

STATE OF NORTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF GOVERNMENT AFFAIRS

ROY COOPER
GOVERNOR

MANDY COHEN, MD, MPH
SECRETARY

MATT GROSS
ASSISTANT SECRETARY FOR GOVERNMENT AFFAIRS

November 30, 2020

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' (Department) Office of Internal Auditor to monitor the implementation of the Department's response to any audit of the Department conducted by the State Auditor 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 provisions of law, the Department is pleased to submit the attached report.

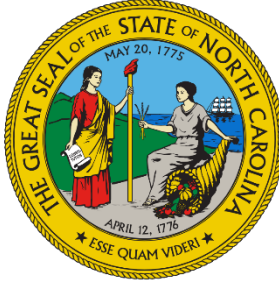
Should you have any questions regarding the report, please contact David King, Director of the Office of the Internal Auditor, at 919-527-6840.

Sincerely,



Matt Gross
Assistant Secretary for Government Affairs

cc:	David King	Marjorie Donaldson	Rob Kindsvatter	Katherine Restrepo
	Joyce Jones	Theresa Matula	Erin Matteson	Jane Chiulli
	Matt Gross	Hattie Gawande	Luke MacDonald	Bill Scott
	Lisa Wilks	reports@ncleg.net	Dave Richard	Kody Kinsley
	Mark Collins	Jared Simmons	Jessica Meed	Ryan Brummeyer



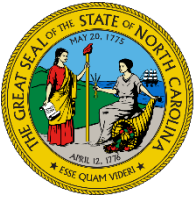
NC DEPARTMENT OF
HEALTH AND HUMAN SERVICES
Office of the Internal Auditor

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, 2019

Issued by the Office of the State Auditor
April 29, 2020

October 28, 2020

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NC DEPARTMENT OF
**HEALTH AND
HUMAN SERVICES**
Office of the Internal Auditor

ROY COOPER • Governor

MANDY COHEN, MD, MPH • Secretary

DAVID A. KING • Director, Office of the Internal Auditor

October 28, 2020

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, FSA-2019-8730, and the Department of Health and Human Services Statewide Federal Compliance Audit Procedures, FSA-2019-4410, for the fiscal year ended June 30, 2019. The reports were issued by the Office of the State Auditor (OSA) on April 29, 2020 and April 30, 2020, respectively.

Results

Three of the 15 findings are considered resolved. The Department took appropriate corrective action to reduce identified risks. The corrective action taken for those three findings was sufficient to reduce risk to an acceptable level. An additional 12 findings are considered partially resolved. The Department took some action to reduce identified risks. However, the corrective action taken is not sufficient to reduce risk to an acceptable level, and the Department continues to work to address the findings.

OIA will follow up with the Department to ensure its work activities reduce risk to an acceptable level. A summary of OSA's findings and recommendations and OIA's follow-up results are included in the Appendix. Due to their sensitive nature and pursuant to G.S. 132-6.1(c), a separate letter will be issued to Secretary Cohen that includes detailed follow-up results from four security-related findings noted in OSA's audit reports.

Objective

The objective of our follow-up assessment was to evaluate whether the Department took 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 action taken by the Department no later than six months after the State Auditor publishes any audit report pursuant to law. A copy of this report will be filed with the Joint Legislative Commission on Governmental Operations pursuant to the General Statute.

Scope

The scope of our follow-up assessment included a review of activities directed toward the resolution of OSA's findings and recommendations as well as the corrective action taken by the Department.

Methodology

We conducted this engagement in conformance with the *International Standards for the Professional Practice of Internal Auditing* issued by The Institute of Internal Auditors. In order to form an opinion on the current status of the 15 findings, we performed the following procedures:

- We reviewed OSA's audit report to gain a better understanding of the findings.
- We discussed the basis for the findings and the associated corrective action with Department management.
- We conducted tests to evaluate whether corrective action taken by the Department reduced risk to an acceptable level.

Status Definitions

The status of each finding is categorized as follows:

- Resolved: We evaluated evidence that actionable items were completed and implemented to reduce risk to an acceptable level.
- Partially Resolved: We evaluated evidence that progress has been made toward the implementation of the actionable items in the Department's response and is ongoing to reduce risk to an acceptable level.
- Unresolved: Evidence was not provided to show progress has been made toward the implementation of the actionable items in the Department's response, to reduce risk to an acceptable level.

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

David A. King
Director, Office of the Internal Auditor

CC: Matt Gross, Assistant Secretary for Governmental Affairs, DHHS

APPENDIX

SUMMARY OF FINDINGS AND RECOMMENDATIONS FROM OSA REPORT (ITALICIZED) AND OIA'S FOLLOW-UP RESULTS (BOLDED)

1. OSA FINDING AND RECOMMENDATION – 2019-054: INADEQUATE MONITORING OF PROGRAM RECIPIENTS **93.556 Promoting Safe and Stable Families**

Finding 2019-054: The Department did not monitor counties that received funds for family reunification services for the Promoting Safe and Stable Families grant. During the audit period, the Department provided \$3.4 million dollars in family reunification service funds to counties.

Inadequate monitoring increased the risk that the Department would not detect if funds intended to be spent reuniting separated families were not used in accordance with federal regulations. As a result, families otherwise eligible for assistance may not have been served.

According to Department management, they did not recognize that they should perform on-site monitoring to ensure that subrecipients were managing the program in compliance with federal regulations. The Division of Social Services thought that the department-wide monitoring of administrative expenditures processed through the County Administrative Reimbursement System included monitoring of the family reunification expenditures.

Federal regulations require the Department to “establish and maintain effective internal control over the federal award that provides reasonable assurance that the Department is managing the program in compliance with federal statutes, regulation, and the terms and conditions of the federal award.” Monitoring the funds sent to the counties would be an effective control over compliance.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA (title): 93.556 (Promoting Safe and Stable Families); Federal Award Numbers (award periods): G-1701NCFPSS (October 1, 2016 – September 30, 2018); G-1801NCFPSS (October 1, 2017 – September 30, 2019) and G-1901NCFPSS (October 1, 2018 – September 30, 2020).

OSA Recommendation: The Department should ensure responsible staff understand what monitoring procedures occur during the department-wide monitoring of the County Administrative Reimbursement System and implement adequate monitoring procedures to ensure counties expend family reunification funds in accordance with federal regulations.

Agency Response: The Department agrees with the finding. The Department is strengthening its monitoring procedures for county child welfare agency reunification services funded by the federal Promoting Safe and Stable Families grant.

Corrective Action Plan: The NC Division of Social Services (DSS) has periodic meetings on the program monitoring process to ensure staff are following the agreed upon monitoring procedures.

