



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF GOVERNMENT AFFAIRS

ROY COOPER
GOVERNOR

MANDY COHEN, MD, MPH
SECRETARY

BEN POPKIN
ASSISTANT SECRETARY FOR LEGISLATION

September 29, 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 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 report.

Should you have any questions regarding the report, please contact Mark Payne, Interim Director of the Office of the Internal Auditor, at 919-527-6840.

Sincerely,

Ben Popkin
Assistant Secretary for Legislation

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|-----|--|---------------|--------------------|----------------|
| cc: | Mark Payne | Denise Thomas | Marjorie Donaldson | Kolt Ulm |
| | Theresa Matula | Rod Davis | Joyce Jones | Pam Kilpatrick |
| | Susan Jacobs | Leah Burns | LT McCrimmon | Ben Popkin |
| | reports@ncleg.net | Bill Scott | | |



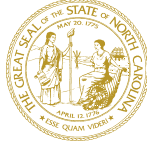
Office of the Internal Auditor
HEALTH AND HUMAN SERVICES

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, 2016

Issued by the Office of the State Auditor,
March 16, 2017

September 13, 2017

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DEPARTMENT OF HEALTH AND HUMAN SERVICES OFFICE OF INTERNAL AUDITOR

ROY COOPER
GOVERNOR

MANDY COHEN, MD, MPH
SECRETARY

MARK PAYNE
INTERIM DIRECTOR

September 13, 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 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, 2016, FSA-2016-4410 and FSA-2016-8730. The reports were issued by the Office of the State Auditor (OSA) on March 16, 2017.

Conclusion

Five of the findings are considered resolved: OIA observed sufficient evidence to conclude that the Department has taken appropriate corrective action to reduce the risks identified. In our opinion, the corrective action taken in relation to each of those 5 findings was adequate to reduce the risk that the findings would continue to exist in subsequent periods. An additional 21 findings are considered partially resolved: the Department has taken some action to reduce the risks identified; however, the corrective action taken is not sufficient to reduce the risk that the findings would continue to exist in subsequent periods and the Department continues to work to address the findings. Two findings are unresolved: the Department has not yet taken appropriate corrective action to reduce the risks identified. The Department has included in this report the anticipated completion date of corrective action for each of the 23 partially resolved or unresolved 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 one security-related finding 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 28 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.

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, Office of the Internal Auditor

APPENDIX A

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

1) OSA FINDING AND RECOMMENDATION 2016-001: ERRORS IN SNAP NOTIFICATIONS, BENEFIT CALCULATIONS, AND ELIGIBILITY DETERMINATIONS

10.551 SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

DIVISION OF SOCIAL SERVICES

Finding 2016-001: The Department's automated system for the Supplemental Nutrition Assistance Program (SNAP) did not accurately and completely generate notifications, calculate benefits, and determine eligibility. During state fiscal year 2016, the Department used NC FAST to process \$2.3 billion in benefits for 1.3 million households.

From a statistical sample of 287 SNAP cases totaling \$88,592 in benefit payments, auditors identified the following errors:

- In 32 (11.1%) cases, NC FAST either did not generate the required notice or did not generate an accurate notice. Notices communicate changes in eligibility, certification periods, benefit allotments, and adverse actions.
- In 11 (3.8%) cases, NC FAST did not accurately or completely process information such as updated rates, deductions for housing costs, and child support payments. However, the errors did not affect the benefit amount.
- In 10 (3.5%) cases, NC FAST incorrectly calculated benefits. Errors included using the wrong rates and not properly calculating deductions for housing costs, resulting in overpayments of \$125 and underpayments of \$211.
- In 2 (0.7%) cases, NC FAST incorrectly determined eligibility. In one case, an ineligible participant received an overpayment of \$122. In the other case, an eligible participant was excluded, resulting in an underpayment of \$146.

When the net underpayment of \$110 found in the sample is projected to the entire population of benefit payments, the likely total error is a \$3.9 million underpayment.

As a result of the errors, some SNAP participants did not receive all of the benefits for which they were eligible and some received more. In both cases, additional program administrative costs will be incurred to correct the errors. The Department made improper payments to households which must be reprocessed to ensure correct benefits are paid.

The Division of Social Services (DSS) and NC Fast staff do not know why the errors occurred and are in the process of researching the causes. In some cases, they believe there are system design flaws. For example, NC FAST is not designed to include some of the required elements

in the generated notices for some recertifications and expedited cases. In other cases, DSS and NC FAST staff are trying to determine whether the problem is a system flaw or a user error. However, Department staff continue to research the errors.

Federal regulations require state automated systems to generate notifications, calculate benefits, and determine eligibility. Automation is required for cost effective reductions in errors and improvements in management efficiency, such as decreases in program administrative costs.

Specifically, federal regulations require the automated 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.”
- “Determine eligibility and calculate benefits or validate the eligibility worker’s calculations by processing and storing all casefile information.”

Similar aspects of this finding were reported in the 2015 Statewide Single Audit as finding number 2015-007.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA (title): 10.551 (Supplemental Nutrition Assistance Program); Federal Award Period: October 1, 2014 – September 30, 2015 and October 1, 2015 – September 30, 2016.

OSA Recommendations: Department management should correct identified benefit payment errors.

Department management should ensure priority is given to identifying the root cause of the errors.

Agency Response: The Department is committed to administering the SNAP program in accordance with the applicable federal and State requirements. The Department concurs with the findings with respect to benefits and eligibility errors, processing errors, and most notification errors.

- The Department reviewed the 11 cases related to processing errors, which resulted in no financial impact to beneficiaries. After the review, the Department determined that 5 cases were related to rates that were not updated for valid reasons and 2 cases related to child support payments in which display issues did not affect the processing of the case. The remaining cases are attributed to user error. The Department will provide additional training to address these types of errors.
- The Department reviewed the 12 cases related to benefits and eligibility errors. Eleven cases were benefit payment errors that will be reprocessed and corrected according to policy. Training will be reviewed to address these issues. The Department is investigating a potential system defect related to the final case and will correct any systems errors identified.
- The Department reviewed the 32 cases regarding notification errors, which resulted in no financial impact to beneficiaries. This review resulted in investigations that determined the root

cause of the errors. The Department will ensure system updates are prioritized for completion and required training is provided.

Corrective Action Plan: The Department created five defects to investigate the root cause of the notification errors on March 2, 2017.

The Department created one defect to investigate the potential system issue that resulted in a benefit calculation error on March 3, 2017.

The Department will ensure that over and underpayments are processed according to policy.

The Department created the FNS COLA reports located in NC FAST Help to facilitate the review of cases on hold. The Department will draft a letter to the counties notifying them to review all current cases on hold prior to the annual COLA update.

Additional training will be provided to the departments of social services if necessary.

Anticipated Completion Date: June 30, 2017

OIA Follow-up Results

Per OIA follow-up, the Division of Social Services (DSS) and the Office of NC FAST investigated the errors and determined that six different system issues resulted in the inaccurate notices and one of the incorrect eligibility determinations identified by OSA. DSS and the Office of NC FAST created “defects” (projects) in JIRA, the project tracking system, to resolve each of the six system issues. One of the system issues, which caused notices to not generate under certain conditions, was resolved with a system update that corrected the date used to determine if a notice was required. DSS and NC FAST have also created the annual Food and Nutrition Service (FNS) Cost-of-Living Adjustment (COLA) report and instructed counties, via email, to review the report and accept the on-hold decisions in order to ensure all cases will be updated with the COLA.

DSS and the Office of NC FAST have not resolved four system issues that resulted in inaccurate notices and one system issue that resulted in an incorrect eligibility determination. These divisions will make appropriate recoupments of questioned costs and provide training, based on the results of the defects and further investigation into the errors.

DSS and the Office of NC FAST have partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-001.

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

2) OSA FINDING AND RECOMMENDATION 2016-002: INADEQUATE SUBRECIPIENT MONITORING INCREASED RISK OF WASTED FUNDS

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

Finding 2016-002: The Department did not adequately monitor \$1 billion in federal funds passed

to counties, non-profits, and other organizations (collectively called subrecipients). Specifically, the Department did not timely obtain subrecipient annual audit reports, review for problems, or communicate expected corrective actions to subrecipients.

Subrecipients used the funds from the Department for federal assistance programs such as Medicaid (\$228.7 million), Temporary Assistance for Needy Families (\$186.3 million) and the Children's Health Insurance Program (\$7.4 million). Subrecipients were required to obtain an annual audit if they spent more than \$500,000 in federal funds within a year.

Out of a sample of 44 entities to which the Department passed federal funds, there were 16 (36%) instances where the Department did not complete the monitoring process. Specifically, for:

- 13 (30%) subrecipients, there was no evidence that audit reports were reviewed or that management decisions were issued
- 2 (5%) subrecipients, no audit reports were on file
- 1 (2%) subrecipient, the audit report was reviewed, but a management decision was issued 13 days after the six-month regulatory time limit

Lack of adequate and timely monitoring increased the risk that federal funds would be wasted due to uncorrected errors and deficiencies. For example, audit reports that lacked evidence of Department review reported deficiencies such as a:

- 28% error rate in eligibility documentation for the Medicaid program in one county
- 27% error rate in eligibility income verification and budget calculations for the Medicaid program in a second county
- 15% error rate in eligibility income verification and budget calculations for the Children's Health Insurance Program in a third county

The Department did not have adequate procedures in place to ensure audits were reviewed and management decisions issued. According to Department management, the responsibility for reviewing the audit reports shifted to the Office of Internal Audit (OIA) just before the beginning of the audit period. The OIA was drafting procedures for the review of the audit reports; however, OIA had turnover in positions designated to do this task. Since there was not a procedure in place to ensure compliance, the audit reports were not monitored timely.

The Department is required to monitor subrecipients' use of federal awards by reviewing their audit reports. Specifically, federal regulations charge the pass-through entity with:

- Reviewing financial and performance reports
- Issuing a management decision for audit findings pertaining to the Federal award within six months of receipt of the audit report

- Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies detected through audits, on-site reviews, and other means

Similar aspects of this finding were reported in the 2015 Statewide Single Audit as finding numbers 2015-004, 2015-011, 2015-009, 2015-061, 2015-062, 2015-063, 2015-064, 2015-069, 2015-070, 2015-073, 2015-074, 2015-080, 2015-085, and 2015-095.

Federal Award Information This finding affects the following federal programs:

- CFDA 10.561: State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
 - Federal Awarding Agency: U.S. Department of Agriculture
 - Grant Award Number: 15155NC406S2514, 16165NC416Q3903
- CFDA 93.558: Temporary Assistance for Needy Families (TANF)
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: 1502NCTANF, 1601NCTANF
- CFDA 93.568: Low-Income Home Energy Assistance (LIHEAP)
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: 15B1NCLIEA, 16B1NCLIEA
- CFDA 93.575 and 93.596: Child Care and Development Fund (CCDF) Cluster
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: G1501NCCCDF, G1601NCCCDF
- CFDA 93.667: Social Services Block Grant (SSBG)
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: G-1401NCSOSR, G-1501NCSOSR
- CFDA 93.767: Children's Health Insurance Program (CHIP)
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: 05-1505NC5021, 05-1605NC5021
- CFDA 93.778: Medical Assistance Program (Medicaid)
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: 05-1505NC5MAP, 05-1605NC5MAP, 05-1505NC5ADM, 05-1605NC5ADM
- CFDA 93.917: HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: X07HA00051-25-00, X08HA16859-07-00
- CFDA 93.958: Block Grants for Community Mental Health Services
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: SM010032-14, SM010032-15

- CFDA 93.959: Block Grants for Prevention and Treatment of Substance Abuse
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: TI010032-14, TI010032-15

OSA Recommendation: Department management should develop and use a tracking mechanism to ensure that all required subrecipient audits are reviewed, management decisions are communicated timely, and follow-up is completed.

Agency Response: The Department agrees that the annual sub-recipient monitoring reports and audit reports were not consistently reviewed in a timely manner due to excessive employee turnover. Sub-recipient monitoring is performed throughout the life cycle of the grant award by multiple teams and includes activities in the onboarding process followed by onsite and desk reviews during the grant period and culminates in the review of annual reports and audits as noted in this finding. The Department will implement additional monthly management review procedures and temporarily reassign duties to ensure the timely completion of the review of sub-recipient annual reports and audits. Recruiting is in process to re-staff the annual report review function.

Corrective Action Plan: The Department will complete the implementation of monthly management reports which provide status information on outstanding audit reports to be reviewed. The management reports will be reviewed by management to ensure the monitoring reviews are completed timely. Additionally, the Department will reallocate resources to conduct the reviews until the subrecipient monitoring function is sufficiently staffed.

Anticipated Completion Date: June 30, 2017

OIA Follow-up Results

Per OIA follow-up, the Risk Management and Audit Monitoring (RMAM) team hired temporary help to review the subrecipient audit reports and issue management decision letters, and is now in the process of hiring two employees. RMAM also implemented the use of an Access databases to track the subrecipient audit reports and the status of the follow-up process.

At the beginning of State Fiscal Year 16-17, RMAM misinterpreted the due date requirement for management decision letters to be distributed to non-governmental subrecipients. As a result, the due dates for some management decision letters were incorrect in the database, which ultimately led to the untimely submission of management decision letters. RMAM is working to verify the due dates listed in the database to ensure all remaining subrecipient management decision letters are issued on time.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-002.

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

3) OSA FINDING AND RECOMMENDATION 2016-003: COUNTIES WERE NOT ADEQUATELY MONITORED

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

Finding 2016-003: The Department did not adequately monitor subrecipients (counties) that administered the Supplemental Nutrition Assistance Program (SNAP). The State provided \$87.5 million in SNAP funds to counties to administer to participants during the year. A random sample of 21 (50%) of the 42 counties that were required to be monitored during the audit period showed deficiencies for all 21 counties. Specifically:

- In 21 of 21 (100%) counties sampled, monitors did not test the timeliness of recertifications. Further inquiry showed that this test was not performed at any of the 42 counties monitored during the audit period.
- In 4 of 21 (19%) counties sampled, the county submitted a Performance Improvement Plan (PIP) that did not address all of the SNAP findings that monitors identified.
- In 1 of the 21 (5%) counties sampled, monitors did not communicate all of the SNAP findings to the county.
- In 1 of the 21 (5%) counties sampled, monitors did not review the required number of cases. Nine initial approval case files were reviewed when the monitor should have reviewed 10. Participant case files are reviewed to check the eligibility determinations made by the county staff.

