of social services should implement improved quality assurance review processes.
- b. County departments of social services should establish formal training programs for new caseworkers.

- c. The Department should provide more in-depth training for caseworkers regarding the NC FAST eligibility determination system and monitor whether counties' caseworkers complete the training.

Agency Response (paraphrased)

The Department agrees with the findings and recommendations. Utilizing the authority granted to the Department by Senate bill 841, the Department will engage the NC Association of County Commissioners, NC Association of County Directors of Social Services, NC FAST, DSS and DMA leadership to develop a plan which will ensure the State's Medicaid eligibility goals are met. The Department will convene discussions so that a plan forward is identified with implementation beginning in February 2017.

Effective June 1, 2016, the Department required each county DSS office to establish an approved quality assurance plan. Second party reviews were conducted monthly by supervisors and/or lead workers and results for the first quarter of SFY 2017 were provided to the Department to identify deficiencies. The Department consolidated those findings and provided instructions through a dear county director letter for county to implement additional training in the deficient areas noted.

The following actions have/will be taken to improve the quality assurance process:

- County staff will attend Operational Support Team cluster meetings that focus on identified areas and refresher training
- Department will require all new and existing county DSS staff to use the available standardized Medicaid/NCHC policy training on the NC FAST Gateway. A tracking method will be utilized for these measures.
- Revisions to the learning gateway Medicaid/NCHC training material will be made as needed by Department staff. County staff will be advised of all revisions when Medicaid/NCHC policy changes are required.
- NC FAST will re-employ the testing function used to determine caseworker ability to navigate the system. Test results will be provided to the Department quarterly for new staff.
- NC FAST will continue to communicate system changes to affected personnel immediately to ensure county staff are aware of system modifications.

OIA Follow-up Results

The Department is continuing to implement all actionable items noted in the Agency Response. The Department has engaged the NC Association of County Commissioners, NC Association of County Directors of Social Services, NC FAST, DSS and DMA in discussions concerning eligibility determination issues and a plan of action to address these issues. DMA representatives indicated the intention to incorporate OSA's recommendations into the plan. However, the plan remains in the development stage.

The Department has fulfilled its pledge to require each county to establish a quality assurance plan and is tracking each county's results. Updated training on Medicaid policy and the NC FAST system is underway as identified in its Agency Response. The Department has created and added approximately ten PowerPoint training courses to the NC FAST Learning Gateway; however, DMA indicated additional courses and a formalized testing function are still under development. The Department is working with NC FAST to provide more relevant system training and includes a testing function to determine county caseworkers' ability to navigate through the system. The Department anticipates all aspects of the Agency Response will be completed by December 31, 2017.

OIA held a meeting with DMA's Associate Director for Medicaid Eligibility Services and the Eligibility Services Manager on April 19, 2017 to discuss the response to OSA's audit report. OIA reviewed evidence of meetings between the Department, NC Association of County Commissioners, NC Association of County Directors of Social Services, NC FAST, DSS and DMA to discuss Medicaid eligibility issues. OIA reviewed county notification letters and tracking spreadsheets used by the Department to implement and monitor the quality assurance process. OIA also reviewed county notification letters, sign in sheets and course materials to demonstrate the Department's implementation of Medicaid policy and NC FAST training.

When the planned actions are fully implemented, OIA feels the Department will have taken adequate steps to significantly reduce the risks associated with the OSA's findings and recommendations. OIA considers this finding partially resolved.

3. OSA FINDING AND RECOMMENDATION – CONTROLS AND OVERSIGHT BY COUNTY DEPARTMENTS OF SOCIAL SERVICES

Generally, the 10 sample county departments of social services designed and placed into operation internal controls necessary to provide reasonable assurance for accurate and timely Medicaid eligibility determination. However, auditors identified that these controls worked insufficiently and that some internal controls deficiencies existed in some counties. As a result, auditors discovered higher than expected error rates in accuracy and timeliness in several sample counties.

Accuracy

Some county departments of social services did not design and place into operation the internal controls necessary to provide reasonable assurance for the accuracy of Medicaid eligibility determination. Audit tests of 250 new applications in each of the 10 sample counties revealed accuracy error rates exceeding 10% in three counties. Audit tests of 250 re-certifications in each of the 10 sample counties yielded accuracy error rates exceeding 10% in four counties and above 20% in one of those four counties.

Because the county departments of social services did not always have adequate internal controls in place, Medicaid applicants likely received benefits for which they were not eligible. Conversely, other Medicaid applicants were likely denied benefits for which they were eligible.