DSS will develop a monitoring plan for family reunification services that ensures compliance with Federal requirements. This plan will contain monitoring procedures that verify eligibility of participants, allowability of services and activities, numbers of children served, and permanency outcomes.

The first monitoring cycle will require a full fiscal year. Monitoring will include progress and data reports, desk-top monitoring, and/or site visits to county child welfare agencies. The Family Reunification Services Policy will be updated to reflect the new monitoring procedures and plan.

Anticipated Completion Date: June 30, 2021.

OIA Follow-up Results

OIA conducted a follow-up review and determined that the Department has not implemented sufficient procedures to address the OSA finding. The Department conducted various staff meetings on program monitoring processes to ensure staff are following necessary procedures related to the Child Welfare Family Reunification Policy and the Statewide Information Security Manual.

The Department is in the process of updating the Family Reunification Services Policy. Requirements related to eligibility determinations, allowability of services and activities, number of children served, and permanency outcomes will be included in the policy updates. A draft monitoring plan for Family Reunification Services was created that outlines on-site and desktop monitoring, risk assessments, monitoring schedules, and strategies. The implementation of the monitoring plan is expected to cover a three-year cycle from 2020 through 2023. The draft plan appears to be consistent with updates documented in the Family Reunification Services Policy.

The Department has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2019-054.

OIA considers this finding partially resolved with an anticipated completion date of June 30, 2021.

2. OSA FINDING AND RECOMMENDATION – 2019-055: DEFICIENCIES IN THE TANF ELIGIBILITY DETERMINATION PROCESS

93.558 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

Finding 2019-055: The Department paid \$54,706 in Temporary Assistance for Needy Families (TANF) benefits to or on behalf of ineligible families due to inaccurate and inadequately documented eligibility determinations. When the errors found in the sample are projected to the entire population, the most likely error paid to or on behalf of ineligible families is \$4.5 million. During the audit period, approximately 71 thousand families received \$127 million in TANF benefits.

The task of determining eligibility for the TANF program has been delegated to the county departments of social services (DSS). However, the Department was responsible for ensuring compliance with the eligibility requirements.

Auditors reviewed the client case files for a statistical sample of 601 families and found one or more errors in 92 (15.31%) cases. Specifically:

- 27 (4.49%) families were found to be ineligible for cash assistance during the coverage period. This was due to incomplete or noncompliance with the Mutual Responsibility Agreement (MRA), as well as lack of verification of income and other non-financial eligibility requirements. Payments totaling \$38,936 were paid to these ineligible families.*
- 8 (1.50%) families were found to be ineligible for child care assistance during the coverage period due to inaccurate plan of care for TANF funding. Payments totaling \$15,770 were paid on behalf of these ineligible families.*
- 57 (9.48%) client files were missing some of the required eligibility documentation. Examples of missing information included child support referral documentation and online verification documentation. Further, some income calculations were inaccurate. However, when auditors redetermined eligibility using updated information, the family was eligible.*

As a result, the Department could have paid an estimated \$4.5 million in benefits to or on behalf of ineligible families. These funds could have been used to provide benefits to other eligible families or reduce the overall costs of the program. In addition, the \$54,706 that was paid to or on behalf of ineligible families is considered questioned costs.

According to the Department the eligibility errors occurred because of defects in NC FAST and inaccurate interpretation and application of the established eligibility policies by the county DSS staff. The county DSS staff utilize NC FAST to input data and make eligibility determinations, however, the Department is responsible for establishing eligibility requirement policies, maintaining NC FAST, and training county DSS staff.

Federal regulations state that 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.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number: 93.558 (Temporary Assistance for Needy Families); Federal Award Numbers (award periods): 1801NCTANF (October 1, 2017 to September 30, 2019) and 1901NCTANF (October 1, 2018 to September 30, 2020).

OSA Recommendations: Department management should correct the defects within NC FAST. In addition, the Department should provide adequate training or retraining when necessary to ensure that county DSS staff perform TANF eligibility determinations correctly.

Agency Response: The Department agrees with this finding. The Department will continue to provide training, guidance, and monitoring through desk reviews and onsite visits to county departments of social services (DSS) and local purchasing agencies (LPAs), who determine eligibility, to ensure compliance with the eligibility determination process.

Department Division of Social Services (cash assistance): The county department of social services that had errors cited will be required to complete a Program Improvement Plan (PIP). Follow-up will begin once county notification letters are received or July 1, 2020 whichever comes first. The Work First Compliance Consultant will conduct the follow-up 3-6 months from the implementation of the PIP. Department Division of Child Development and Early Education (DCDEE) (child care assistance): The benefit period that this audit covered was within one year of when the Subsidized Child Care Assistance Program transitioned to NC FAST from the legacy system. Since transitioning to NC FAST and since the policy change, DCDEE has conducted additional trainings with county eligibility workers. Additional training materials from NC FAST on exactly how to handle these cases has also been provided. The Division's technical assistance staff have been providing more onsite policy guidance and technical assistance to help eligibility workers better understand the new policies as well as better understand how to use NC FAST. DCDEE monitors county DSS/LPAs for accuracy with eligibility determination and case management on a three-year cycle. Counties are expected to have a 95% or better accuracy rate or a corrective action plan is put in place with the county. As a result of this audit, the program compliance unit will begin incorporating fund source review into their regular monitoring.

Corrective Action Plan: The Department reviewed and revised the North Carolina Families Accessing Services through Technology (NC FAST) Learning Gateway Training courses in response to a legislative mandate to develop a NC FAST Certification Program. The revisions were finalized in October 2019. The online courses are located on the NC FAST Learning Gateway website <https://ncfasttraining.nc.gov/>.

The Department will require all county departments of social services (DSS) and local purchasing agencies (LPA) to take specific online course(s). The courses will strengthen county staff's knowledge regarding the Work First and Subsidized Child Care Assistance (SCCA) Program policy areas in which deficiencies were identified.

Department Division of Child Development and Early Education (DCDEE) (child care assistance): The cited county DSS/LPA will be notified by April 30, 2020 in writing from DCDEE regarding the eligibility errors. The SCCA Technical Assistance Consultants will work directly with county DSS/LPA staff to review each error in detail and the consultant will provide specific instructions on how to correct the error and recoup the associated funds. Each county DSS/LPA will be given a three-month timeframe from when the written notification is received to complete this process. The consultants will also review the policy specific to the error with the cited DSS/LPA to ensure the staff fully understand the policy and procedures to prevent similar errors.

The Technical Assistance Consultants will continue to make quarterly onsite visits with all assigned county DSS/LPA staff and will review the policy and procedures for the identified technical and eligibility errors.

The Technical Assistance Consultants will also hold biannual regional trainings across the state and the areas of policy and procedure related to the technical and eligibility errors will be reviewed during these trainings.