Inadequate monitoring increased the risk that the Department would not detect payments to ineligible participants, detect delays in recertification, and ensure that corrective action was completed timely.

According to Department management, there were two factors that led to the monitoring deficiencies. The lack of timeliness testing existed because monitors could not access the necessary reports in NC FAST. A system change was requested in March 2015 that would allow the system to produce the necessary reports, but the change was not implemented. Department staff said that the remaining monitoring deficiencies were due to inadequate supervisory review of the monitoring documentation.

Federal regulations require the pass-through entity to:

“Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.”

Furthermore, the pass-through entity is responsible for:

“Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award... detected through audits, on-site reviews, and other means.”

Additionally, the Department’s “Subrecipient Monitoring Plan” for SNAP for state fiscal year 2015-2016 requires a minimum number of case files to be reviewed for small, medium, and large counties during monitoring visits.

Federal Award Information U.S. Department of Health and Human Services; CFDA Number (title): 10.561 (State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)); Federal Award Number (award period): 15155NC406S2514 (October 1, 2014 – September 30, 2015); 16165NC416Q3903 (October 1, 2015 – September 30, 2016).

OSA Recommendations: Department management should coordinate with NC FAST administrators to ensure the system is generating the necessary reports to review the timeliness of recertifications for the counties that are monitored.

Department management should develop a review process to ensure that all findings identified during the monitoring visit are communicated to the county, that the Performance Improvement Plans address all findings identified during the monitoring visit, and that monitors examine the minimum number of cases consistent with the monitoring plan.

Agency Response: The Department agrees with the finding and will enhance the subrecipient monitoring process to ensure all required number of cases are examined and any findings identified during the monitoring visit are communicated to the county and addressed in the appropriate documents. The Department will strengthen the supervisory review over the monitoring process.

The Department's NC FAST System reporting capabilities have been enhanced to produce a report to be utilized by monitors in testing the timeliness of recertifications by counties being monitored.

Corrective Action Plan: The Department coordinated to ensure that the system generated the necessary report to review the timeliness of recertifications. NC FAST delivered the timeliness of recertification report on February 8, 2017.

The Department reviewed all the State monitoring findings at the August and September 2016 staff meetings and reemphasized to the staff how to execute the established monitoring procedures. As a result:

- The monitors signed the NC Management Evaluation Plan, indicating they read and understood the requirements in the Plan, and returned to a Supervisor by December 15, 2016.
- The Monitoring Worksheet, which is used during the monitoring visit to identify errors that are sited, was revised on December 2016. The Worksheet was revised to better identify the errors, which are carried forward to the Summary Letter and the Performance Improvement Plan.
- The monitors will continue to send the Summary Letter and Performance Improvement Plan to a Supervisor for review and approval. In addition, the Acceptance Letter and Release Letter will be submitted to a Supervisor for review and approval.

The Department is reorganizing the Operational Support Team (OST) to create an Economic and Family Services group to work closer with the DSS management. This group will assist as needed in assuring that required county monitoring is completed.

Anticipated Completion Date: April 1, 2017

OIA Follow-up Results

Per OIA follow-up, all four monitors have signed the Monitoring Plan (NC Management Evaluation Plan) indicating they have read and understand the requirements, including the minimum number of cases required for review. DSS revised the Monitoring Workbook by adding bullets to the case review Comments section. This revision makes it easier for the reader to identify errors, which are transferred to the Summary Letter that is provided to the county. To ensure the Performance Improvement Plans (PIPs) address all identified findings, DSS instituted a supervisor review and approval step for the PIP Acceptance Letters and PIP Release Letters. The Department of Social Services (DSS) is also in the process of implementing an accurate recertification timeliness report.

DSS has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-003.

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

4) OSA FINDING AND RECOMMENDATION 2016-025: ERRORS IN MEDICAL CLAIM PAYMENT PROCESS

84.126 REHABILITATION SERVICES – VOCATIONAL REHABILITATION GRANTS TO STATES
DIVISION OF VOCATIONAL REHABILITATION SERVICES

Finding 2016-025: The Department made an estimated net overpayment of \$219,000 to providers. During state fiscal year 2016, the Department processed more than 33,000 claims for vocational rehabilitation medical services totaling over \$9 million.

Auditors reviewed a statistical sample of 132 claims totaling \$598,274. The review showed that 8 of 132 (6%) claims were calculated incorrectly and/or paid at the wrong rate, resulting in net overpayments of \$12,089 and federal questioned costs of \$9,513.

Specifically,

- 6 (4.5%) claims totaling \$17,429 were overpaid
- 2 (1.5%) claims totaling \$5,340 were underpaid

When the net overpayment of \$12,089 (federal share \$9,513) found in the sample is projected to the entire population, the likely total errors are a net overpayment of \$219,000 (federal share of \$172,000).

Department personnel stated that these errors occurred due to staff errors such as using the wrong rates and codes. Also, there was no supervisory review of the claims calculation and pricing.

As a result, program costs were unnecessarily increased and resources that could have been used to provide rehabilitation services to other eligible clients were unavailable.

Federal regulations require the Department to “establish and maintain written policies to govern the rates of payment for all purchased vocational rehabilitation services.” Also, the Department’s

vocational rehabilitation policy manual prescribes that Medicaid or Medicare rates and methodology will be used to process medical claims.

For nine of the past 10 years, the Department made payments to providers that did not comply with the rates and claims processing methodology in its policy manual. This was most recently reported in the 2015 Statewide Single Audit as finding number 2015-043.

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.126 (Rehabilitation Services – Vocational Rehabilitation Grants to States: Federal Award Number (award period): H126A140049, H126A140050, H126A150049, H126A150050, H126A160049, H126A160050 (federal fiscal years ended September 30, 2014 to 2016).

OSA Recommendations: Department management should evaluate the claims processing personnel and determine whether additional training is needed.

In addition, Department management should develop and implement a secondary review process to ensure claims are calculated and paid correctly.

Agency Response: The Department agrees with the finding. During the first quarter of SFY 2016, the Division acquired access to NCTRACKS and began to price claims manually as necessary until the NCTRACKS/BEAM interface was completed. Effective November 2015, the NCTRACKS/BEAM interface became fully functional. Correct rates are now being paid for medical, pharmaceutical, and institutional goods and services. As a result, the 6% error rate (8 errors) noted for SFY 2016 is a significant decrease from the 47% error rate (104 errors) noted for SFY 2015. Of the eight errors identified, six were processed prior to the completion of the NCTRACKS/BEAM interface.

As part of ongoing training efforts and to address the potential that some rates will not get priced through the system, the DHHS Controller's Office provided refresher training during SFY 2017 to the claims processing staff on manual claims processing. Beginning in SFY 2017, a secondary review process was implemented to ensure claims are calculated and paid correctly. Designated reviewers select a random sample of all manually priced claims that do not have a Medicaid rate to check for accuracy.

Corrective Action Plan: Effective November 2015, the new claims processing system (BEAM) began to directly interface with NCTRACKS to return the Medicaid rate in place on the date of payment for the date of service. This interface helped to reduce the sample error rate from 47% in SFY 2014-15 to 6% in SFY 2015-16.

The following corrective actions have been put in place:

- The DHHS Controller's Office provided claims processing training to staff in August, 2016.
- Medical claims for which there is no Medicaid rate are manually priced by the DHHS Controller's Office. A random sample of all manually priced claims are now audited for accuracy by designated reviewers.

- Medical claims identified as overpayments have been recouped by the Controller's Office as of August 2016.

Completed action was completed on: August 31, 2016

OIA Follow-up Results

Per OIA follow-up, the Division of Vocational Rehabilitation Services (DVRS) has worked with the DHHS Controller's Office to develop Claims Processing training for situations when there are no Medicaid rates and claims have to be manually priced. All members of the team responsible for claims processing attended the training. Further, all manually priced claims are now audited for accuracy by designated reviewers in the DHHS Controller's Office. In addition, \$17,428.02 in questioned costs were either reclassified to State expenditures or recouped from the vendor.

DVRS, in conjunction with the DHHS Controller's Office, has fully implemented the corrective action plan and mitigated the risk associated with OSA finding number 2016-025 to an acceptable level to prevent the finding from recurring; however, due to the timing of the implementation there may be a repeat finding in the 2017 audit.

We consider this finding resolved as of August 16, 2017.

5) OSA FINDING AND RECOMMENDATION 2016-026: TESTING OF CHANGES TO THE VOCATIONAL REHABILITATION ELIGIBILITY SYSTEM UNABLE TO BE VERIFIED

84.126 REHABILITATION SERVICES – VOCATIONAL REHABILITATION GRANTS TO STATES
DIVISION OF VOCATIONAL REHABILITATION SERVICES

Finding 2016-026: The Division of Vocational Rehabilitation Services (DVRS) and Division of Services for the Blind (DSB) failed to document testing of system changes for the vocational rehabilitation eligibility system (BEAM). Therefore, the Divisions could not provide evidence that successful testing occurred prior to changes being introduced to the BEAM system.

DVRS and DSB implemented 65 change requests for enhancements or new components during state fiscal year 2016. A random sample of 13 (20%) change requests was tested. Documentation of user acceptance testing (UAT) verification was not available for six (46%) of the 13 change requests sampled.

A disciplined process for testing is essential to ensure the system operates as intended and that no unauthorized changes are introduced that may negatively impact operations or security.

At the beginning of the fiscal year, the BEAM change management procedure was not specific about documentation requirements for user acceptance testing. Therefore, documentation of that testing was not present for all changes. During the year, DVRS and DSB implemented a new change management procedure that outlines testing documentation requirements for changes to the BEAM application.

The Statewide Information Security Manual, standard 040405, requires successful testing of updates and new programs prior to their introduction into a system.

This finding was reported in the 2015 Statewide Single Audit as finding number 2015-044.

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.126 (Rehabilitation Services – Vocational Rehabilitation Grants to States: Federal Award Number (award period): H126A140049, H126A140050, H126A150049, H126A150050, H126A160049, H126A160050 (federal fiscal years ended September 30, 2014 to 2016).

OSA Recommendation: DVRS and DSB should ensure it follows the new BEAM change management procedure.

Agency Response: The Department agrees with the finding and has completed implementation of corrective actions. In March 2016, in immediate response to the FY 2015 similar finding, the DSB-DVRS cross-divisional BEAM management team adopted operating procedures and controls processes for user acceptance testing and documentation. The team continues to utilize these BEAM change management procedures to ensure user acceptance approvals are in place. No additional corrective actions are required.

Corrective Action Plan: In March 2016, in immediate response to the FY 2015 similar finding, the DSB-DVRS cross-divisional BEAM management team developed standard operating procedures and controls pertaining to user acceptance testing (UAT) documentation parameters. Additionally, DSB and DVRS 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. Lastly, the standard operating procedures and controls were finalized.

Corrective action was completed on: June 30, 2016

OIA Follow-up Results

Per OIA's follow-up, the Divisions of Vocational Rehabilitation Services (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 them into the production environment. The standard operating procedures and controls were finalized in 2016.

The Divisions have fully implemented the corrective action plan and mitigated the risk associated with OSA finding number 2016-026 to an acceptable level to prevent the finding from recurring.

We consider this finding resolved. This was a repeat finding which we previously considered resolved as of August 5, 2016.

6) OSA FINDING AND RECOMMENDATION 2016-027: DEFICIENCIES IN SYSTEM ACCESS CONTROLS 84.126 REHABILITATION SERVICES – VOCATIONAL REHABILITATION GRANTS TO STATES DIVISION OF VOCATIONAL REHABILITATION SERVICES

Finding 2016-027: The results of our audit disclosed security deficiencies considered reportable

under generally accepted Government Auditing Standards. These deficiencies are reported to the Department by separate letter in accordance with these standards. These items should be kept confidential as provided by North Carolina General Statute 132-6.1(c).

This finding was reported in the 2015 Statewide Single Audit as finding number 2015-045.

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.126 (Rehabilitation Services – Vocational Rehabilitation Grants to States: Federal Award Number (award period): H126A140049, H126A140050, H126A150049, H126A150050, H126A160049, H126A160050 (federal fiscal years ended September 30, 2014 to 2016).

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 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: August 12, 2016

OIA Follow-up Results

Per OIA's follow-up work, the Divisions of Vocational Rehabilitation Services (DVRS) and Services for the Blind (DSB) have fully implemented the corrective action plan and mitigated the risk associated with OSA finding number 2016-027 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. This was a repeat finding which we previously considered resolved as of August 12, 2016.

7) OSA FINDING AND RECOMMENDATION 2016-028: \$10.5 MILLION IN PRE-EMPLOYMENT TRANSITION SERVICES NOT SPENT ON STUDENTS WITH DISABILITIES

84.126 REHABILITATION SERVICES – VOCATIONAL REHABILITATION GRANTS TO STATES
DIVISION OF VOCATIONAL REHABILITATION SERVICES

Finding 2016-028: The Department did not spend a total of \$15.9 million (15%) of the \$106 million received for the Vocational Rehabilitation Grant for pre-employment transition services (PETS) for students with disabilities as required by federal regulations. Only \$5.4 million was spent toward these services for the 2015 federal fiscal year.

Because the Division of Vocational Rehabilitation did not spend the entire \$15.9 million set aside for students with disabilities as required, \$10.5 million is being relinquished to the federal government.

According to Department personnel, the Division of Vocational Rehabilitation did not comply with the spending requirements because they did not have final guidance about which services would meet the grant criteria. Division of Vocational Rehabilitation personnel did not seek out the available guidance related to PETS when it was not included with the original grant award document sent from the Department's Office of the Secretary.

Federal regulations require the state to reserve and expend at least 15% of its vocational rehabilitation allotment for the provision of pre-employment transition services to students with disabilities who are eligible, or potentially eligible, for vocational rehabilitation services.

Federal Award Information: Federal Awarding Agency: U.S. Department of Education; CFDA Number (title): 84.126 (Rehabilitation Services – Vocational Rehabilitation Grants to States); Federal Award Number (award period): H126A150049 and H126A150050 (Federal Fiscal Years ended September 30, 2014 to 2016).