The identified high error rates resulted from county departments of social services not having adequate controls in place to prevent and detect errors. For example, six of the 10 counties in our sample did not establish formalized training programs for new caseworkers to ensure their understanding of NC FAST and Medicaid policy which may prevent caseworker errors when performing the eligibility determination function. In addition, six of the 10 sample counties did not have an adequate quality assurance process in place to detect errors prior to a Medicaid applicant being approved for or denied benefits.

Timeliness

Some county departments of social services did not design and place into operation the internal controls necessary to provide reasonable assurance for timely Medicaid eligibility determination. Audit tests of 250 new applications in each of the 10 sample counties revealed timeliness error rates exceeding 10% in seven counties with four of those seven county error rates exceeding 20%.

Audit tests of 250 re-certifications in each of the 10 sample counties yielded timeliness error rates exceeding 10% in two counties.

Because the county departments of social services did not always have adequate internal controls in place, Medicaid applicants may have had their benefits delayed unnecessarily.

The identified high error rates resulted from county departments of social services not having adequate controls in place to prevent and detect errors. Counties did not have adequate staffing to handle the increased workloads from manual conversion of cases from Eligibility Information System to NC FAST. In addition, staffing issues resulted from the increased number of applications arising from the implementation of the Affordable Care Act as applicants often filed multiple applications for Medicaid during the annual open enrollment period. (paraphrased)

OSA recommended:

- a. County departments of social services should establish formalized training programs for new caseworkers.
- b. County departments of social services should implement improved quality assurance review processes.
- c. County departments of social services should ensure adequate staffing levels to determine eligibility timely including using temporary staffing or shifting responsibilities for other workers during periods of increased workloads.

Agency Response (paraphrased)

The Department agrees with the findings and recommendations. Utilizing the authority granted to the Department by Senate bill 841, the Department will engage the NC Association of County Commissioners, NC Association of County Directors of Social Services, NC FAST, DSS and DMA leadership to develop a plan which will ensure the State's Medicaid eligibility goals are met. The Department will convene discussions so that a plan forward is identified with implementation beginning in February 2017.

OIA Follow-up Results

The Department is continuing implementation of all actionable items noted in the Agency Response. The Department has engaged the NC Association of County Commissioners, NC Association of County Directors of Social Services, NC FAST, DSS and DMA in discussions concerning eligibility determination issues and a plan of action to address these issues. DMA representatives indicated the intention to incorporate OSA's recommendations into the plan. However, the plan remains in the development stage.

The Department has engaged the counties in its effort to fully implement OSA's recommendations to establish formalized training programs for new caseworkers or to maintain adequate staffing levels to determine eligibility timely. The Department has created and added approximately ten PowerPoint training courses to the NC FAST Learning Gateway; however, DMA indicated additional courses and a formalized testing function are still under development. In addition, the Department has organized a work group to gather information to establish guidelines for county staffing levels. The Department anticipates the training program, along with the associated testing function, and the county staffing guidelines will be completed by December 31, 2017.

OIA held a meeting with DMA's Associate Director for Medicaid Eligibility Services and the Eligibility Services Manager on April 19, 2017 to discuss the response to OSA's audit report. OIA reviewed evidence of meetings between the Department, NC Association of County Commissioners, NC Association of County Directors of Social Services, NC FAST, DSS and DMA to discuss Medicaid eligibility issues. OIA reviewed letters sent from the Department to counties notifying them of the new training classes. DMA management indicated that a work group is in the process of gathering information to help establish staffing level guidelines.

When the planned actions are fully implemented, OIA feels the Department will have taken adequate steps to significantly reduce the risks associated with the OSA's findings and recommendations. OIA considers this finding partially resolved.

4. OSA FINDING AND RECOMMENDATION – CONTROLS AND OVERSIGHT BY THE DEPARTMENT OF HEALTH AND HUMAN SERVICES

The Department did not establish effective internal controls or provide proper oversight over the Medicaid eligibility determination process. The Department has not accepted full responsibility for administration of the program. During early phases of this audit, the Department questioned its responsibility for program administration by repeatedly stressing that counties determine Medicaid eligibility, not the State, despite the State's responsibility as specified in Federal regulations and the State Medicaid Plan.

County departments of social services believed that the Department has not provided enough formal training and follow-up support for NC FAST. The Department has not developed minimum standards for staffing levels, training requirements, minimum experience required, or pay rates for the people who perform the eligibility determination function at the county level.

As a result of the lack of effective guidance from the Department, inconsistencies exist among all 100 counties as to how each county determines Medicaid eligibility and audit tests revealed error rates higher than Federal and State targets.