Anticipated Completion Date: December 31, 2020.

Departments Division of Social Services (cash assistance): The county department of social services that had errors cited will be required to complete a Program Improvement Plan (PIP). Follow-up will begin once county notification letters are received or July 1, 2020 whichever comes first. The Work First Compliance Consultant will conduct the follow-up 3-6 months from the implementation of the PIP. The Division of Social Services will ensure that the errors cited will not reoccur by doing the following:

- The county department of social services that had errors cited will be notified by April 30, 2020 in writing regarding the eligibility errors.*
- Assign a Work First Program Compliance Consultant to work directly with the county DSS staff to review each error in detail and provide specific instructions on how to correct the error and recoup the associated funds. This will be completed by April 30, 2020.*
- Require the Operational Support Team to assist the county with the creation of a Program Improvement Plan to address the findings and ensure the errors do not continue. This will be completed by May 15, 2020.*
- Each county DSS will be given thirty (30) days from when the written notification is received to complete the corrective action process.*
- Three months following the approval of the Program Improvement Plan, the Work First Compliance Consultant will conduct an audit follow-up. This includes development of a new case sample and case reviews to specifically verify that the errors cited for that county do not continue.*
- The Work First Monitoring Team will continue to monitor all counties for the eligibility errors identified through this audit process in accordance with the monitoring plan.*
- The Operational Support Team will continue to provide technical assistance with all assigned county DSS staff and will review the policy and procedures for the identified technical and eligibility errors during ongoing consultation.*

- *The Operational Support Team conducts biannual regional trainings across the state and the areas of policy and procedure related to the technical and eligibility errors will be reviewed during these trainings. The next scheduled training is August 2020 and will include training on all identified errors.*

Anticipated Completion Date: June 30, 2021.

OIA Follow-up Results

OIA conducted a follow-up review and determined that the Department has not implemented sufficient procedures to address the OSA finding. The Department notified counties cited in the report for which cash assistance eligibility errors were identified. Counties cited with cash assistance eligibility errors have submitted a Performance Improvement Plan, implemented the Department-approved corrective actions, and paid back the overpayments to the federal government. The six-month follow-up site visits are scheduled to begin in late October 2020.

The Department has not sent notification to counties for which childcare assistance eligibility errors were identified. The Department could not provide evidence that any action has been taken to address the childcare assistance eligibility errors.

The Department began providing consistent training across all county DSS offices, including biannual “OST Supervisory Economic & Family Services Division” meetings. In addition, the Department continues to work toward the implementation of the NC FAST Certification Program, a comprehensive training program for caseworkers who input data and make eligibility determinations for State programs. A pilot of the program is expected to begin in late October 2020 with the first group of six counties. The Department will implement the program across all 100 counties by July 31, 2021.

The Department has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2019-055.

OIA considers this finding partially resolved with an anticipated completion date of July 31, 2021.

3. OSA FINDING AND RECOMMENDATION – 2019-056: INACCURATE TANF DATA ON FAMILIES WAS SUBMITTED TO THE FEDERAL GOVERNMENT

93.558 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

Finding 2019-056: *The Department submitted inaccurate data in the Temporary Assistance for Needy Families (TANF) ACF-199 report to the Administration for Children and Families (ACF). During the state fiscal year, approximately 26,100 families received \$33.9 million in cash assistance from the Federal TANF program.*

Auditors tested a random sample of 124 cases from the quarterly reports that were submitted for federal fiscal year ended September 30, 2018 and found 16 (13%) cases that had one or more errors in the following data elements:

- *Number of countable months the participant received assistance.*
- *Receives Subsidized child care.*

In addition, the Department over-reported the total number of families receiving assistance for federal fiscal year 2018 by approximately 1,000 (1%) families. The Department’s failure to submit 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 federal fiscal year 2018 SFAG, the penalty could be up to \$8.6 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, the ACF-199 reports submitted for federal fiscal year 2018 were not accurate due to ongoing issues with the transition to NC FAST, which occurred in state fiscal year 2015. DSS management is aware of these issues and has been working with DHHS NC FAST and IT staff to correct coding, criteria and conversion issues. However, they were unable to resolve all issues prior to the submission of the federal fiscal year 2018 reports.

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."

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 Numbers (award periods): 1701NCTANF (October 1, 2016 – September 30, 2018) and 1801NCTANF (October 1, 2017 – September 30, 2019).

OSA Recommendation: *Division management should continue working with DHHS NC FAST and IT staff to identify and correct unresolved coding, criteria and conversion issues to ensure that accurate reports are submitted.*

Agency Response: *The Department is working diligently to resolve data inaccuracies with the ACF-199 Report, with priority placed on data elements that impact the work participation rates. A cross-divisional team made significant progress on correcting this coding and devoted significant resources to ensure the coding meets the standards and expectations of the Administration for Children and Families. Issues identified during the test and validation phases of this work resulted in the need for recoding of some data elements, impacting the timeline for completion. The Department will continue to devote resources from the Division of Social Services, the Information Technology Division, and the North Carolina Families Accessing Services through Technology (NC FAST) section to complete the work.*

Corrective Action Plan: *The Department performed the following actions:*

- Corrected the Subsidized Child Care data element, effective September 2019 and resubmitted Federal Fiscal Year (FFY) 2018 data to the Administration for Children and Families (ACF).*
- Researched errors related to countable months and determined that all cases in error were conversion cases (i.e. cases that were converted from Legacy to NC FAST). This item is in queue to be addressed by the ACF-199 workgroup.*

- Once all corrections are completed, the Department will resubmit the FFY 2018 data to the Administration for Children and Families (ACF) no later than September 30, 2020.

Anticipated Completion Date: December 31, 2020.

OIA Follow-up Results

The Department has fully implemented procedures to address the finding. The Department corrected the Subsidized Child Care data element and other various codes affecting the ACF-199 report.

The Department researched errors related to the countable months and determined that all cases in error were conversion cases: cases converted from Legacy to NC FAST. The Office of NC FAST created a federal 60-month time clock table which was added to the Client Services Data Warehouse to ensure all months are captured and reported. The corrected FFY2018 ACF-199 report was resubmitted to the Administration for Children and Families.

The Department has fully implemented the corrective action plan and mitigated the risk associated with OSA finding 2019-056 to an acceptable level to prevent the finding from recurring.

OIA considers this finding resolved as of September 15, 2020.

4. OSA FINDING AND RECOMMENDATION – 2019-057: SUBRECIPIENT MONITORING PROCEDURES NEED IMPROVEMENT

93.667 SOCIAL SERVICES BLOCK GRANT

Finding 2019-057: The Department did not adequately monitor subrecipients of the Social Services Block Grant (SSBG). During the audit period, the Department provided \$60.8 million in SSBG funds to subrecipients.