OSA Recommendations: The Division of Vocational Rehabilitation management should ensure all documentation is obtained to administer the grant funds. Further, the Division of Vocational Rehabilitation management should seek guidance from all means necessary.

Agency Response: The Department agrees that \$5.4 million was spent on allowable Pre-Employment Transition Services and that the remaining unspent funds were relinquished to the federal funding agency. Using the final federal regulations issued July 2016, the Department is developing expanded service requirements and increasing its capacity to provide and track Pre-Employment Transition Services.

The Department continues to take advantage of training opportunities and technical assistance provided by our federal partner, Rehabilitation Services Administration. The Department reached out to Workforce Innovation Technical Assistance Center, an organization that works with State Vocational Rehabilitation Agencies to implement the new requirements of the Workforce Innovations and Opportunity Act including Pre-Employment Transition Services. The Department is committed not only to achieve full compliance with the pre-employment transition services earmarking requirement, but also to provide efficient and effective services to the targeted population.

Corrective Action Plan: Using the final federal regulations issued July 2016 the Division of Vocational Rehabilitation and the Division of Services for the Blind are developing expanded service requirements and the capacity to provide and track Pre-Employment Transitions Services. As a result, the Department has completed or will perform the following four actions:

- A request for applications was submitted to Rehabilitation Services Administration to expand capacity and the network for provider's pre-employment transition services. Approval was issued September 2016 on the DHHS website.

- The Department is working with the contracted vendor of the case management system, along with other program subscribers, to develop and implement tracking of case service payments and staff time specific to this initiative.
- The Department staff has been provided training and technical assistance by our federal partner, Rehabilitation Services Administration.
- For further technical assistance, the Department has reached out to Workforce Innovation Technical Assistance Center, an organization that works with State Vocational Rehabilitation Agencies to implement the new requirements of the Workforce Innovations and Opportunity Act including Pre-Employment Transition Services.

The Department is committed not only to achieve full compliance with the pre-employment transition services earmarking requirement, but also to provide efficient and effective services to the targeted population.

Anticipated Completion Date: September 30, 2019

OIA Follow-up Results

Per OIA follow-up, the Division of Vocational Rehabilitation Services (DVRS) received approval from DHHS Budget and Analysis to increase capacity and facilitate the expansion of the pre-employment transition services (PETS) network. As a result, the Division received 28 applications, and currently has one signed contract and a signed Memorandum of Understanding.

DVRS is in the process of implementing several system changes to accommodate PETS. The majority of these changes are currently in user acceptance testing; however, a system change to track PETS staff time has been implemented.

Staff attended several training programs as well as conferences in order to learn about successful PETS strategies, network with other organizations that are involved with PETS, and gain as much knowledge as possible to successfully implement PETS in North Carolina.

In March 2017, DVRS contracted with Workforce Innovation Technical Assistance Center (WITAC), an organization that works with State Rehabilitation Agencies, to effectively implement the new requirements. DVRS is currently engaged in conversations with Secondary School and Community College partners across the state.

DVRS has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-028.

We consider this finding partially resolved with an anticipated completion date of September 30, 2019.

8) OSA FINDING AND RECOMMENDATION 2016-039: DEFICIENCIES IN COUNTY ELIGIBILITY DETERMINATION PROCESSES

93.558 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES
DIVISION OF SOCIAL SERVICES

Finding 2016-039: The Department made some Temporary Assistance for Needy Families (TANF) payments based on inaccurate and inadequately documented eligibility determinations. During the audit period, approximately 40,600 families received \$47.4 million in assistance from the federal TANF program.

The task of determining eligibility for the TANF program has been delegated to the county departments of social services. Therefore, Certified Public Accountant (CPA) firms audited county offices and tested 1,344 TANF client files. CPAs found one or more errors in 36 (2.7%) client files. Specifically:

- 26 (1.9%) client files did not contain all required eligibility documentation. Missing documentation included county-participant agreements, online verification documentation, and explanations for benefit overpayments.
- 4 (0.3%) client files were missing eligibility determination calculations or contained inaccurate calculations for data such as income.
- 4 (0.3%) client files contained ineligible recipients during the coverage period. Three files showed that eligibility was not terminated within the timeframe required by the program manual. The remaining client file was ineligible because of increased earnings.
- 3 (0.2%) client files were missing and the eligibility determinations could not be substantiated.

As a result, the Department paid at least \$18,316 in error that could have been used to provide services to eligible participants. The total likely error for the State's TANF program could not be statistically determined since each county was tested as a separate population by the CPA firms.

According to Department management, two factors contributed to the errors.

First, the Department did not have adequate staff to effectively monitor eligibility determinations performed by the county departments of social services. As a result, the Department could not ensure that the counties made accurate eligibility determinations and maintained proper documentation in the case files.

Second, the county departments of social services were understaffed. As a result, supervisors at the county offices did not consistently perform quality assurance reviews.

In accordance with federal regulations, recipients are only eligible if they meet the requirements of a financially needy family with children. Additionally, state eligibility manuals require adequate documentation to support eligibility determinations.

This finding was reported in the 2015 Statewide Single Audit as finding number 2015-067.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA number (title): 93.558 (Temporary Assistance for Needy Families); Federal Award Number (award period): 1502NCTANF (fiscal year ended September 30, 2015) and 1601NCTANF (fiscal year ended September 30, 2016).

OSA Recommendation: Department management should analyze the types of errors and the locations where they occurred. Then Department management should prioritize and focus its limited monitoring resources on areas where they will have the greatest impact.

Agency Response: The Department agrees with the finding and will continue to provide training, guidance and monitoring through desk reviews and onsite visits to the county department of social services (DSS) to ensure the adequacy of eligibility determinations.

The Department will review case specific information relating to each finding and require the relevant counties to implement corrective action plans to address all reported issues to ensure compliance.

The Department will reinforce its policies and procedures at the counties to ensure required documentation is obtained and maintained in the case file and strengthen the supervisory review over the monitoring process.

Corrective Action Plan: A State Representative will be assigned to conduct a special case file review for the relevant counties cited for findings. The counties will complete a Program Improvement Plan (PIP) for the errors identified.

A State Representative will review and approve the PIPs to ensure successful measures are implemented to prevent reoccurrence of the errors.

A State Representative will conduct a three to six-month desk review to ensure the findings cited are resolved.

On March 10, 2017, the Department recorded a training presentation to strengthen the Work First program policy and increase worker familiarity with the NCFast System. The presentation will be made available to all county staff through the NC FAST Learning Gateway website.

Anticipated Completion Date: September 30, 2017

OIA Follow-up Results

Per OIA follow-up, the Division of Social Services (DSS) revised section 104 of the Work Force Policy Manual, and thus provided clarifications on eligibility determination, effective June 1, 2017. DSS also recorded a training webinar covering Work First policies, and made the webinar available to all county staff. Further, the 12 counties identified as having findings, completed their Program Improvement Plans, which were reviewed by a State Representative. The counties also received a "Closure" or "Acceptance" letter from DSS signifying that the three to six month reviews were completed and the findings identified for those counties were resolved.

Questioned costs of \$18,316, which were identified during the audit, were either recouped by the State, or the county was able to find the missing documentation related to the questioned cost.

DSS has fully implemented the corrective action plan and mitigated the risk associated with OSA finding number 2016-039 to an acceptable level to prevent the finding from recurring; however, due to the timing of the implementation there may be a repeat finding in the 2017 audit.

We consider this finding resolved as of August 31, 2017.

9) OSA FINDING AND RECOMMENDATION 2016-040: FIVE YEAR LIMIT NOT MONITORED FOR THE TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) PROGRAM

93.558 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

DIVISION OF SOCIAL SERVICES

Finding 2016-040: The Department did not monitor compliance with the federal five-year limit on TANF assistance. The limit was established to ensure that TANF recipients move into work and self-sufficiency and to ensure that assistance is short-term and transitional.

During the audit period, approximately 40,600 families received \$47.4 million in federal cash assistance from the program.

Because the Department did not monitor compliance with the five-year limit, the Department may not have detected and corrected instances when it failed to achieve the program objective of moving families toward self-sufficiency. Additionally, failure to detect and correct excessive noncompliance with the five-year limit could have resulted in the State being penalized with a 5% reduction in funding for the next fiscal year.

According to Department management, it was not able to monitor the five-year limit because of the implementation of a new computer system. During the previous fiscal year, TANF information was moved into NC FAST. Department staff were unable to obtain the federal time limit data from the new system to generate the necessary reports to monitor the TANF five-year limit.

Federal regulations require the Department to “establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.” Monitoring the five-year limit would be an effective control over compliance.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA number (title): 93.558 (Temporary Assistance for Needy Families); Federal Award Number (award period): 1502NCTANF (October 1, 2014 – September 30, 2015).

OSA Recommendation: Department management should obtain the necessary assistance from staff responsible for NC FAST to run the required reports to monitor the TANF five-year limit.

Agency Response: The Department agrees with the finding. The Department will implement a system to store the five-year limit on Federal assistance data in Client Services Data Warehouse (CSDW). Queries using this data will run in CSDW to track the five-year limit. The work effort for implementation began in January 2017.

Pursuant to 45 CFR 264.1(c), North Carolina opted to extend TANF assistance beyond the five-year limit for a maximum of 20 percent of their average monthly number of cases. The Department has examined the number of individuals granted an extension for the two prior fiscal years as compared to the 20% federal limit. For each of the last two years, extensions were granted for less than one percent of average caseload.

Specifically, during FFY 2014, the average TANF caseload was 16,554. The maximum number of individuals who could be granted the 20% hardship extension to the five-year federal time limit was 3,311. The number of individuals granted the extension were 93 (0.6%). During FFY 2013, the average TANF caseload was 20,149. The maximum number of individuals who could be granted the 20% hardship extension to the five-year federal time limit was 4,030. The number of individuals granted the extension were 153 (0.8%).

Corrective Action Plan: The Department's Client Services Data Warehouse (CSDW) team has obtained guidance from the NC FAST team on the calculation needed to run the required report to monitor the TANF five-year limit.

The work effort to calculate and store the five-year limit on Federal assistance data in the Client Services Data Warehouse (CSDW) began in January 2017.

Once the data becomes available in CSDW, the Department will run monthly queries to capture individuals who have been granted an extension to the five-year limit to ensure the 20% maximum is not exceeded. A tracking spreadsheet will be prepared to document the results.

If the number of individuals who have been granted an extension jeopardizes the 20% maximum, policy will be revised as necessary.

Anticipated Completion Date: December 31, 2017

OIA Follow-up Results

Per OIA follow-up, the Division of Social Services (DSS) has obtained guidance from the NC FAST team on the calculation needed to run the report required to monitor the TANF five-year limit. DSS has begun working with Client Services Data Warehouse to obtain the needed calculation data. This information will enable DSS to run monthly queries for the purpose of identifying individuals who have been granted an extension to the five-year limit.

DSS has partially implemented the corrective action plan and has partially mitigated the risk associated with finding 2016-040.

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

10) OSA FINDING AND RECOMMENDATION 2016-041: INACCURATE TANF DATA ON FAMILIES WAS SUBMITTED TO THE FEDERAL GOVERNMENT

93.558 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

DIVISION OF SOCIAL SERVICES

Finding 2016-041: The Department submitted incomplete and inaccurate data in the Temporary Assistance for Needy Families (TANF) ACF-199 report to the Administration for Children and Families (ACF). During the audit period, approximately 40,600 families received \$47.4 million in assistance from the federal TANF program.

Out of a random sample of 120 cases from all quarterly reports submitted during the audit period, 21 (18%) cases from the quarter ended September 30, 2015, had one or more errors. Examples of data elements in which errors were found are:

- Work participation status
- Number of countable months the participant received assistance
- Relationship to the head of household

In addition, the Department under-reported the total number of families receiving assistance for the quarter ended September 30, 2015, by approximately 12,000 (30%) families.

The Department's failure to submit complete and accurate data could lead to penalties. A penalty of 4% of the adjusted State Family Assistance Grant (SFAG) can be imposed for each quarter the State fails to submit an accurate, complete, and timely report. Based on the fiscal year 2016 SFAG, the penalty could be up to \$8.7 million.

Additionally, inaccurate data could impact the State's Work Participation Rate (WPR) calculation. The data collected in the ACF-199 quarterly performance report is used by ACF to determine whether the State met its WPR and other program purposes. Failure to achieve the WPR could also result in penalties.

According to Division of Social Services (DSS) management, they were not able to file complete and accurate reports because of a change in procedures. Prior to TANF data being moved to NC FAST, DSS Performance and Reporting section staff would have county level employees provide the data for each case being reported. (The county level employees work with the participants to intake and monitor participant information.) With the transition to NC FAST, it was determined that DSS would no longer request the data from the county but would rely on NC FAST for the data needed to prepare the report. DSS staff were unable to identify where the correct data was located in NC FAST for some data elements to generate the necessary queries to populate the ACF-199 report. DSS management has requested assistance from NC FAST staff, but it was not timely enough to identify the data and modify the query so correct data could be submitted to ACF during the audit period.

Federal regulations require each state to timely file the TANF Data Report. Specifically, regulations state:

“Each State must collect on a monthly basis, and file on a quarterly basis, the data specified in the TANF Data Report and the TANF Financial Report (or, as applicable, the Territorial Financial Report).”

Furthermore, federal regulations require the reports to be accurate and complete. Specifically, regulations state:

“We will assess fiscal penalties against States under circumstances defined in parts 261 through 265 of this chapter. The penalties are... A penalty of four percent of the adjusted SFAG for

each quarter a State fails to submit an accurate, complete and timely required report.”
(Emphasis added)

This finding was reported in the 2015 Statewide Single Audit Report as finding number 2015-068.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.558 (Temporary Assistance for Needy Families); Federal Award Number(s) (period): 1502NCTANF (October 1, 2014 – September 30, 2015) and 1601NCTANF (October 1, 2015 – September 30, 2016).

OSA Recommendation: Division management should continue working with NC FAST staff to identify the correct data for the required elements so that necessary modifications can be made to the queries used to generate the ACF-199 report.

Agency Response: The Department agrees with the finding and is programming its systems to enhance its production of the ACF-199 report.