The Code of Federal Regulations states that the "State agency is responsible for determining eligibility for all individuals applying for or receiving benefits" even if the approved State plan delegates "authority to determine eligibility for all or a defined subset of individuals." The *Compliance Supplement to Office of Management and Budget Circular A-133* indicates that "the State is fully responsible for Federal compliance for the eligibility determination, as the benefits are paid by the State." In addition, the North Carolina General Statutes direct the Department to "adopt rules" that provide guidance to county departments of social services for administering the Medicaid program. (paraphrased)

OSA recommended the Department should:

- a. Acknowledge and accept its ultimate responsibility for the administration of the Medicaid program including the eligibility determination process.
- b. Provide written guidance to the county departments of social services that establishes optimal staffing levels, expanded staff training, minimum pay and qualifications for caseworkers, and operational procedures for the accurate and timely determination of Medicaid eligibility.

Agency Response (paraphrased)

The Department agrees with the findings and recommendations. Utilizing the authority granted to the Department by Senate bill 841, the Department will engage the NC Association of County Commissioners, NC Association of County Directors of Social Services, NC FAST, DSS and DMA leadership to develop a plan which will ensure the State's Medicaid eligibility goals are met. The Department will convene discussions so that a plan forward is identified with implementation beginning in February 2017. The plan forward will include guidelines for staffing levels, standards for staff training and education, and performance standards designed to attain the CMS error rate of 3% or better.

The Department acknowledges and accepts its ultimate responsibility for the administration of the Medicaid program. The Department has provided various communications and tools to county DSS agencies in the following areas:

- The Department made the opportunity available to county departments of social services for 75% Federal Financial Participation for eligibility activities for all Medicaid programs that are performed in NC FAST. Counties have been encouraged to reinvest county savings from the 75% Medicaid administrative reimbursement to achieve needed staffing.
- The Department requested that County Directors of Social Services work with their governing boards and county leadership to ensure that funding resources to achieve all public assistance program processing requirements are included in the county budget for SFY 2015-16, and each year going forward.
- The Department provided management assistance and training to county DSS caseworker staff through the Operational Support Team (OST).
- Standard Work Document for determining additional risk utilizing current data by the OST to determine if more frequent consultation is needed based on current data from daily, weekly, monthly reports. This tool will be used to identify performance issues in the short term that may need to be addressed.
- OST representatives will be assigned to specific counties for the purpose of monitoring performance through data analytics and determining what additional technical assistance is needed.
- The Department will hire 7 DSS staff members to support better utilization of NC FAST data for performance measurement and evaluation of Medicaid eligibility determinations performed by county DSS offices. The Department reached out to other states utilizing the county administration model for possible ideas/incentives to reduce errors.

The Department continues to meet with our County DSS partners to share our mission, values and goals to ensure that local processes provide reasonable assurance that relevant objectives are achieved.

OIA Follow-up Results

The Department is continuing its implementation of actionable items noted in the Agency Response. The Department has engaged the NC Association of County Commissioners, NC Association of County Directors of Social Services, NC FAST, DSS and DMA in discussions concerning eligibility determination issues and a plan of action to address these issues. DMA representatives indicated the intention to incorporate OSA's recommendations into the plan. However, the plan remains in the development stage.

The Department did acknowledge and accept its ultimate responsibility for the administration of the Medicaid program. The Department is continuing interviews to hire the seven additional staff members for NC FAST support within DSS. These positions require specific IT and data mining skills and experience. The Department's ability to attract qualified individuals has been impacted by budget constraints resulting in a few of the positions needing to be reposted. The Department has organized a work group to gather information to establish guidelines for staffing levels and qualifications standards for county staff who make eligibility determinations. The Department anticipates these actions will be completed by March 31, 2018.

OIA held a meeting with DMA's Associate Director for Medicaid Eligibility Services and the Eligibility Services Manager on April 19, 2017 to discuss the response to OSA's audit report. OIA reviewed evidence of meetings between the Department, NC Association of County Commissioners, NC Association of County Directors of Social Services, NC FAST, DSS and DMA to discuss Medicaid eligibility issues. DMA management informed OIA the hiring process was progressing and in the interview phase. DMA also informed OIA that the State and county work group continues to develop staffing level guidelines and qualifications standards for county staff who make eligibility determinations.

When the planned actions are fully implemented, OIA feels the Department will have taken adequate steps to significantly reduce the risks associated with the OSA's findings and recommendations. OIA considers this finding partially resolved.