The Department did not monitor all counties that were required to have a site visit during the audit period. Fifty-one counties that received SSBG funds were scheduled to have a site visit during the audit period. Site visits were not performed for six (12%) of those counties.

Additionally, auditors reviewed the subaward documentation of all 117 subrecipients that received a subaward during the audit period and noted that the subaward documentation for eight (7%) subrecipients were missing some or all of the following required federal award information:

- *Subrecipient's Unique Entity Identifier*
- *Federal Award Identification Number (FAIN)*
- *Identification of whether the award is research and development*
- *Indirect Cost Rate for the Federal Award*
- *Federal Award Date*
- *Federal Award Project Description*
- *Name of Federal Awarding Agency*
- *CFDA Number*

Inadequate monitoring procedures increased the risk that the Department would not detect if SSBG funding was not used in accordance with the federal requirements.

According to the Department, the inadequate monitoring occurred for various reasons. The required site visits were not performed because:

- For five counties, the Division of Social Services was understaffed. Significant turnover during the audit period reduced the number of staff available to carry out the monitoring efforts for the program.
- For the remaining county, there was an oversight by the Division of Aging and Adult Services (DAAS). The county was scheduled for a site visit in June 2019; however, the visit did not occur until after the state fiscal year had ended.

The required federal award information was not communicated because:

- For seven subrecipients, the Division of Mental Health/Development Disabilities/Substance Abuse Services management did not know that the links provided in the subaward documentation did not include references to the omitted elements.
- For the remaining subrecipient, new staff within the DAAS were unaware of the elements that were required to be included in the subaward documentation.

Federal regulations require the Department to monitor the activities of its subrecipients as necessary to ensure that the subaward was used for authorized purposes, in compliance with the Federal statutes, regulations, and the terms and conditions of the subaward; and that performance goals are achieved.

Further, federal regulations require the department to clearly identify the award as a subaward and include specific federal award information at the time of the subaward.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.667 (Social Services Block Grant); Federal Award Numbers (award periods): G-1801NCSOSR (October 1, 2017 – September 30, 2019) and G-1901NCSOSR (October 1, 2018–September 30, 2020).

OSA Recommendation: Department management should ensure that adequate resources are provided and appropriate priority is placed on performing monitoring visits and communicating the required federal award information to subrecipients.

Additionally, Department management should test the links in the contracts and allocation memorandums to ensure they include all required federal award information in their subrecipient subaward documentation.

Agency Response: The Department agrees with the finding and will implement corrective action plans to ensure subrecipient monitoring processes are efficient and effective.

Corrective Action Plan: On January 29, 2019, a job aid titled “Contract Development Checklist” was developed and distributed to contract administrators. Funding Source Data was listed as a requirement to build a contract in Open Windows.

On February 28, 2019, training was provided to Division staff, including the contract specialist and the contract administrators related to building contracts in Open Windows.

Corrective action was completed on: February 28, 2019.

Due to a program representative’s oversight, monitoring was not conducted for one county during the state fiscal year. In August 2019, the omission was subsequently discovered, and the county was monitored resulting in a two-month delay.

The Division immediately implemented monthly reviews of the program monitoring log to ensure monitoring is completed on schedule. The review process is completed by the Program Administrators and overseen by the Adult Services Section Chief.

Corrective action was completed on: July 31, 2019.

The Department has taken corrective actions to include all required federal award information and/or all grant-required data elements in the award letters to its subrecipients. The Department has updated processes to ensure this federal requirement is met.

Corrective action was completed on: September 1, 2019.

The Child Welfare Fiscal Monitoring Supervisor position was vacant during that timeframe but was filled in June 2019. This position will ensure all required counties are monitored during the year. In addition, the Department will review its Subrecipient Monitoring Plan annually and make revisions as needed. Staff will be advised of all revisions to the plan.

Anticipated Completion Date: June 30, 2020.

OIA Follow-up Results

OIA conducted a follow-up review and determined that the Department has not implemented sufficient procedures to address the OSA finding. The Department has completed the monitoring visits for the six counties identified by OSA as not having received a site visit. In addition, the DSS Child Welfare Fiscal Monitoring Supervisor position was filled effective June 3, 2019.

The Department developed an Adult Services Monitoring Log and began holding regular meetings to review monitoring status. The log ensures that all counties slated for monitoring during the fiscal year are included, monitoring notifications are sent, and monitoring visits are adequately tracked. The Department has implemented procedures, including a contract development checklist, to ensure that all required federal award information and/or all grant-required data elements in the award letters are included.

The SFY 2020 allocation letter did not include all the required federal award information. The Department updated the "Allocation Letter Checklist" to ensure the SFY 2021 allocation letter is accurate and appropriate information is incorporated. As part of the checklist, a copy of the award letter received from the federal government will be attached to confirm that all required federal award information can be accurately referenced. Distribution of SFY 2021 allocation letters are expected to be sent October 31, 2020

The Department has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2019-057.

OIA considers this finding partially resolved with an anticipated completion date of October 31, 2020.

5. OSA FINDING AND RECOMMENDATION – 2019-058: ERRORS IN MEDICAID PROVIDER BILLING AND PAYMENT PROCESS

93.778 MEDICAL ASSISTANCE PROGRAM

Finding 2019-058: The Department made an estimated \$71.4 million net overpayment to Medicaid providers during state fiscal year 2019. During that period, the Department processed more than 59 million payments for fee-for-service claims totaling \$7.99 billion.

Auditors reviewed a statistical sample of 694 fee-for-service payments totaling approximately \$21.1 million and identified 20 (2.9%) payments that contained errors. Specifically:

- Twelve (1.7%) claims contained medical coding errors which impacted the payment calculation. The result was a net overpayment of \$17,125 (federal share \$11,485).*
- Eight (1.2%) claims lacked documentation to support the services rendered by the provider. The result was a net overpayment of \$7,246 (federal share \$4,866).*

As a result of the errors identified, the Department could have overpaid providers an estimated \$71.4 million in Medicaid funds that could have been used to provide additional services to other eligible beneficiaries or reduce overall program costs. Additionally, the federal share (\$16,351) of the errors is considered questioned costs.

According to the Department, the documentation and coding errors were due to clerical errors and inadequate documentation being kept by the health care providers.

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 previously reported in the 2018 Statewide Single Audit as finding number 2018-025. Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.778 (Medical Assistance Program (Medicaid; Title XIX)); Federal Award Numbers (award periods): 05-1705NC5MAP (October 1, 2017 - September 30, 2018) and 05-1805NC5MAP (October 1, 2018 to September 30, 2019).

OSA Recommendation: Department management should analyze each error and take immediate and appropriate corrective action including, but not limited to, education of providers and on-site or focused reviews.