Corrective Action Plan: Programming changes have been identified, modified and/or moved to production to address the following data elements:

1. Work participation status: Programming code changes from FY 2015 were modified, tested and moved to production. These changes were revised and moved back to production on 1/18/2017.
2. Number of countable months the participant received assistance:
 - a. Programming code changes were modified on 10/7/2016 to remove the duplicate months in the federal time clock calculation. The last ACF-199 Report that was retransmitted on 10/14/2016 for FFY 2015 included this change.
 - b. Programming code changes were modified and moved to production on 1/18/2017 to correct the countable months for unrelated adults.
3. Relationship to head of household: Programming code changes have been identified to calculate the type of family and the relationship to head of household data elements. Code changes are expected to be completed by 4/13/17.

Data differences remain between the NC FAST production and the data used in the NC FAST tables by CSDW in data elements 2 and 3 above. The Division will continue to work with NC FAST to resolve those issues.

Anticipated Completion Date: September 30, 2017

OIA Follow-up Results

Per OIA follow-up, programming changes were moved to production to correct TANF participant data for the following data elements: (1) work participant status; (2) number of countable months the participant received assistance; and (3) relationship to head of household. However, only the work participant status was successfully corrected and the FFY2015 ACF-199 Report was retransmitted to the Administration for Children and Families. The Division of Social Services (DSS) should continue

to work with NC FAST to correct the differences between NC FAST production and the data used in the NC FAST tables by CSDW for data elements (2) and (3).

DSS has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-041.

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

**11) OSA FINDING AND RECOMMENDATION 2016-042: INADEQUATE SUBRECIPIENT MONITORING
INCREASED RISK OF WASTED FUNDS**

93.558 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

DIVISION OF SOCIAL SERVICES

Finding 2016-042: The Department did not adequately monitor \$1 billion in federal funds passed to counties, non-profits, and other organizations (collectively called subrecipients). See finding 2016-002 for a description.

Federal Award Information: This finding affects the following federal program:

- CFDA 93.558: Temporary Assistance for Needy Families (TANF)
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: 1502NCTANF, 1601NCTANF

OSA Recommendation (see finding 2016-002): Department management should develop and use a tracking mechanism to ensure that all required subrecipient audits are reviewed, management decisions are communicated timely, and follow-up is completed.

Agency Response (see finding 2016-002): The Department agrees that the annual sub-recipient monitoring reports and audit reports were not consistently reviewed in a timely manner due to excessive employee turnover. Sub-recipient monitoring is performed throughout the life cycle of the grant award by multiple teams and includes activities in the onboarding process followed by onsite and desk reviews during the grant period and culminates in the review of annual reports and audits as noted in this finding. The Department will implement additional monthly management review procedures and temporarily reassign duties to ensure the timely completion of the review of sub-recipient annual reports and audits. Recruiting is in process to re-staff the annual report review function.

Corrective Action Plan (see finding 2016-002): The Department will complete the implementation

of monthly management reports which provide status information on outstanding audit reports to be reviewed. The management reports will be reviewed by management to ensure the monitoring reviews are completed timely. Additionally, the Department will reallocate resources to conduct the reviews until the subrecipient monitoring function is sufficiently staffed.

Anticipated Completion Date: June 30, 2017

OIA Follow-up Results (see OIA Follow-up Results for finding 2016-002)

Per OIA follow-up, the Risk Management and Audit Monitoring (RMAM) team hired temporary help to review the subrecipient audit reports and issue management decision letters, and is now in the process of hiring two employees. RMAM also implemented the use of an Access databases to track the subrecipient audit reports and the status of the follow-up process.

At the beginning of State Fiscal Year 16-17, RMAM misinterpreted the due date requirement for management decision letters to be distributed to non-governmental subrecipients. As a result, the due dates for some management decision letters were incorrect in the database, which ultimately led to the untimely submission of management decision letters. RMAM is working to verify the due dates listed in the database to ensure all remaining subrecipient management decision letters are issued on time.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-042.

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

12) OSA FINDING AND RECOMMENDATION 2016-045: WEATHERIZATION FUNDS WERE OVERSPENT 93.568 LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM DIVISION OF SOCIAL SERVICES

Finding 2016-045: The Department overspent Low-Income Home Energy Assistance Program (LIHEAP) weatherization funds by \$8.8 million.

The Department provided \$21.8 million (25%) of the \$86.7 million received for the LIHEAP to the Department of Environmental Quality (DEQ) to provide residential weatherization and other home repairs to low-income families. However, federal regulations only allowed them to use 15% (\$13 million) for these activities.

As a result, \$8.8 million were not available to assist low-income households pay their monthly home energy costs. In addition, subsequent funding could be withheld by the federal government for failure to comply with federal requirements.

According to Division of Social Services Management, they were unaware of the 15% spending limit for weatherization and other energy related home repairs. Therefore, the Division provided more than the maximum amount allowed to DEQ for those activities.

Federal regulations require that no more than 15% of the funds allotted or available to the grantee for a federal fiscal year be used for low-cost residential weatherization or other energy-related home repairs unless the federal awarding agency grants a waiver.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA number (title): 93.568 (Low-Income Home Energy Assistance); Award Number (award period): 14BNCLIEA (October 1, 2013 – September 30, 2015)

OSA Recommendation: Department management should ensure that the staff that oversees grant management have a clear understanding of weatherization spending requirements.

Agency Response: The Department applied the 15% federal requirement to the Weatherization Assistance Program (WAP); however, the requirement was not extended to the Heating Appliance and Replacement Program (HARRP), which permits a waiver from the federal agency for up to 25%.

The Department agrees with the finding and will revise its current practice for allocating and expending all Weatherization funds to comply with the federal guidance.

Corrective Action Plan: The Department has sought guidance from the US Department of Health and Human Services (HHS) Administration for Children and Families (ACF) for allocating and expending the Weatherization funds.

The Department will revise its current practice for allocating and expending the Weatherization funds to comply with the federal guidance.

If it is determined that there is a need to allot or expend funds in excess of 15%, a waiver will be submitted to the Secretary between April and September of that year to request up to the 25% maximum.

Anticipated Completion Date: September 30, 2017

OIA Follow-up Results

Per OIA follow-up, the Division of Social Services (DSS) participated in a teleconference with the Administration for Children and Families (ACF) seeking guidance on the allocation and expending of Weatherization funds. DSS also sought and was granted a waiver from ACF in order to increase its percentage of LIHEAP funds expended for Weatherization assistance to 25% for the FY2017 LIHEAP Plan.

DSS plans to revise its current practice for allocating and expending the Weatherization funds to comply with the federal guidance.

DSS has partially implemented the corrective action plan and partially mitigated the risk associated with OSA Finding 2016-045.

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

13) OSA FINDING AND RECOMMENDATION 2016-046: INACCURATE HOUSEHOLD INFORMATION REPORTED TO THE FEDERAL GOVERNMENT

93.568 LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM
DIVISION OF SOCIAL SERVICES

Finding 2016-046: The Department submitted an inaccurate Household Report for the Low Income Home Energy Assistance Program (LIHEAP) to the Administration for Children and Families (ACF). During the audit period, the Department provided \$87.5 million in LIHEAP assistance to eligible households.

Auditors obtained the supporting data and recalculated the amounts included in the annual LIHEAP Household Report. The report includes the number and income levels of households that applied for or received LIHEAP assistance during the fiscal year. The submitted annual report:

- Over-reported households that applied for crisis assistance by approximately 42,700 (38%) households. It should have reported 111,825 households.
- Under-reported households that received heating assistance by approximately 15,400 (11%) households. It should have reported 141,582 households.
- Under-reported households that applied for heating assistance by approximately 7,000 (5%) households. It should have reported 154,930 households.
- Under-reported households that received any type of LIHEAP assistance by approximately 8,500 (4%) households. It should have reported 196,406 households.

Because of the errors noted above, there were additional errors in the reported number of assisted and applicant households by poverty level and the number of assisted households by vulnerable population.

Reporting errors could lead to reduced funding because the report provides information to ACF about the need for LIHEAP funding. Reporting errors could also lead to inaccurate state performance measures in the ACF's annual report to Congress.

According to Division of Social Services management, the errors occurred because the reporting data was not reconciled for completeness and accuracy. There was no formal supervisory review and approval process for the report. Additionally, the preparer misunderstood the reporting instructions and did not use unduplicated counts of households that applied for LIHEAP assistance.

Federal regulations require that each state receiving funds shall submit to the Department a report of "the number and income level of the households which apply and the number which are assisted with LIHEAP funds; and the number of households so assisted with one or more members who attained 60 years of age; one or more members who were disabled; and one or more young children."

Additionally, the Governmental Accountability Office (GAO) states that government managers have a fundamental responsibility for "ensuring that management and financial information is reliable and properly reported."

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services. CFDA (title): 93.568 (Low-Income Home Energy Assistance Program); Federal Award Number (period) 15B1NCLIEA (October 1, 2014 – September 30, 2016).

OSA Recommendations: Department management should reconcile the data for completeness and accuracy before preparing the report.

Department management should establish a formal supervisory review and approval process for the report.

Agency Response: The Department agrees with the finding and will implement a procedure to reconcile the data for accuracy prior to submitting the report. This will be accomplished by segregating the duties among employees who abstract and compile the data and prepare and certify the report prior to submission.

Corrective Action Plan: The under-reported data was previously extracted from a temporary storage data location. The data is extracted from actual tables as of June 23, 2016.

The over-reported data followed the incorrect reporting requirements. We will re-submit the FFY 2015 Household Report using the correct requirements. The FFY 2016 Household Report was submitted using the correct requirements on March 2, 2017.

The raw data will be compiled and reconciled to existing reports in the Energy Program prior to preparing the Household Report in On-Line Data Collection (OLDC). The assistant section chief will reconcile the compiled data to the Household Report prior to certifying in OLDC.

Anticipated Completion Date: June 30, 2017

OIA Follow-up Results

Per OIA follow-up, the Division of Social Services (DSS) Program Manager requested additional time to complete the annual LIHEAP household reports and was granted a three-month extension by the Director of Social Services.

DSS has not implemented the corrective action plan and has not mitigated the risk associated with OSA Finding 2016-046.

We consider this finding unresolved with an anticipated completion date of September 30, 2017.

14) OSA FINDING AND RECOMMENDATION 2016-047: COUNTIES WERE NOT ADEQUATELY MONITORED

93.568 LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM
DIVISION OF SOCIAL SERVICES

Finding 2016-047: The Department did not adequately monitor the subrecipients (counties) that administered the Low Income Home Energy Assistance Program (LIHEAP). The state provided \$75.8 million in LIHEAP funds to the counties to administer to participants during the year.

A random sample of 21 (50%) of the 42 counties that were required to be monitored during the audit period showed deficiencies at 12 (57%) counties. Specifically:

- In 11 of 21 (52%) counties, a monitor did not review the required number of LIHEAP participant case files. Monitors review participant case files to check the eligibility determinations made by the county staff. At four counties, the monitor reviewed a total of 20

cases at each county when 40 cases should have been reviewed. At seven counties, the monitor reviewed a total of 10 cases at each of county when 20 cases should have been reviewed.

- In 1 of 21 (5%) counties, the county submitted a Performance Improvement Plan (PIP) that did not address all deficiencies identified during the monitoring visit. Monitors obtain and review PIPs to ensure that the subrecipients have a plan to take timely and appropriate action on all deficiencies.

Inadequate monitoring, such as the failure to review the required number of case files and obtain complete PIPs, increases the risk that monitors will not detect ineligible program participants and ensure that deficiencies are corrected timely.

According to Department management, the monitor did not review the correct number of case files during the monitoring visit because the monitor did not fully understand the procedures in the approved monitoring plan. Also, Department management stated that the incomplete PIP was due to inadequate supervisory review of the monitoring documentation.

Federal regulations require the pass-through entity to:

“Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.”

Furthermore, the pass-through entity is responsible for:

“Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award... detected through audits, on-site reviews, and other means.”

Additionally, the Department’s monitoring plan for LIHEAP for state fiscal year 2015-2016, requires that a minimum number of case files be reviewed for small and medium/large counties during each monitoring visit.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.568 (Low-Income Home Energy Assistance); Federal Award Number (award period): 15B1NCLIEA (October 1, 2014 – September 30, 2016); 16B1NCLIEA (October 1, 2015 – September 30, 2017)

OSA Recommendations: Department management should ensure each monitor understands the approved monitoring procedures.

Department management should develop a review process that ensures monitors examine the required number of cases consistent with the Department’s monitoring plan and that Performance Improvement Plans (PIP) address all findings identified during the monitoring visit.

Agency Response: The Department agrees with the finding and will enhance the subrecipient monitoring process to ensure all required number of cases are examined and addressed in the appropriate documents.

The Department will reemphasize with the staff the execution of the monitoring procedures and strengthen the supervisory review over the monitoring process.

Corrective Action Plan: The Department reviewed all the State monitoring findings at the August and September 2016 staff meetings and reemphasized with the staff to how execute the established monitoring procedures. As a result:

- The monitors signed the NC Management Evaluation Plan, indicating they read and understood the requirements in the Plan, and returned to a Supervisor by December 15, 2016.
- The Monitoring Worksheet, which is used during the monitoring visit to identify errors that are sited, was revised on December 2016. The Worksheet was revised to better identify the errors, which are carried forward to the Summary Letter and the Performance Improvement Plan.
- The monitors will continue to send the Summary Letter and Performance Improvement Plan to a Supervisor for review and approval. In addition, the Acceptance Letter and Release Letter will be submitted to a Supervisor for review and approval.

The Department is reorganizing the Operational Support Team (OST) to create an Economic and Family Services group to work closer with DSS management. This group will assist as needed in assuring that required county monitoring is completed.

Anticipated completion date: April 1, 2017

OIA Follow-up Results

Per OIA follow-up, the Division of Social Services' (DSS) monitors have reviewed and signed DSS' Subrecipient Monitoring Plan (NC Management Evaluation Plan). DSS also reorganized the Operational Support Team, which now includes an Economic and Family Services group. DSS revised the Monitoring Workbook and added bullets to the case review Comments sections. This revision makes it easier for the reader to identify errors. DSS also instituted a supervisor review and an approval step for the PIP Acceptance Letter and the Release Letter.

DSS has fully implemented the corrective action plan and mitigated the risk associated with OSA Finding 2016-047.