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

Agency Response: The Department agrees with this finding. The Department is dedicated to claims payment accuracy and continues to work with providers to minimize errors in the claims payment process. We are pleased that the Department's efforts have resulted in a .89% error rate, which is well below the Centers for Medicare and Medicaid Services Payment Error Rate Measurement (PERM) error rate goal for NC of 3.2%. The Department will analyze each error and take immediate and appropriate corrective action, including recouping any overpayments identified as questioned costs.

Corrective Action Plan: The Department analyzed each error and validated the associated questioned costs. A Tentative Notice of Overpayment (TNO) will be sent to each provider to recoup any overpayment made. For errors where no overpayment is identified, a Provider Education Letter will be

sent to the provider. Notices will be sent on or before March 31, 2020. Additionally, the Department will conduct a six-month follow-up review by selecting and reviewing a sample of the affected providers' paid claims to ensure errors are not recurring.

Anticipated Completion Date: November 30, 2020.

OIA Follow-up Results

OIA conducted a follow-up review and determined that the Department has not implemented sufficient procedures to address the OSA finding. The Department has reviewed the claims errors cited in the report. Of the 20 errors, the Department issued seven Tentative Notice Overpayments (TNO) to providers for recoupment of overpayments and to emphasize the need to ensure compliance and billing efforts align with regulatory requirements. An accounts receivable was established for the seven TNOs, which will ensure the federal share is repaid.

For one of the remaining 13 claim errors a provider requested a reconsideration review by the Program Integrity section, which resulted in a reversal of recoupment with no repayment due. The Department has not issued a TNO for the remaining 12 claim errors due to COVID-19 delays.

An article was published in the August 2020 Medicaid Bulletin related to OSA Single Audit findings as a preliminary notification to providers of upcoming follow-up reviews. The Medicaid Office of Compliance and Program Integrity will conduct follow-up reviews of claims paid to providers that were identified with errors. The Department is still within the six-month follow-up review period. Therefore, the Department is still conducting follow-up reviews of claims paid to providers identified with errors.

The Department has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2019-058.

OIA considers this finding partially resolved with an anticipated completion date of November 30, 2020.

6. OSA FINDING AND RECOMMENDATION – 2019-059: MEDICAID DISPROPORTIONATE SHARE HOSPITAL PAYMENT MADE INCORRECTLY

93.778 MEDICAL ASSISTANCE PROGRAM

***Finding 2019-059:** The Department made a \$9.5 million federal Medicaid Disproportionate Share Hospital (DSH) payment to an ineligible facility. During state fiscal year 2019, the Department paid approximately \$2.5 billion in Medicaid DSH payments to 110 facilities.*

Auditors tested 100% of the federal DSH payments made during the audit period. A state operated Alcohol and Drug Abuse Treatment Center (ADATC) received a payment from the federal Medicaid DSH Institution for Mental Disease (IMD) allotment when it was not eligible.

As a result, \$9,510,150 (\$6,429,812 federal share) was not available for allocation to other IMD facilities that were eligible to receive the federal funds. The federal share of the improper payment is considered questioned cost.

According to the Department, the ineligible payment occurred due to a clerical error. The Division of Health Benefits (Division) prepares spreadsheets to calculate DSH payments and the allocation of the IMD DSH allotment to State facilities. The eligibility spreadsheet correctly noted that this ADATC was not eligible to receive a federal DSH payment. During the transfer of information from the eligibility

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spreadsheet to the IMD allocation spreadsheet (used to remit DSH payments to IMD facilities), this payment was inadvertently allocated to an ineligible IMD facility and management's review did not detect it.

Federal law allows states to spend some of their DSH funds on IMD Services. The North Carolina Medicaid State Plan limits these payments to IMD facilities that have an inpatient utilization rate of not less than 1%. The state operated ADATC that received the payment had an inpatient utilization rate of less than 1% and therefore was not eligible to receive the federal DSH payment.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.778 (Medical Assistance Program (Medicaid; Title XIX)); Federal Award Number (award period): 05-1805NC5MAP (October 1, 2017 - September 30, 2018).

OSA Recommendation: Department management should strengthen their review procedures over the payments to ensure that federal DSH payments are only made to eligible facilities.

Agency Response: The Department agrees with this finding. As noted, the finding was due to a clerical error in processing the payments. The Department enhanced the payment calculation and review procedures to ensure federal DSH payments are only made to eligible facilities for the applicable year. Additionally, the Department invoiced and received the \$9,510,151 in Federal Fiscal Year (FFY) 2018 State IMD DSH payments back from the ineligible State ADATC and reallocated all of it to the State IMD hospitals eligible to receive payment from the FFY2018 State IMD DSH allotment.

Corrective Action Plan: The Division of Health Benefits has taken the following actions to address the finding:

- Invoiced and received the return of a \$9,510,151 Federal Fiscal Year (FFY) 2018 State Institution of Mental Disease (IMD) Disproportionate Share Hospital (DSH) payment from the State Alcohol and Drug Abuse Treatment Center which was ineligible for FFY2018.
- Made additional allowable FFY2018 State IMD DSH payments to eligible State IMD hospitals in the amount of \$9,510,151.
- Beginning with FFY2019 IMD DSH payments, the Division will transfer the DSH eligibility indicator field on the DSH Medicaid Reimbursement Initiative Gap Model spreadsheet to the State IMD DSH allocation spreadsheet to ensure that allocations are made only to eligible State IMD facilities.

Anticipated Completion Date: December 31, 2019.

OIA Follow-up Results

The Department has fully implemented procedures to address the finding. The Department updated written procedures related to the Disproportionate Share Hospital eligibility to ensure federal DSH payments are only made to eligible facilities.

The Department received \$9,510,151 for Federal Fiscal Year (FFY) 2018 State Institution of Mental Disease (IMD) Disproportionate Share Hospital overpayment from the State Alcohol and Drug Abuse Treatment Center which was ineligible for FFY2018. Payment of those funds were reallocated to eligible State IMD hospitals.

The Department has fully implemented the corrective action plan and mitigated the risk associated with OSA finding 2019-059 to an acceptable level to prevent the finding from recurring.

OIA considers this finding resolved as of September 1, 2020.

**7. OSA FINDING AND RECOMMENDATION – 2019-060: LACK OF QUALITY ASSURANCE PROCEDURES
INCREASED RISK OF UNDETECTED ERRORS**
93.778 MEDICAL ASSISTANCE PROGRAM

Finding 2019-060: The Department does not have written monitoring procedures in place for some contractors who help ensure that Medicaid services, products and procedures are medically necessary. There are five contractors who help ensure that Medicaid services, products, and procedures provided to recipients are medically necessary. Auditors found that the Department does not have written quality assurance monitoring procedures for four of the contractors.

Because the Department did not have written monitoring procedures they cannot ensure that these contractors are effectively monitored. This would include monitoring the contractors' process of reviewing documentation to support medical necessity. According to the Department, approximately \$2.5 billion is paid annually for services that require prior approval. Without these monitoring procedures, there is an increased risk that errors (i.e. services rendered that would have been denied) could have occurred and remained undetected.

According to the Department, they did not realize there was a need to develop written monitoring procedures for all of their prior approval contractors. Although the 2018 Single Audit reported that the Department did not have monitoring procedures for these four contractors, the report specifically named one contractor (finding 2018-026), so the Department worked on developing written monitoring procedures for only the one. Written procedures were not developed for the other prior approval contractors.

In accordance with Session Law 2010-194, the NC Department of Administration has established rules and regulations which specify the manner in which State agencies shall monitor and enforce the terms of contracts. The State's Contract and Procurement Office's Contract Administration Guide (Guide) includes a Contract Monitoring Checklist which states that it is the responsibility of each agency to ensure all contractual obligations are met and that contract monitoring is documented which includes having written documented contract monitoring procedures and methodology.

Furthermore, federal regulations require the Department to "establish and maintain effective internal control over the federal award that provides reasonable assurance that the Department is managing the program in compliance with federal statutes, regulations, and the terms and conditions of the federal award." Establishing written quality assurance monitoring procedures would be an effective control over compliance.

Certain aspects of this finding were previously reported in the 2018 Statewide Single Audit as finding number 2018-026.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.778 (Medical Assistance Program (Medicaid; Title XIX)); Federal Award Numbers (award periods): 05-1805NC5MAP (October 1, 2017 - September 30, 2018) and 05-1905NC5MAP (October 1, 2018 – September 30, 2019).

OSA Recommendation: Department management should prioritize developing written quality assurance monitoring procedures for all contractors who help ensure that Medicaid services, products and procedures are medically necessary.

Agency Response: The Department agrees with this finding. The opportunity exists to enhance documentation enumerating the monitoring procedures for contracted vendors which provide prior approval of Medicaid services. Documentation for two of the vendors is currently in place and contains

the required monitoring plan language criteria. Documentation for the remaining three vendors contains much of the required monitoring language criteria but not all. The Department is formalizing the monitoring plans to ensure all missing criteria are added and enhancing the monitoring procedures where necessary. Despite the gaps in the documentation, monitoring activities for four of the five vendors were conducted during the state fiscal year. While it is not certain that lack of documentation had an impact on funds paid for prior authorized services, the updated monitoring plans will ensure the vendors are reviewing and approving prior authorizations in accordance with the Department's requirements.

Corrective Action Plan: *The Department will review and enhance the monitoring procedures for the prior approval vendors to include the following monitoring plan criteria:*

- *Population Description*
- *Sample Size*
- *Frequency*
- *Role Responsible*
- *Monitoring evidence*
- *Reviewer and evidence*
- *Response to contractor*
- *Corrective Action Plan Follow-up Procedures*
- *Resolution documentation*

Anticipated Completion Date: March 31, 2020.

OIA Follow-up Results

OIA conducted a follow-up review and determined that the Department has not implemented sufficient procedures to address the OSA finding. The Department has developed written quality assurance monitoring procedures for three of the five prior approval contractors. However, the written quality assurance monitoring procedures developed did not include the required monitoring plan criteria as stated in the Department's corrective action plan.

The written quality assurance monitoring procedures developed for General Dynamics Information Technology (GDIT), Beacon, and Liberty did not include the response to contractor, corrective action plan follow-up procedures, and the resolution documentation, as required. The Department did not provide evidence of written quality assurance monitoring procedures for Evicore or Carolinas Center for Medical Excellence.

The Department has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2019-060.

OIA considers this finding partially resolved with an anticipated completion date of March 31, 2021.

8. OSA FINDING AND RECOMMENDATION – 2019-061: DEFICIENCIES IN SYSTEM ACCESS

93.778 MEDICAL ASSISTANCE PROGRAM

Finding 2019-061: *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).*

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.778 (Medical Assistance Program (Medicaid; Title XIX)); Federal Award Numbers (award periods): 05-1805NC5MAP (October 1, 2017 - September 30, 2018) and 05-1905NC5MAP (October 1, 2018 – September 30, 2019).

Agency Response: The Department agrees with the finding. 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 were 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.

Corrective Action Plan: The Department is committed to maintaining adequate 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 were 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.

Anticipated Completion Date: October 31, 2020.

OIA Follow-up Results

The Department has partially implemented procedures to address the finding. 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 detailing follow-up results.

The Department has partially implemented the corrective action plan and mitigated the risk associated with OSA finding 2019-061 to an acceptable level to prevent the finding from recurring. OIA considers this finding partially resolved with an anticipated completion date of October 31, 2020.

9. OSA FINDING AND RECOMMENDATION – 2019-062: DEFICIENCIES IN THE MEDICAID PROVIDER ENROLLMENT AND TERMINATION PROCESS 93.778 MEDICAL ASSISTANCE PROGRAM

Finding 2019-062: The Department did not adequately monitor the work of a contractor who ensures that providers are eligible to participate in the Medicaid program. The Department paid approximately \$11.4 billion to 18,301 providers during the fiscal year ended June 30, 2019.

The Division of Health Benefits (DHB) has contracted with General Dynamics Information Technology (GDIT) to ensure that providers have the required licenses and are eligible to participate in the Medicaid program. An approved contract monitoring plan outlines specific GDIT activities that should be monitored by the Department and the established frequency.

DHB did not monitor GDIT in accordance with the approved monitoring plan. Specifically:

- For nine months, DHB reviewed two to four Licensing Board reports per month when the monitoring plan required them to review five.*
- For the month of September 2018, DHB reviewed 21 applications when the monitoring plan required 50 to be reviewed.*
- From July to December 2018, DHB did not perform the monthly reviews of the CMS logs.*

Without effective monitoring, there is an increased risk that the Department would not detect ineligible providers that are being paid for treating Medicaid recipients. In fact, due to the lack of monitoring, auditors found the following issues for enrolled providers:

- *One pharmacy provider failed to disclose sanctions related to unlawfully dispensing and shipping controlled substance prescriptions into other states without a permit. The sanctions were not properly evaluated to determine if the provider was still eligible to participate in the Medicaid program. The Department paid this provider \$74,000 during the audit period.*
- *Twelve providers with licenses, suspended, surrendered or revoked were not properly terminated in the Medicaid processing system. These providers did not receive any payments during the audit period.*

According to Department management, GDIT was not monitored in accordance with the approved monitoring plan because the DHB staff that were responsible for the monitoring became part of the Managed Care transition project team and the Department did not allocate additional resources to ensure that GDIT would continue to be adequately monitored. Federal regulations require the agency to “establish and maintain effective internal control over the federal award that provides reasonable assurance that the Department is managing the program in compliance with federal statutes, regulation, and the terms and conditions of the federal award”. Following internally developed monitoring procedures would be an effective control over compliance.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.778 (Medical Assistance Program (Medicaid; Title XIX)); Federal Award Numbers (award periods): 05-1805NC5MAP (October 1, 2017 - September 30, 2018) and 05-1905NC5MAP (October 1, 2018 – September 30, 2019).