We consider this finding resolved as of July 31, 2017; however, due to the timing of the implementation there may be a repeat finding in the 2017 audit.

15) OSA FINDING AND RECOMMENDATION 2016-048: INADEQUATE SUBRECIPIENT MONITORING INCREASED RISK OF WASTED FUNDS

93.568 LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM

DIVISION OF SOCIAL SERVICES

Finding 2016-048: The Department did not adequately monitor \$1 billion in federal funds passed to counties, non-profits, and other organizations (collectively called subrecipients). See finding 2016-002 for a description.

Federal Award Information: This finding affects the following federal program:

- CFDA 93.568: Low-Income Home Energy Assistance (LIHEAP)
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: 15B1NCLIEA, 16B1NCLIEA

OSA Recommendation (see finding 2016-002): Department management should develop and use a tracking mechanism to ensure that all required subrecipient audits are reviewed, management decisions are communicated timely, and follow-up is completed.

Agency Response (see finding 2016-002): The Department agrees that the annual sub-recipient monitoring reports and audit reports were not consistently reviewed in a timely manner due to excessive employee turnover. Sub-recipient monitoring is performed throughout the life cycle of the grant award by multiple teams and includes activities in the onboarding process followed by onsite and desk reviews during the grant period and culminates in the review of annual reports and audits as noted in this finding. The Department will implement additional monthly management review procedures and temporarily reassign duties to ensure the timely completion of the review of sub-recipient annual reports and audits. Recruiting is in process to re-staff the annual report review function.

Corrective Action Plan (see finding 2016-002): The Department will complete the implementation of monthly management reports which provide status information on outstanding audit reports to be reviewed. The management reports will be reviewed by management to ensure the monitoring reviews are completed timely. Additionally, the Department will reallocate resources to conduct the reviews until the subrecipient monitoring function is sufficiently staffed.

Anticipated Completion Date: June 30, 2017

OIA Follow-up Results (see OIA Follow-up Results for finding 2016-002)

Per OIA follow-up, the Risk Management and Audit Monitoring (RMAM) team hired temporary help to review the subrecipient audit reports and issue management decision letters, and is now in the process of hiring two employees. RMAM also implemented the use of an Access databases to track the subrecipient audit reports and the status of the follow-up process.

At the beginning of State Fiscal Year 16-17, RMAM misinterpreted the due date requirement for management decision letters to be distributed to non-governmental subrecipients. As a result, the due dates for some management decision letters were incorrect in the database, which ultimately led to the untimely submission of management decision letters. RMAM is working to verify the due dates listed in the database to ensure all remaining subrecipient management decision letters are issued on time.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-048.

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

**16) OSA FINDING AND RECOMMENDATION 2016-049: INADEQUATE SUBRECIPIENT MONITORING
INCREASED RISK OF WASTED FUNDS**

93.575 CHILD CARE AND DEVELOPMENT BLOCK GRANT

DIVISION OF CHILD DEVELOPMENT AND EARLY EDUCATION

Finding 2016-049: The Department did not adequately monitor \$1 billion in federal funds passed to counties, non-profits, and other organizations (collectively called subrecipients). See finding 2016-002 for a description.

Federal Award Information: This finding affects the following federal program:

- CFDA 93.575 and 93.596: Child Care and Development Fund (CCDF) Cluster
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: G1501NCCCDF, G1601NCCCDF

OSA Recommendation (see finding 2016-002): Department management should develop and use a tracking mechanism to ensure that all required subrecipient audits are reviewed, management decisions are communicated timely, and follow-up is completed.

Agency Response (see finding 2016-002): The Department agrees that the annual sub-recipient monitoring reports and audit reports were not consistently reviewed in a timely manner due to excessive employee turnover. Sub-recipient monitoring is performed throughout the life cycle of the grant award by multiple teams and includes activities in the onboarding process followed by onsite and desk reviews during the grant period and culminates in the review of annual reports and audits as noted in this finding. The Department will implement additional monthly management review procedures and temporarily reassign duties to ensure the timely completion of the review of sub-recipient annual reports and audits. Recruiting is in process to re-staff the annual report review function.

Corrective Action Plan (see finding 2016-002): The Department will complete the implementation of monthly management reports which provide status information on outstanding audit reports to be reviewed. The management reports will be reviewed by management to ensure the monitoring reviews are completed timely. Additionally, the Department will reallocate resources to conduct the reviews until the subrecipient monitoring function is sufficiently staffed.

Anticipated Completion Date: June 30, 2017

OIA Follow-up Results (see OIA Follow-up Results for finding 2016-002)

Per OIA follow-up, the Risk Management and Audit Monitoring (RMAM) team hired temporary help to review the subrecipient audit reports and issue management decision letters, and is now in the process of hiring two employees. RMAM also implemented the use of an Access databases to track the subrecipient audit reports and the status of the follow-up process.

At the beginning of State Fiscal Year 16-17, RMAM misinterpreted the due date requirement for management decision letters to be distributed to non-governmental subrecipients. As a result, the due dates for some management decision letters were incorrect in the database, which ultimately led to the untimely submission of management decision letters. RMAM is working to verify the due dates listed in the database to ensure all remaining subrecipient management decision letters are issued on time.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-049.

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

**17) OSA FINDING AND RECOMMENDATION 2016-050: INADEQUATE SUBRECIPIENT MONITORING
INCREASED RISK OF WASTED FUNDS**

93.596 CHILD CARE MANDATORY AND MATCHING FUNDS OF THE CHILD CARE AND
DEVELOPMENT BLOCK GRANT
DIVISION OF CHILD DEVELOPMENT AND EARLY EDUCATION

Finding 2016-050: The Department did not adequately monitor \$1 billion in federal funds passed to counties, non-profits, and other organizations (collectively called subrecipients). See finding 2016-002 for a description.

Federal Award Information: This finding affects the following federal program:

- CFDA 93.575 and 93.596: Child Care and Development Fund (CCDF) Cluster
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: G1501NCCCDF, G1601NCCCDF

OSA Recommendation (see finding 2016-002): Department management should develop and use a tracking mechanism to ensure that all required subrecipient audits are reviewed, management decisions are communicated timely, and follow-up is completed.

Agency Response (see finding 2016-002): The Department agrees that the annual sub-recipient monitoring reports and audit reports were not consistently reviewed in a timely manner due to excessive employee turnover. Sub-recipient monitoring is performed throughout the life cycle of the grant award by multiple teams and includes activities in the onboarding process followed by onsite and desk reviews during the grant period and culminates in the review of annual reports and audits as noted in this finding. The Department will implement additional monthly management review procedures and temporarily reassign duties to ensure the timely completion of the review of sub-recipient annual reports and audits. Recruiting is in process to re-staff the annual report review function.

Corrective Action Plan (see finding 2016-002): The Department will complete the implementation of monthly management reports which provide status information on outstanding audit reports to be reviewed. The management reports will be reviewed by management to ensure the monitoring reviews are completed timely. Additionally, the Department will reallocate resources to conduct the reviews until the subrecipient monitoring function is sufficiently staffed.

Anticipated Completion Date: June 30, 2017

OIA Follow-up Results (see OIA Follow-up Results for finding 2016-002)

Per OIA follow-up, the Risk Management and Audit Monitoring (RMAM) team hired temporary help to review the subrecipient audit reports and issue management decision letters, and is now in the

process of hiring two employees. RMAM also implemented the use of an Access databases to track the subrecipient audit reports and the status of the follow-up process.

At the beginning of State Fiscal Year 16-17, RMAM misinterpreted the due date requirement for management decision letters to be distributed to non-governmental subrecipients. As a result, the due dates for some management decision letters were incorrect in the database, which ultimately led to the untimely submission of management decision letters. RMAM is working to verify the due dates listed in the database to ensure all remaining subrecipient management decision letters are issued on time.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-050.

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

18) OSA FINDING AND RECOMMENDATION 2016-051: INADEQUATE SUBRECIPIENT MONITORING INCREASED RISK OF WASTED FUNDS

93.667 SOCIAL SERVICES BLOCK GRANT

DIVISION OF SOCIAL SERVICES

Finding 2016-051: The Department did not adequately monitor \$1 billion in federal funds passed to counties, non-profits, and other organizations (collectively called subrecipients). See finding 2016-002 for a description.

Federal Award Information: This finding affects the following federal program:

- CFDA 93.667: Social Services Block Grant (SSBG)
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: G-1401NCSOSR, G-1501NCSOSR

OSA Recommendation (see finding 2016-002): Department management should develop and use a tracking mechanism to ensure that all required subrecipient audits are reviewed, management decisions are communicated timely, and follow-up is completed.

Agency Response (see finding 2016-002): The Department agrees that the annual sub-recipient monitoring reports and audit reports were not consistently reviewed in a timely manner due to excessive employee turnover. Sub-recipient monitoring is performed throughout the life cycle of the grant award by multiple teams and includes activities in the onboarding process followed by onsite and desk reviews during the grant period and culminates in the review of annual reports and audits as noted in this finding. The Department will implement additional monthly management review procedures and temporarily reassign duties to ensure the timely completion of the review of sub-recipient annual reports and audits. Recruiting is in process to re-staff the annual report review function.

Corrective Action Plan (see finding 2016-002): The Department will complete the implementation of monthly management reports which provide status information on outstanding audit reports to be reviewed. The management reports will be reviewed by management to ensure the monitoring

reviews are completed timely. Additionally, the Department will reallocate resources to conduct the reviews until the subrecipient monitoring function is sufficiently staffed.

Anticipated Completion Date: June 30, 2017

OIA Follow-up Results (see OIA Follow-up Results for finding 2016-002)

Per OIA follow-up, the Risk Management and Audit Monitoring (RMAM) team hired temporary help to review the subrecipient audit reports and issue management decision letters, and is now in the process of hiring two employees. RMAM also implemented the use of an Access databases to track the subrecipient audit reports and the status of the follow-up process.

At the beginning of State Fiscal Year 16-17, RMAM misinterpreted the due date requirement for management decision letters to be distributed to non-governmental subrecipients. As a result, the due dates for some management decision letters were incorrect in the database, which ultimately led to the untimely submission of management decision letters. RMAM is working to verify the due dates listed in the database to ensure all remaining subrecipient management decision letters are issued on time.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-051.

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

19) OSA FINDING AND RECOMMENDATION 2016-052: ERRORS IN CHILDREN’S HEALTH INSURANCE PROVIDER BILLING AND PAYMENT PROCESS

93.767 CHILDREN’S HEALTH INSURANCE PROGRAM
DIVISION OF MEDICAL ASSISTANCE

Finding 2016-052: The Department made an estimated \$6.7 million net overpayment to Children’s Health Insurance Program (CHIP) providers during state fiscal year 2016. During that period, the Department processed more than 13 million payments for services totaling \$437 million.

Auditors reviewed a statistical sample of 277 fee-for-service payments totaling approximately \$2.7 million and identified nine (3.3%) payments that contained errors. Specifically:

- 6 (2.2%) claims lacked sufficient documentation to support either the dates of service or the level of service rendered. The result was a net overpayment of \$4,211 (federal share \$4,185).
- 3 (1.1%) claims lacked evidence that the patient’s third party insurance was considered in determining recipient eligibility. The result was an overpayment of \$1,525 (federal share \$1,485).

As a result, the Department overpaid an estimated \$6.7 million that could have been used to provide additional services to other eligible beneficiaries or reduce overall program cost. Additionally, the overpayments of \$5,736 (federal share \$5,670) found in the sample are being questioned.

According to Department management, there were various reasons for the six documentation errors, including billing clerical errors, lack of proper record retention, and coding inconsistencies. However, the Department has not completed its evaluation of the errors.

Additionally, per the Department, the other errors were the result of a computer system defect. NC FAST did not allow insurance information input directly into NCTracks to be interfaced back to NC FAST, where eligibility determinations are made.

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

Additionally, providers sign an agreement that requires them to maintain records disclosing the extent of services furnished to recipients and, on request, furnish the records to the Department.

Further, recipients with third party insurance are not eligible for CHIP.

This finding was reported in the 2015 Statewide Single Audit as finding number 2015-075.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.767 (Children's Health Insurance Program); Federal Award Number (Award Period): 05-1505NC5021 (fiscal year ended September 30, 2015) and 05-1605NC5021 (fiscal year ended September 30, 2016).

OSA Recommendations: Department management should analyze each error and take immediate and appropriate corrective action including, but not limited to, education of providers, on-site or focused reviews, and limit the amount of time for submitting the requested documentation.

Further, Department management should ensure the proper and timely implementation of system changes to correct interface concerns.

Identified over and underpaid claims should be followed up for timely and appropriate collection or payment.

Agency Response: The Department concurs with the findings. The Payment Error Measurement Rate (PERM) program administered by CMS, consistently identifies insufficient/improper documentation as the most prevalent error that providers make in Medicaid billing nationwide. The Department routinely provides education to providers which details compliance requirements for federal, state and local regulatory rules and/or laws.

The Department will reiterate to providers the requirement to maintain proper documentation to support the medical necessity and proper coding of services billed to the Children's Health Insurance Program (CHIP). The Department delivers ongoing education via the monthly Medicaid Bulletin, NCTracks Provider Portal and other communication venues. The Department will review the claim errors cited in the report to determine which errors may be resolved by requiring additional documentation from the providers. Appropriate recoupment efforts will be made as necessary.

Program changes in the NC Fast system will be implemented to include Third Party Liability data received from NCTracks to be used by the counties in making eligibility determinations.

Corrective Action Plan: The Federal Payment Error Rate Measurement program consistently identifies insufficient/improper documentation as the most prevalent national error that providers make in Medicaid billing nationwide. For that reason, DMA maintains multiple avenues of constant education and monitoring for such errors by North Carolina providers.

The Division will address the issue of insufficient/improper documentation with providers utilizing the following venues:

- Issue a special Medicaid Bulletin reiterating the requirement to maintain sufficient and appropriate documentation to support billing for services rendered.
- Periodically emphasize the Department's provision of on-line NCTracks training for new provider employees in the monthly communications to Medicaid providers.
- Formally encourage providers to require on-line NCTracks training for new employees via Provider letters.
- Review the audit findings directly with the associated providers and require development of corrective action plans.