OSA Recommendation: *Department management should allocate the necessary resources to DHB to ensure that GDIT is monitored in accordance with the approved monitoring plan.*

Agency Response: *The Department agrees with this finding. The preparation for the transition to Managed Care required additional staffing resources that were not made available to the Department. As a result, Managed Care transformation activities were prioritized against daily operational tasks. In order to free up resources for Managed Care transition, the Department adjusted daily tasks such as reducing monitoring sample sizes, increasing staff workloads and suspending certain work efforts. Additionally, key supervisory staff were required to prioritize Manage Care activities over some daily, operational activities. As a result, supervisory monitoring of some daily operational activities, like the one identified in the audit finding, did not always occur in a timely or effective manner. When the work effort for Managed Care transformation slows (e.g. due to the temporary suspension), the Department adjusts staff priorities to address gaps created in daily operational tasks and takes necessary steps to ensure commitments are fulfilled.*

The Department reviewed the management monitoring plans noted in the finding and updated the plans to ensure monitoring requirements are clear and achievable with minimal staff.

Corrective Action Plan: *The Department has taken the following corrective action to address the finding:*

- *The procedures in the Provider Operations’ Monitoring Plan and the Management Monitoring Control Plan were updated in January 2020 to clarify that if notices are not received from all of the Licensing Board listservs during a given month, additional samples will be pulled from the notices that were received to ensure not less than five are monitored monthly as required.*
- *The Provider Operations’ Monitoring Plan and the Management Monitoring Control Plan procedures were updated on December 5, 2019 and January 16, 2020, respectively. These*

plans require the managers to review monthly the management monitoring findings including documented discussions with monitoring staff and/or disciplinary actions for failure to follow established procedures.

- *The CMS Listserv monitoring log for SFY 2018-2019 was updated in December 2019 to address months when monitoring was not performed.*
- *The Department reviewed the license sanctions submitted by the pharmacy provider after it initially failed to disclose them and determined the provider was still eligible to participate in Medicaid. The Department further reviewed the license sanction of the pharmacist and determined the provider was still eligible to participate as a Medicaid provider. The Provider Operations team is currently reviewing the twelve providers noted with suspended, surrendered or revoked licenses and will take appropriate action.*

Anticipated completion date: April 30, 2020.

OIA Follow-up Results

The Department has fully implemented procedures to address the finding. The Department updated the *Management Monitoring Tool, Monitoring Plan, and Management Monitoring Control Plan* to clarify procedures and require additional documentation of management's review of monitoring activities. In addition, the Department enhanced oversight of monitoring activities to ensure compliance with the monitoring plan. A temporary compliance assistant was hired to support compliance monitoring activities.

During SFY 2020, the Department continued to monitor the required number of board notices and applications in accordance with the monitoring plan. The CMS Listserv monitoring was completed for the months when monitoring was not performed and continued to monitor the CMS Listserv during SFY 2020.

The Department reviewed the pharmacy providers who initially failed to disclose their sanctions and determined the provider was still eligible to participate in Medicaid. In addition, the twelve providers with suspended, surrendered, or revoked licenses were evaluated to ensure they were properly terminated in the Medicaid processing system.

The Department has fully implemented the corrective action plan and mitigated the risk associated with OSA finding 2019-062 to an acceptable level to prevent the finding from recurring.

OIA considers this finding resolved as of August 6, 2020.

10. OSA FINDING AND RECOMMENDATION – 2019-063: DEFICIENCIES IN THE MEDICAID ELIGIBILITY DETERMINATION PROCESS

93.778 MEDICAL ASSISTANCE PROGRAM

***Finding 2019-063:** The Department made \$61,044 in Medical Assistance Program (Medicaid) payments to providers for ineligible beneficiaries based on inaccurate and inadequately documented eligibility determinations. During the audit period, approximately 2.1 million beneficiaries received \$11.4 billion in Medicaid benefits.*

The task of determining eligibility for the Medicaid program has been delegated to the county departments of social services (DSS). However, the Department was responsible for ensuring compliance with the eligibility requirements.

Auditors reviewed the client case files for a statistical sample of 633 beneficiaries and found one or more errors in 13 (2.05%) cases. Specifically:

- Four (0.63%) beneficiaries were found to be ineligible during the coverage period. This was due to inaccurate eligibility determination calculations, inaccurate eligibility category, and inaccurate patient medical liability. Payments totaling \$60,910 (federal share \$40,960) were paid on behalf of these ineligible beneficiaries.
- One (0.16%) beneficiary was eligible during the coverage period, however an error was made in the determination of the patient medical liability amount for three months of the coverage period. The Department paid \$134 (federal share \$90) because of this error.
- Eight (1.26%) client files were missing some of the required eligibility documentation. Examples of missing information included proof of residency, online verification documentation, and reasons for forced eligibility. Further, some income calculations were inaccurate. However, when auditors redetermined eligibility using updated information, the beneficiary was eligible.

As a result, there is an increased cost for the Medicaid Program for both the State and federal government. The program is jointly financed by these two governments, and is administered by the State. In addition, the federal share of \$41,050 that was paid on behalf of ineligible beneficiaries is considered questioned costs.

Although \$61,044 resulted from the errors identified, the amount of Medicaid funds paid on behalf of ineligible beneficiaries is likely greater. Self-attestation by applicants is accepted for certain elements of the Modified Adjusted Gross Income methodology of determining eligibility. Further verification or documentation is not required. Auditors tested participant eligibility using the documentation contained in the case files, which includes self-attested data that could not be verified by the auditors.

According to the Department, the eligibility errors occurred because of inaccurate application of established policies by the county DSS staff. The county DSS staff utilize NC FAST to input data and make eligibility determinations, however, the Department is responsible for establishing the eligibility determination policies, maintain NC FAST, and training the county DSS staff.

Federal regulations require that the Department, or its designee, determine client eligibility for all individuals applying for or receiving benefits in accordance with eligibility requirements defined in the approved State plan.

Further, federal regulations require that documentation be obtained as needed to determine if a beneficiary meets specific income standards and documentation must be maintained to support eligibility determinations.