Anticipated Completion Date: December 31, 2017

The Department's Division of Medical Assistance (DMA) has created a customer service request (CSR) ticket to capture Third Party Insurance data within the NCFast system. A work group is being organized to provide detailed business rules and logic to NCFast staff to ensure Third Party Insurance is identified appropriately to prevent future inaccurate eligibility determinations in the NC Health Choice/CHIP program. Once this new process is initiated, NCFast will document the change through a job aid and distribute to all 100 counties. The Division of Social Services (DSS) Operational Support Team (OST) will follow up with counties on the change in Third Party Insurance system status for improved eligibility.

DMA Beneficiary Services and DSS OST will continue to provide training, monitoring, and guidance to each county Department of Social Services (DSS) to ensure the accuracy of eligibility determinations and the proper maintenance of supporting documentation. This process was initiated in June 2016, and determined to be a successful strategy and will, therefore, continue as an ongoing action.

During January 2017, DMA Beneficiary Services and DSS OST began monitoring the counties to ensure that applications are adequately processed and documented to adhere to federal guidelines. For counties that do not meet appropriate timeliness rates on their applications (reviewed at monthly and quarterly intervals), OST staff will meet with them for technical assistance training and review.

Appropriate collection or payment will be made as required.

Anticipated Completion Date: June 30, 2017

OIA Follow-up Results

Per OIA follow-up, with regards to documentation errors, the Division of Medical Assistance (DMA), has included guidance on proper documentation and emphasized the availability of online NCTracks training in monthly Medicaid Bulletins. DMA also initiated a customer service request (CSR) to capture third party insurance data within NC FAST and has continued to provide training, monitoring, and guidance to each county's Department of Social Services.

DMA plans to complete the following by December 31, 2017:

- Provide specific guidance to providers on documentation and coding requirements.
- Encourage providers to require NCTracks training for new employees.
- Document individual provider plans of correction.
- Begin recoupment efforts for cited over/underpayment.

DMA created the Customer Service Request (CSR) ticket to capture third party insurance data within NC FAST; however, the system change and related job aid have not yet been implemented.

DMA has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-052.

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

20) OSA FINDING AND RECOMMENDATION 2016-053: DEFICIENCIES IN COUNTY ELIGIBILITY DETERMINATION PROCESS

93.767 CHILDREN'S HEALTH INSURANCE PROGRAM
DIVISION OF MEDICAL ASSISTANCE

Finding 2016-053: The Department made some Children's Health Insurance Program (CHIP) payments to recipients based on inaccurate and inadequately documented eligibility determinations. During the audit period, approximately 250,000 recipients received \$437 million in medical benefits from the CHIP program.

The task of determining eligibility for the CHIP program has been delegated to the county department of Social Services. Therefore, Certified Public Accountant (CPA) firms audited county offices and tested 1,532 case files. CPAs found one or more errors in 86 (5.6%) case files. Specifically:

- 60 (3.9%) client files did not contain all the required eligibility documentation. These case files were missing proof of citizenship, online verification documentation, support for eligibility calculations, etc.
- 18 (1.2%) client files were missing eligibility calculations or contained inaccurate calculations for data such as income.
- 9 (0.6%) client files contained ineligible recipients during the coverage period. These case files included inaccurate eligibility determination calculations and inaccurate program certifications.

- 8 (0.5%) client file was missing and the eligibility determination could not be substantiated.

As a result, the Department paid at least \$13,499 in error that could have been used to provide services to eligible participants. The total likely error for the State's CHIP program could not be statistically determined since each county was tested as a separate population by the CPA firms.

According to Department management, two factors contributed to these errors. First, the Department did not provide adequate, formal training to ensure all county departments of social services are determining eligibility correctly and consistently.

Second, the Department did not effectively monitor eligibility determinations performed by the county departments of social services. As a result, the Department could not ensure that the counties made accurate eligibility determinations and maintained proper documentation in the case file for the traditional cases.

Federal regulations require documentation be obtained as needed to determine if a recipient meets the specific income standards and documentation must be maintained to support eligibility determinations.

This was reported in the 2015 Statewide Single Audit as finding number 2015-078. *Federal Award Information:* Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.767 (Children's Health Insurance Program); Federal Award Number (Award Period): 05-1505NC5021 (fiscal year ended September 30, 2015) and 05-1605NC5021 (fiscal year ended September 30, 2016).

OSA Recommendations: Department management should ensure eligibility determinations are performed accurately and are adequately documented. Specifically:

- Department management should develop and provide training to the county departments of social services on the requirements for eligibility determinations, including proper documentation.
- Department management should also monitor eligibility determinations of the county department of social services to ensure traditional eligibility determinations are completed accurately and supporting documentation is maintained in case files.

Agency Response: The Department is currently amid a focused review of the eligibility determination process administered by the county departments of social services. Effective June 1, 2016, the Department required each county DSS office to establish an approved quality assurance plan and conduct second party reviews of applications and re-certifications monthly. Additionally, the Department has engaged the Association of County Commissioners and the Association of Directors of Social Services to collaboratively develop a plan to improve the counties' accuracy in administering eligibility determination for the CHIP program.

The Department is implementing standardized training on CHIP Policy utilizing the Learning Gateway within the NC FAST system. The Department now requires all new and existing county DSS staff to complete the training via the Learning Gateway.

The Department is currently reviewing the errors noted and upon validation, will require the county DSS to submit a corrective action plan that addresses the maintenance of proper documentation in their file.

The Department will submit to the Secretary monthly updates on the progress of the corrective action plan.

Corrective Action Plan: To promote compliance, second party reviews and CHIP trainings are conducted consistently among all 100 counties, The Department will provide the county Department of Social Services [DSS] staff with the following training and tracking tools:

- The Department and the Operational Support Team [OST] will work closely with DSS to provide formal CHIP policy training modules, which will be placed in the NCFast Learning Gateway portal used with the counties' current formal training process.
- A new 2nd Party Review Sheet along with required documents has been created for county department of social services to use to capture identified eligibility elements consistently. The Department will require counties to begin testing the new tools in March 2017 to transition for the new second party review stats which begins in the 4th SFY 2017 QTR (4/1/2017 – 6/30/2017).
- DMA has implemented a required minimum number of cases to be reviewed quarterly by county department of social services. This will ensure an equal sample of cases are reviewed based on county Medicaid/NCHC population size.
- DMA will receive quarterly quality assurance summary findings to be shared with OST to be used for Cluster Training Meetings or other contacts with the counties.
- The OST is assigned to all counties for monitoring the counties for performance accuracy and timeliness standards, provide program support, policy guidance, on-site consultations and technical assistance.
- The Department will continue to provide training through OST with webinars, onsite visits, and follow-up calls, technical support and other available avenues. Implementation of these measures will provide more consistency among counties and identification of error trends to analyze and create any additional internal controls for accuracy.

Anticipated Completion Date: June 30, 2017

OIA Follow-up Results

Per OIA follow-up, the Division of Medical Assistance (DMA) and the Operational Support Team (OST) have provided formal policy training via the NC FAST Learning Gateway to the county Departments of Social Services (DSS). The policy training modules address eligibility issues, including income calculations.

DMA began requiring each county DSS office to conduct second party reviews using a new Second-Party Review Sheet. Counties are provided guidelines in selecting a minimum number of cases to

review. Results are submitted to the State quarterly. DMA consolidates the findings and provides instructions through "Dear County Letters" for counties to implement additional training in the deficient areas noted.

DMA has implemented cluster meetings based on the results of second-party reviews, assigned OST representatives to each county for monitoring and support, and has continued to provide training through OST webinars and site-visits.

DMA has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-053. DMA still needs to recoup questioned costs.

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

**21) OSA FINDING AND RECOMMENDATION 2016-054: INADEQUATE SUBRECIPIENT MONITORING
INCREASED RISK OF WASTED FUNDS**

93.767 CHILDREN'S HEALTH INSURANCE PROGRAM

DIVISION OF MEDICAL ASSISTANCE

Finding 2016-054: The Department did not adequately monitor \$1 billion in federal funds passed to counties, non-profits, and other organizations (collectively called subrecipients). See finding 2016-002 for a description.

Federal Award Information: This finding affects the following federal program:

- CFDA 93.767: Children's Health Insurance Program (CHIP)
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: 05-1505NC5021, 05-1605NC5021

OSA Recommendation (see finding 2016-002): Department management should develop and use a tracking mechanism to ensure that all required subrecipient audits are reviewed, management decisions are communicated timely, and follow-up is completed.

Agency Response (see finding 2016-002): The Department agrees that the annual sub-recipient monitoring reports and audit reports were not consistently reviewed in a timely manner due to excessive employee turnover. Sub-recipient monitoring is performed throughout the life cycle of the grant award by multiple teams and includes activities in the onboarding process followed by onsite and desk reviews during the grant period and culminates in the review of annual reports and audits as noted in this finding. The Department will implement additional monthly management review procedures and temporarily reassign duties to ensure the timely completion of the review of sub-recipient annual reports and audits. Recruiting is in process to re-staff the annual report review function.

Corrective Action Plan (see finding 2016-002): The Department will complete the implementation of monthly management reports which provide status information on outstanding audit reports to be reviewed. The management reports will be reviewed by management to ensure the monitoring reviews are completed timely. Additionally, the Department will reallocate resources to conduct the reviews until the subrecipient monitoring function is sufficiently staffed.

Anticipated Completion Date: June 30, 2017

OIA Follow-up Results (see OIA Follow-up Results for finding 2016-002)

Per OIA follow-up, the Risk Management and Audit Monitoring (RMAM) team hired temporary help to review the subrecipient audit reports and issue management decision letters, and is now in the process of hiring two employees. RMAM also implemented the use of an Access databases to track the subrecipient audit reports and the status of the follow-up process.

At the beginning of State Fiscal Year 16-17, RMAM misinterpreted the due date requirement for management decision letters to be distributed to non-governmental subrecipients. As a result, the due dates for some management decision letters were incorrect in the database, which ultimately led to the untimely submission of management decision letters. RMAM is working to verify the due dates listed in the database to ensure all remaining subrecipient management decision letters are issued on time.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-054.

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

22) OSA FINDING AND RECOMMENDATION 2016-055: ERRORS IN MEDICAID PROVIDER BILLING AND PAYMENT PROCESS

93.778 MEDICAL ASSISTANCE PROGRAM

DIVISION OF MEDICAL ASSISTANCE

Finding 2016-055: The Department made an estimated \$166.2 million net overpayment to Medicaid providers during state fiscal year 2016. During that period, the Department processed more than 127 million payments for services totaling \$11 billion.

Auditors reviewed a statistical sample of 437 fee-for-service payments totaling approximately \$12.6 million and identified 21 (4.8%) payments that contained errors. Specifically:

- 8 (1.8%) claims lacked sufficient documentation to support either the dates of service or the level of service rendered (most claims were paid for a higher level of service than actually provided and some were paid for a lower level of service than actually provided). The result was a net underpayment of \$4,620 (federal share \$3,072).
- 4 (0.9%) claims were not voided and reprocessed when a retroactive rate change was implemented. The result was net underpayment of \$11 (federal share \$7).
- 3 (0.7%) claims lacked evidence that the patient's third party insurance was applied prior to payment by Medicaid. The result was an overpayment of \$10,138 (federal share \$6,715).
- 3 (0.7%) claims did not have patient liability amounts applied to payments in NCTracks. The result was a net overpayment of \$501 (federal share \$331).
- 2 (0.5%) claims lacked evidence that the required approvals were attained before services were rendered. The result was an overpayment of \$634 (federal share \$418).

- 1 (0.2%) claim was calculated and paid using an incorrect Medicare payment methodology. The result was overpayment of \$477 (federal share \$314).

As a result, the Department overpaid an estimated \$166.2 million that could have been used to provide additional services to other eligible beneficiaries or reduce overall program cost. Additionally, the overpayments of \$7,119 (federal share \$4,699) found in the sample are being questioned.

According to Department management, there were various reasons for the eight documentation errors, including billing clerical errors, lack of proper record retention, and coding inconsistencies. However, the Department has not completed its evaluation of the errors.

Additionally, per the Department, other errors were the result of the following: the Department did not implement payment rate and methodology changes timely and system edits that were supposed to verify prior approval and patient liability amounts did not function in NCTracks as originally planned.

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

Additionally, providers sign an agreement that requires them to maintain records disclosing the extent of services furnished to recipients and, on request, furnish the records to the Department.

This finding was reported in the 2015 Statewide Single Audit as finding number 2015-081.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.778 (Medical Assistance Program); Federal Award Number (Award Period): 05-1505NC5MAP (fiscal year ended September 30, 2015) and 05-1605NC5MAP (fiscal year ended September 30, 2016).

OSA Recommendations: Department management should analyze each error and take immediate and appropriate corrective action including, but not limited to, education of providers, on-site or focused reviews, and limit the amount of time for submitting the requested documentation.

Further, Department management should ensure the proper and timely implementation of system changes, including effective payment edits.

Identified over and underpaid claims should be followed up for timely and appropriate collection or payment.

Agency Response: The Department concurs with the finding. The Payment Error Measurement Rate (PERM) program administered by CMS, consistently identifies insufficient/improper documentation as the most prevalent error that providers make in Medicaid billing nationwide. The Department routinely provides education to providers which details compliance requirements for federal, state and local regulatory rules and/or laws.

The Department will reiterate to providers the requirement to maintain proper documentation to support the medical necessity and proper coding of services billed to the Medicaid Program. The

Department delivers ongoing education via the monthly Medicaid Bulletin, NCTracks Provider Portal and other communication venues. The Department will review the claim errors cited in the report to determine which errors may be resolved by requiring additional documentation from the providers. Appropriate recoupment efforts will be made as necessary.

The Department is continuing the reprocessing of claims previously mentioned in the SFY 2015 Single Audit to address the retroactive rate changes which were not recouped/repaid prior to the SFY 2015 fiscal year end. The correct payment methodology was implemented during SFY 2016 and the reprocessing of the claims will resolve the overpayment issues. Additionally, changes to the processing of crossover claims were implemented in September 2016 to ensure Medicare payment methodologies are correct.

Program changes in the NC Fast system will be implemented to include Third Party Liability data received from NCTracks to be used by the counties in making eligibility determinations.

The Department will continue to provide updates and training to county DSS offices regarding proper recording of patient monthly liability in NCTracks.

Corrective Action Plan: Implemented rate changes were not recouped/repaid prior to fiscal year end; therefore, the errors identified in 2015 rolled into the 2016 Office of State Auditor Single Claim audit. The reprocessing of claims and implementation of the correct methodology shall bring the deficiencies into compliance within the identified completion date.

DMA Provider Reimbursement generated File Maintenance Request (FMR) 4174 to address the reprocessing of claims that were previously paid at the incorrect rate. The correct codes were implemented in the NCTracks system in April 2016, which was after the claim was originally paid. The process is scheduled to begin in April 2017 and should be completed by December 31, 2017. Claims reprocessing will correct the payments that were previously paid in error. DMA Provider Reimbursement will track the FMR status in Sharenet and will confirm completion when the FMR is implemented.

Claim reprocessed under CSR 1871 on 9/20/16 and paid \$37.25 using the lessor of logic. This was identified as an error because the reprocessing did not occur prior to 6/30/16. To mitigate any future risk, this CSR will correctly reimburse claims that were previously paid using the incorrect pricing logic. The lessor of logic methodology was implemented in NCTracks in November 2015 under CSR 1871 and will be used to price crossover claims going forward. Periodic claims review will be conducted to monitor and evaluate the corrective action. Currently in compliance, as the claim was reprocessed on September 20, 2016.

Pharmacy claims are reimbursed at the (SMAC) State Maximum Allowable Cost rates in the system at the time of payment. DMA Provider Reimbursement doesn't systematically reprocess claims because of retroactive SMAC (State Maximum Allowable Cost) rates due to the volume. However, pharmacies may reverse and rebill claims to obtain the retroactive rate. To mitigate any future risk, SMAC rates are occasionally adjusted on an ad hoc basis, based on provider reports on costs changes between the quarterly review cycle. When this occurs, providers will be notified and reminded of the claims adjustment process. DMA will monitor by continually informing providers of their ability to submit adjustment claims when SMAC rates are updated after a claims date of service. The correct SMAC rate was updated in NCTracks on 8/11/15.

Anticipated Completion Date: December 31, 2017

The Federal Payment Error Rate Measurement program consistently identifies insufficient/improper documentation as the most prevalent national error that providers make in Medicaid billing nationwide. For that reason, DMA maintains multiple avenues of constant education and monitoring for such errors by North Carolina providers.

As corrective action for the audit findings, the Division will address insufficient/improper documentation with providers:

- As part of scheduled written communications to Medicaid providers, starting immediately.
- By emphasizing the Department's provision of on-line NCTracks training for new provider employees in scheduled written communications to Medicaid providers.
- By asking providers to require on-line NCTracks training for new employees in Provider letters.
- By making the audit findings directly available to providers, along with advice for development of individual provider plans of correction.

Anticipated Completion Date: December 31, 2017

Prior approval issues were identified in the 2016 OSA Single Claim audit. The Agency will adhere to the following corrections to eliminate future potential error findings:

- In January of 2017, the Division announced to providers a tightening of policy regarding prior approvals, and referred all providers to free, Department-provided special training on this issue. (see Medicaid Bulletin, January 2017, pg. 3). Although this point has been addressed and further corrective action on the audit findings is not specifically indicated, the Division will continue to provide education and raise awareness with providers on this issue.
- The Division is providing specific provider education on prior approval via web seminar.

Anticipated Completion Date: March 16, 2017

The Office of the State Auditor Single Audit report identified three claim errors with Patient Monthly Liability (PML) amounts applied in NCTracks. By implementing the following corrective actions, the errors will be brought into compliance by the completion date indicated.

A defect in the eligibility system was identified and a task force was created to review PML issues and correct the defect for error. The defect EI-1490 was a duplicate of EI-12889 and has been in production since September, 2015. Due to the system defect and keying error in NCFast, the PML balance was not applied in NC FAST. The Eligibility Coverage Code was incorrectly applied as a response to changes. Training to correct the issues will be brought into compliance by the completion date and ongoing. The system manager is responsible for any ongoing monitoring or issues related to PML.

The patient monthly liability amount was not applied since it was not noted in NCTracks until after the claims date of service was determined by the department. All systems were correct and the correct PML was in NCTracks on 5/18/16. It was classified by the department as a provider billing error and Provider Reimbursement was notified.

DMA has since notified the county DSS offices of the release date and conducted PML training with all 100 counties via a webinar. The Operational Systems Team [OST] completed a PowerPoint training on Medicaid Long Term Care (LTC) for all counties to use moving forward. DMA will continue to provide updates on the PML process to local county DSS offices.

Anticipated Completion Date: September 2015 and ongoing

Third-Party Insurance Issues identified in the 2016 Office of the State Auditor Single Audit report include two paid claim issues and vendor recovery from Medicare. By implementing the following corrective actions, the errors will be cured by the completion date indicated.

The CareMark policy was forwarded to HMS (the TPR vendor) on June 23, 2016. The recipient had prescription drug insurance added to NCTracks after the claim paid and recovery was not attempted prior to year-end. The quantity for the prescription in question was not included on the file feed that HMS received from the fiscal agent (CSRA). To mitigate any future risk, HMS has been instructed to notify DMA Third Party Unit when there is any missing information needed to pursue recovery. This process will be monitored by the DMA's TPL Quality Assurance staff monthly. This issue has also been communicated during the HMS monthly client meeting.

Recipient had third party insurance that was not applied prior to filing claim with Medicaid. An email was sent to HMS to determine if recovery was pursued for the claim in question. Once it was confirmed that the recovery was not pursued, the vendor filed the claim with Cigna insurance; this claim is currently open pending payment. To mitigate any future risk, HMS has been instructed to cross reference all policies added to NCTracks to the vendor commercial insurance recovery file. This process will ensure that DMA identifies liable third parties who are responsible for paying Medicaid recipients' medical bills. This issue is also communicated during the HMS monthly client meeting.

Finally, HMS has begun to utilize the Global Eligibility Files (GEF) to enhance the identification of Medicare eligibility data beyond that provided by the MMA (Medicare Modernization Act) and EDB (Enrollment Database) files. HMS is redesigning its data intake and Medicare Disallowance process to identify claims that should be coordinated with Medicare. This enhanced process verifies that the recouped amount being invoiced is the same amount processed and completed by CSRA. If any discrepancies are found they are reported to HMS for correction. This process will be monitored by DMA's TPL Quality Assurance staff monthly. This issue will continue to be tracked for discussion during our recurring HMS monthly client meetings.

Anticipated Completion Date: March 31, 2017

OIA Follow-up Results

Per OIA follow-up, the Division of Medical Assistance (DMA) has generated a customer service request to reprocess claims that were previously paid at the incorrect rate, and also implemented the correct Medicare payment methodology. DMA has not completed the reprocessing of claims that paid

at an incorrect rate. In addition, DMA has not provided guidance to providers on their ability to submit adjustments when the State Maximum Allowable Cost rates are updated after a claim's date of service, or documented its periodic claims reviews.

Though DMA has provided some guidance on proper documentation, DMA has not provided specific guidance to providers on documentation and coding requirements. DMA has emphasized the availability of online NCTracks training in monthly Medicaid Bulletins but they have not encouraged providers to require NCTracks training for new employees. In addition, DMA did not make the audit findings available to providers or provide advice for the development of individual provider plans of correction.

To address issues with prior approvals, DMA has referred providers to training on prior approvals via a Medicaid Bulletin, but has not yet provided specific education on prior approval via a web seminar.

DMA provided the Third-Party Recovery vendor with instructions regarding third party insurance issues. DMA also continued monitoring the Third-Party Recovery vendor's monthly invoices, and ensured that the Third-Party Recovery vendor began using the Global Eligibility Files to improve identification of Medicare eligibility data.

Recoupment efforts for cited over/underpayment have not begun as yet.

DMA has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-055.

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

23) OSA FINDING AND RECOMMENDATION 2016-056: DEFICIENCIES IN COUNTY ELIGIBILITY DETERMINATION PROCESSES

93.778 MEDICAL ASSISTANCE PROGRAM

DIVISION OF MEDICAL ASSISTANCE

Finding 2016-056: The Department made some Medical Assistance Program (Medicaid) payments to recipients based on inaccurate and inadequately documented eligibility determinations. During the audit period, approximately 1.9 million recipients received \$11 billion in Medicaid benefits.

The task of determining eligibility for the Medicaid program has been delegated to the county departments of social services. Therefore, Certified Public Accountant (CPA) firms audited county offices and tested 5,990 case files. CPAs found one or more errors in 312 (5.2%) client files. Specifically:

- 221 (3.7%) client files did not contain all the required eligibility documentation. These case files were missing signed applications, proof of residency, proof of citizenship, and online verification documentation.

- 102 (1.7%) client files were missing eligibility determination calculations or contained inaccurate calculations for data such as income.
- 33 (0.6%) client files were missing, and the eligibility determinations could not be substantiated.
- 17 (0.3%) client files contained ineligible recipients during the coverage period. These case files included incorrect certification periods, inaccurate eligibility determination calculations, inaccurate program certifications, and untimely termination of cases.

As a result, the Department paid at least \$963,881 in error that could have been used to provide services to eligible participants. The total likely error for the State's Medicaid program could not be statistically determined since each county was tested as a separate population by the CPA firms.

According to Department management, two factors contributed to these errors.

First, the Department did not provide adequate, formal training to ensure all county departments of social services were determining eligibility correctly and consistently.

Second, the Department did not effectively monitor eligibility determinations performed by the county departments of social services. As a result, the Department could not ensure that the counties made accurate eligibility determinations and maintained proper documentation in the case file for the traditional cases.

Federal regulations require documentation be obtained as needed to determine if a recipient meets specific income standards and documentation must be maintained to support eligibility determinations.

This was reported in the 2015 Statewide Single Audit as finding number 2015-083.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.778 (Medical Assistance Program); Federal Award Number (Award Period): 05-1505NC5MAP (fiscal year ended September 30, 2015) and 05-1605NC5MAP (fiscal year ended September 30, 2016).

OSA Recommendations: Department management should ensure eligibility determinations are performed accurately and are adequately documented. Specifically:

- Department management should develop and provide training to the county departments of social services on the requirements for eligibility determinations, including proper documentation.
- Department management should also monitor eligibility determinations of the county department of social services to ensure traditional eligibility determinations are completed accurately and supporting documentation is maintained in case files.

Agency Response: The Department is currently amid a focused review of the eligibility determination process administered by the county departments of social services. Effective June 1,

2016, the Department required each county DSS office to establish an approved quality assurance plan and conduct second party reviews of applications and re-certifications monthly. Additionally, the Department has engaged the Association of County Commissioners and the Association of Directors of Social Services to collaboratively develop a plan to improve the counties' accuracy in administering eligibility determination for the Medicaid program.

The Department is implementing standardized training on Medicaid Policy utilizing the Learning Gateway within the NC FAST system. The Department now requires all new and existing county DSS staff to complete the training via the Learning Gateway.

The Department is currently reviewing the errors noted and upon validation, will require the county DSS to submit a corrective action plan that addresses the maintenance of proper documentation in their file.

The Department will submit to the Secretary monthly updates on the progress of the corrective action plan.

Corrective Action Plan: To promote compliance, second party reviews and Medicaid trainings are conducted consistently among all 100 counties, The Department will provide the county Department of Social Services [DSS] staff with the following training and tracking tools:

- The Department and the Operational Support Team [OST] will work closely with DSS to provide formal Medicaid policy training modules, which will be placed in the NCFast Learning Gateway portal used with the counties' current formal training process.
- A new 2nd Party Review Sheet along with required documents has been created for county department of social services to use to capture identified eligibility elements consistently. The Department will require counties to begin testing the new tools in March 2017 to transition for the new second party review stats which begins in the 4th SFY 2017 QTR (4/1/2017 – 6/30/2017).
- DMA has implemented a required minimum number of cases to be reviewed quarterly by county department of social services. This will ensure an equal sample of cases are reviewed based on county Medicaid/NCHC population size.
- DMA will receive quarterly quality assurance summary findings to be shared with OST to be used for Cluster Training Meetings or other contacts with the counties.
- The OST is assigned to all counties for monitoring the counties for performance accuracy and timeliness standards, provide program support, policy guidance, on-site consultations and technical assistance.
- The Department will continue to provide training through OST with webinars, onsite visits, and follow-up calls, technical support and other available avenues. Implementation of these measures will provide more consistency among counties and identification of error trends to analyze and create any additional internal controls for accuracy.

Anticipated Completion Date: June 30, 2017

OIA Follow-up Results

Per OIA follow-up, the Division of Medical Assistance (DMA) and the Operational Support (OST) have provided formal policy training via the NC FAST Learning Gateway to the county Departments of Social Services (DSS). The policy training modules address eligibility issues, including income calculations.

DMA began requiring each county DSS office to conduct second party reviews using a new Second Party Review Sheet. Counties are provided guidelines in selecting a minimum number of cases to review. Results are submitted to the State quarterly. DMA consolidates the findings and provides instructions through "Dear County Letters" for counties to implement additional training in the deficient areas noted.

DMA has implemented cluster meetings based on the results of second-party reviews, assigned OST representatives to each county for monitoring and support, and has continued to provide training through OST webinars and site-visits.

DMA has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-056. DMA still need to recoup questioned costs.

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

24) OSA FINDING AND RECOMMENDATION 2016-057: INADEQUATE SUBRECIPIENT MONITORING INCREASED RISK OF WASTED FUNDS 93.778 MEDICAL ASSISTANCE PROGRAM DIVISION OF MEDICAL ASSISTANCE

Finding 2016-057: The Department did not adequately monitor \$1 billion in federal funds passed to counties, non-profits, and other organizations (collectively called subrecipients). See finding 2016-002 for a description.

Federal Award Information: This finding affects the following federal program:

- CFDA 93.778: Medical Assistance Program (Medicaid)
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: 05-1505NC5MAP, 05-1605NC5MAP, 05-1505NC5ADM, 05-1605NC5ADM

OSA Recommendation (see finding 2016-002): Department management should develop and use a tracking mechanism to ensure that all required subrecipient audits are reviewed, management decisions are communicated timely, and follow-up is completed.

Agency Response (see finding 2016-002): The Department agrees that the annual sub-recipient monitoring reports and audit reports were not consistently reviewed in a timely manner due to excessive employee turnover. Sub-recipient monitoring is performed throughout the life cycle of the grant award by multiple teams and includes activities in the onboarding process followed by onsite and desk reviews during the grant period and culminates in the review of annual reports and audits as noted in this finding. The Department will implement additional monthly management

review procedures and temporarily reassign duties to ensure the timely completion of the review of sub-recipient annual reports and audits. Recruiting is in process to re-staff the annual report review function.

Corrective Action Plan (see finding 2016-002): The Department will complete the implementation of monthly management reports which provide status information on outstanding audit reports to be reviewed. The management reports will be reviewed by management to ensure the monitoring reviews are completed timely. Additionally, the Department will reallocate resources to conduct the reviews until the subrecipient monitoring function is sufficiently staffed.

Anticipated Completion Date: June 30, 2017

OIA Follow-up Results (see OIA Follow-up Results for finding 2016-002)

Per OIA follow-up, the Risk Management and Audit Monitoring (RMAM) team hired temporary help to review the subrecipient audit reports and issue management decision letters, and is now in the process of hiring two employees. RMAM also implemented the use of an Access databases to track the subrecipient audit reports and the status of the follow-up process.

At the beginning of State Fiscal Year 16-17, RMAM misinterpreted the due date requirement for management decision letters to be distributed to non-governmental subrecipients. As a result, the due dates for some management decision letters were incorrect in the database, which ultimately led to the untimely submission of management decision letters. RMAM is working to verify the due dates listed in the database to ensure all remaining subrecipient management decision letters are issued on time.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-057.

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

25) OSA FINDING AND RECOMMENDATION 2016-058: NO PROCEDURES TO IDENTIFY UNDISCLOSED INCOME FOR RECIPIENTS OF HIV SERVICES

93.917 HIV CARE FORMULA GRANTS

DIVISION OF PUBLIC HEALTH

Finding 2016-058: The Department did not have procedures in place to identify unreported income for any of the 8,396 Ryan White HIV Formula Care Grant participants. They received \$22.7 million in services through the AIDS Drug Assistance Program (ADAP) during the audit period.

If participants reported income, the Department required documentation such as a recent paycheck stub, Form W-2, Form 1099, or a Social Security Benefits Letter (SA1099). The Department also required participants to complete documentation if they declared zero income.

However, the Department did not have procedures to independently verify that participants reported all income.

As a result, there was an increased risk that the Department would pay for HIV services for people who were ineligible when those services could have been provided to eligible recipients.

Individuals were ineligible if they had a gross family income that exceeded 300% of the Federal Poverty Guidelines.

In fact, the lack of independent income verification caused the Department to pay at least \$6,569 in benefits for ineligible participants who failed to disclose all income. Auditors tested the eligibility determinations for a random sample of 120 participants and found three (2.5%) who were ineligible because their incomes exceeded program limits. Specifically:

- One participant reported no income, but auditors found \$51,836 in income for one certification period. The federal limit for this person was \$35,640. The Department paid \$3,214 in benefits for this participant during the audit period.
- A second participant reported \$39,298, but auditors found \$51,660 in income for the certification period. The federal limit for this person was \$47,790. The Department paid \$2,571 in benefits for this participant during the audit period.
- A third participant reported \$33,192, but auditors found \$40,988 in income for the certification period. The federal limit for this person was \$35,310. The Department paid \$784 in benefits for this participant during the audit period.

According to Department management, staff did not have access to a system that could identify undisclosed income. The business office of the Division of Public Health (DPH), the Division that administers the program, has requested access to the Online Verification (OLV) system that auditors used to identify the unreported income. However, the Division of Social Services (DSS) has not granted DPH access. DSS provides access to the data and does not believe the data in OLV will assist DPH with income verification. DPH has not identified another source of data to use.

However, federal regulations require the Department to “establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.” An independent search for unreported income would be an effective control over compliance.

Similar aspects of this finding were reported in the 2015 Statewide Single Audit as finding number 2015-088.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.917 (HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)); Federal Award Number (award period): X07HA00051-25-00 (April 1, 2015 – March 31, 2016), X08HA16859-07-00 (September 30, 2015 – September 29, 2016).

OSA Recommendation: Department management should provide the Division of Public Health with OLV access or develop a process to verify whether participants have unreported income that would make them ineligible for the program.

Agency Response: The Department will evaluate options for independently verifying that Ryan White HIV Formula Care Grant participants report all their income when applying for benefits or

when benefits are recertified and implement one if a cost-effective process is identified that is determined to be necessary to provide reasonable assurance that the award is managed in compliance with federal requirements.

Utilizing the Online Verification (OLV) system for the purpose of determining that a Ryan White HIV Formula Care Grant participant reported all his/her income is not permitted under the terms of the Information Exchange Agreement (IEA) between the Department and the Social Security Administration (SSA). The IEA specifically states that data in the OLV provided by the SSA is owned by the SSA and that “The State Agency will use each identified data exchange system only for the purpose of administering the specific program for which access to the data exchange system is provided. SSA data exchange systems are protected by the Privacy Act and Federal law prohibits the use of SSA data for any purpose other than the purpose of administering the specific program for which such data is disclosed.” The Ryan White HIV Formula Care Grant administered by the Division of Public Health is not listed as a program for which the SSA data provided pursuant to the IEA may be used.

Thus, the Department will evaluate other options.

Corrective Action Plan: The Division of Public Health, NC FAST and the Privacy and Security Office will work collaboratively to perform the following actions:

1. Define the program and technical requirements for implementing an independent process to validate recipient income.
2. Complete a risk and cost analysis to determine the feasibility of implementing an independent process to validate recipient income.
3. Document results of risk and cost analysis to include the decision to implement or not implement.
4. If the decision is made to implement:
 - a. obtain approvals to allow for usage of required sources of income.
 - b. design and implement technical solution to allow for validation of recipient income.
 - c. update process documentation to incorporate changes.

Anticipated Completion Date: June 30, 2018

OIA Follow-up Results

Per OIA’s follow-up, the Division of Public Health (DPH), held an initial meeting to determine how to address the CAP. Representatives from DPH, Health Services Regulation, Information Technology, Division of Social Services, NC FAST, and the Office of the Internal Auditor attended the meeting. At the meeting, a decision was made to survey other States to find out what tools were being utilized to verify HIV-Care recipients’ unreported income. DPH also indicated that they planned to set up a meeting to begin work on defining the program and technical requirements for implementing an independent process to validate recipient income. At time of reporting, no formal decisions have been made by DPH on how to address the corrective action plan.

DPH reclassified the questioned costs from the Federal grant to State expenditures.

DPH has not implemented the corrective action plan and has not mitigated the risk associated with finding 2016-058.

We consider this finding unresolved with an anticipated completion date June 30, 2018.

**26) OSA FINDING AND RECOMMENDATION 2016-059: INADEQUATE SUBRECIPIENT MONITORING
INCREASED RISK OF WASTED FUNDS**

93.917 HIV CARE FORMULA GRANTS

DIVISION OF MEDICAL ASSISTANCE

Finding 2016-059: The Department did not adequately monitor \$1 billion in federal funds passed to counties, non-profits, and other organizations (collectively called subrecipients). See finding 2016-002 for a description.

Federal Award Information: This finding affects the following federal program:

- CFDA 93.917: HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: X07HA00051-25-00, X08HA16859-07-00

OSA Recommendation (see finding 2016-002): Department management should develop and use a tracking mechanism to ensure that all required subrecipient audits are reviewed, management decisions are communicated timely, and follow-up is completed.

Agency Response (see finding 2016-002): The Department agrees that the annual sub-recipient monitoring reports and audit reports were not consistently reviewed in a timely manner due to excessive employee turnover. Sub-recipient monitoring is performed throughout the life cycle of the grant award by multiple teams and includes activities in the onboarding process followed by onsite and desk reviews during the grant period and culminates in the review of annual reports and audits as noted in this finding. The Department will implement additional monthly management review procedures and temporarily reassign duties to ensure the timely completion of the review of sub-recipient annual reports and audits. Recruiting is in process to re-staff the annual report review function.

Corrective Action Plan (see finding 2016-002): The Department will complete the implementation of monthly management reports which provide status information on outstanding audit reports to be reviewed. The management reports will be reviewed by management to ensure the monitoring reviews are completed timely. Additionally, the Department will reallocate resources to conduct the reviews until the subrecipient monitoring function is sufficiently staffed.

Anticipated Completion Date: June 30, 2017

OIA Follow-up Results (see OIA Follow-up Results for finding 2016-002)

Per OIA follow-up, the Risk Management and Audit Monitoring (RMAM) team hired temporary help to review the subrecipient audit reports and issue management decision letters, and is now in the

process of hiring two employees. RMAM also implemented the use of an Access databases to track the subrecipient audit reports and the status of the follow-up process.

At the beginning of State Fiscal Year 16-17, RMAM misinterpreted the due date requirement for management decision letters to be distributed to non-governmental subrecipients. As a result, the due dates for some management decision letters were incorrect in the database, which ultimately led to the untimely submission of management decision letters. RMAM is working to verify the due dates listed in the database to ensure all remaining subrecipient management decision letters are issued on time.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-059.

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

27) OSA FINDING AND RECOMMENDATION 2016-060: INADEQUATE SUBRECIPIENT MONITORING INCREASED RISK OF WASTED FUNDS

93.958 BLOCK GRANTS FOR COMMUNITY MENTAL HEALTH SERVICES

DIVISION OF MENTAL HEALTH, DEVELOPMENT DISABILITIES AND SUBSTANCE ABUSE SERVICES

Finding 2016-060: The Department did not adequately monitor \$1 billion in federal funds passed to counties, non-profits, and other organizations (collectively called subrecipients). See finding 2016-002 for a description.

Federal Award Information: This finding affects the following federal program:

- CFDA 93.958: Block Grants for Community Mental Health Services
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: SM010032-14, SM010032-15

OSA Recommendation (see finding 2016-002): Department management should develop and use a tracking mechanism to ensure that all required subrecipient audits are reviewed, management decisions are communicated timely, and follow-up is completed.

Agency Response (see finding 2016-002): The Department agrees that the annual sub-recipient monitoring reports and audit reports were not consistently reviewed in a timely manner due to excessive employee turnover. Sub-recipient monitoring is performed throughout the life cycle of the grant award by multiple teams and includes activities in the onboarding process followed by onsite and desk reviews during the grant period and culminates in the review of annual reports and audits as noted in this finding. The Department will implement additional monthly management review procedures and temporarily reassign duties to ensure the timely completion of the review of sub-recipient annual reports and audits. Recruiting is in process to re-staff the annual report review function.

Corrective Action Plan (see finding 2016-002): The Department will complete the implementation of monthly management reports which provide status information on outstanding audit reports to be reviewed. The management reports will be reviewed by management to ensure the monitoring reviews are completed timely. Additionally, the Department will reallocate resources to conduct the reviews until the subrecipient monitoring function is sufficiently staffed.

Anticipated Completion Date: June 30, 2017

OIA Follow-up Results (see OIA Follow-up Results for finding 2016-002)

Per OIA follow-up, the Risk Management and Audit Monitoring (RMAM) team hired temporary help to review the subrecipient audit reports and issue management decision letters, and is now in the process of hiring two employees. RMAM also implemented the use of an Access databases to track the subrecipient audit reports and the status of the follow-up process.

At the beginning of State Fiscal Year 16-17, RMAM misinterpreted the due date requirement for management decision letters to be distributed to non-governmental subrecipients. As a result, the due dates for some management decision letters were incorrect in the database, which ultimately led to the untimely submission of management decision letters. RMAM is working to verify the due dates listed in the database to ensure all remaining subrecipient management decision letters are issued on time. RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-060.

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

**28) OSA FINDING AND RECOMMENDATION 2016-061: INADEQUATE SUBRECIPIENT MONITORING
INCREASED RISK OF WASTED FUNDS**

93.959 BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE

DIVISION OF MENTAL HEALTH, DEVELOPMENTAL DISABILITIES AND SUBSTANCE ABUSE SERVICES

Finding 2016-061: The Department did not adequately monitor \$1 billion in federal funds passed to counties, non-profits, and other organizations (collectively called subrecipients). See finding 2016-002 for a description.

Federal Award Information: This finding affects the following federal program:

- CFDA 93.959: Block Grants for Prevention and Treatment of Substance Abuse
 - Federal Awarding Agency: U.S. Department of Health and Human Services
 - Grant Award Number: TI010032-14, TI010032-15

OSA Recommendation (see finding 2016-002): Department management should develop and use a tracking mechanism to ensure that all required subrecipient audits are reviewed, management decisions are communicated timely, and follow-up is completed.

Agency Response (see finding 2016-002): The Department agrees that the annual sub-recipient monitoring reports and audit reports were not consistently reviewed in a timely manner due to excessive employee turnover. Sub-recipient monitoring is performed throughout the life cycle of the grant award by multiple teams and includes activities in the onboarding process followed by onsite and desk reviews during the grant period and culminates in the review of annual reports and audits as noted in this finding. The Department will implement additional monthly management review procedures and temporarily reassign duties to ensure the timely completion of the review of sub-recipient annual reports and audits. Recruiting is in process to re-staff the annual report review function.

Corrective Action Plan (see finding 2016-002): The Department will complete the implementation of monthly management reports which provide status information on outstanding audit reports to be reviewed. The management reports will be reviewed by management to ensure the monitoring reviews are completed timely. Additionally, the Department will reallocate resources to conduct the reviews until the subrecipient monitoring function is sufficiently staffed.

Anticipated Completion Date: June 30, 2017

OIA Follow-up Results (see OIA Follow-up Results for finding 2016-002)

Per OIA follow-up, the Risk Management and Audit Monitoring (RMAM) team hired temporary help to review the subrecipient audit reports and issue management decision letters, and is now in the process of hiring two employees. RMAM also implemented the use of an Access databases to track the subrecipient audit reports and the status of the follow-up process.

At the beginning of State Fiscal Year 16-17, RMAM misinterpreted the due date requirement for management decision letters to be distributed to non-governmental subrecipients. As a result, the due dates for some management decision letters were incorrect in the database, which ultimately led to the untimely submission of management decision letters. RMAM is working to verify the due dates listed in the database to ensure all remaining subrecipient management decision letters are issued on time.

RMAM has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2016-061.

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