This finding was previously reported in the 2018 Statewide Single Audit as finding number 2018-028. Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.778 (Medical Assistance Program (Medicaid; Title XIX)); Federal Award Numbers (award periods): 05-1805NC5MAP (October 1, 2017 - September 30, 2018) and 05-1905NC5MAP (October 1, 2018 – September 30, 2019).

OSA Recommendation: Department management should provide adequate training and retraining as necessary to ensure that county DSS staff perform Medicaid eligibility determinations correctly.

Agency Response: The Department agrees with this finding and is pleased that the 97.95% accuracy rate noted in this audit exceeds the established 96.8% accuracy standard set by the Department (in line with CMS standards) for eligibility determinations. The Department is continuing to work with the

county Departments of Social Services (DSS) to strengthen the accuracy of eligibility determinations. The Department recognizes the tremendous improvement in performance by the counties' staff.

We also recognize that there is still more work to be done. As part of ongoing efforts to improve oversight and collaboration with county DSS staff, the Department implemented the Recipient Eligibility Determination Audits (REDA) program in 2019 and in 2020 will implement the county staff certification program for NC FAST.

While the audit sample included eligibility determinations from 89 of the 100 North Carolina counties, the 13 errors noted in the audit report occurred across only 10 counties. The Department will follow-up on each of the errors with the indicated counties and take appropriate corrective action.

Corrective Action Plan: The Department will review each of the errors noted and follow-up with each county indicated to establish a corrective action plan where necessary. The Department will implement the county staff certification program through NC FAST to ensure county workers are provided adequate training.

Errors resulting in the overpayment of Medicaid claims will be recouped from the counties.
Anticipated Completion Date: December 31, 2020.

OIA Follow-up Results

The Department has partially implemented procedures to address the finding. The Department has implemented Recipient Eligibility Determination Audits and conducting audits of county eligibility cases to ensure accuracy. The NC FAST Certification Program is a comprehensive training program for caseworkers who input data and make eligibility determinations for State programs. A pilot of the program is expected to begin in late October 2020 with the first group of six counties. The Department will implement the program across all 100 counties by July 31, 2021.

The Department issued Tentative Notice of Overpayment letters to providers, identified by OSA, for recoupment of overpayments as well as emphasizing the importance of compliance with regulatory requirements. An accounts receivable was established by the Office of the Controller to ensure the federal share is repaid. The Department continues to provide routine education to providers detailing compliance requirements for federal, state, and local regulatory rules and laws.

The Department has partially implemented the corrective action plan and mitigated the risk associated with OSA finding 2019-063 to an acceptable level to prevent the finding from recurring. OIA considers this finding partially resolved with an anticipated completion date of July 31, 2021.

11. OSA FINDING AND RECOMMENDATION – 2019-064: BUSINESS CONTINUITY AND DISASTER RECOVERY PLAN NOT TESTED

93.778 MEDICAL ASSISTANCE PROGRAM

Finding 2019-064: 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).

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.778 (Medical Assistance Program (Medicaid; Title XIX)); Federal Award Numbers (award periods): 05-1805NC5MAP (October 1, 2017 – September 30, 2018) and 05-1905NC5MAP (October 1, 2018 – September 30, 2019).

Agency Response: The Department agrees with the finding. 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 were 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.

Corrective Action Plan: The Department is committed to maintaining adequate 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 were 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.

Anticipated Completion Date: May 2020.

OIA Follow-up Results

The Department has partially implemented procedures to address the finding. 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 detailing follow-up results.

The Department has partially implemented the corrective action plan and mitigated the risk associated with OSA finding 2019-064 to an acceptable level to prevent the finding from recurring. OIA considers this finding partially resolved, with an anticipated completion date of December 18, 2020.

12. OSA FINDING AND RECOMMENDATION – 2019-065: DELAYED REMEDIATION OF WEAKNESSES

93.778 MEDICAL ASSISTANCE PROGRAM

Finding 2019-065: 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).

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.778 (Medical Assistance Program (Medicaid; Title XIX)); Federal Award Numbers (award periods): 05-1805NC5MAP (October 1, 2017 – September 30, 2018) and 05-1905NC5MAP (October 1, 2018 – September 30, 2019).

Agency Response: The Department agrees with the finding. 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 were 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.

Corrective Action Plan: The Department is committed to maintaining adequate 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 were 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.

Anticipated Completion Date: May 2020.

OIA Follow-up Results

The Department has partially implemented procedures to address the finding. 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 detailing follow-up results.

The Department has partially implemented the corrective action plan and mitigated the risk associated with OSA finding 2019-065 to an acceptable level to prevent the finding from recurring.

OIA considers this finding partially resolved, with an anticipated completion date of March 30, 2021.

13. OSA FINDING AND RECOMMENDATION – 2019-066: DELAYED REMEDIATION OF WEAKNESSES **93.778 MEDICAL ASSISTANCE PROGRAM**

Finding 2019-066: 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).

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.778 (Medical Assistance Program (Medicaid; Title XIX)); Federal Award Numbers (award periods): 05-1805NC5MAP (October 1, 2017 – September 30, 2018) and 05-1905NC5MAP (October 1, 2018 – September 30, 2019).

Agency Response: The Department agrees with the finding. 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 were 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.

Corrective Action Plan: The Department is committed to maintaining adequate 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 were 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.

Anticipated Completion Date: May 2020.

OIA Follow-up Results

The Department has partially implemented procedures to address the finding. 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 detailing follow-up results.

The Department has partially implemented the corrective action plan and mitigated the risk associated with OSA finding 2019-066 to an acceptable level to prevent the finding from recurring.

OIA considers this finding partially resolved, with an anticipated completion date of October 31, 2020.

14. OSA FINDING AND RECOMMENDATION – 2019-067: SUBRECIPIENT MONITORING PROCEDURES NEED IMPROVEMENT

93.788 STATE TARGETED RESPONSE TO THE OPIOID CRISIS

Finding 2019-067: The Department did not adequately monitor subrecipients of the Opioid State Targeted Response (Opioid) grant. During the audit period, the Department provided \$25.5 million in Opioid funds to subrecipients.

The Division of Mental Health/Development Disabilities/Substance Abuse Services (Division) did not review the supporting documentation for expenditures made from Opioid funding in the annual monitoring visits of the seven Local Management Entity-Managed Care Organizations (LME-MCO).

Additionally, we reviewed the subaward documentation for all 12 subrecipients that received a subaward during the audit period and noted that the documentation for seven (58%) subrecipients did not include the following required federal award information:

- Subrecipient's Unique Entity Identifier*
- Federal Award Identification Number (FAIN)*
- Identification of whether the award is research and development*
- Indirect Cost Rate for the federal award*

Inadequate monitoring increased the risk that the Department would not detect if Opioid funds were not used in accordance with the federal requirements. According to the Department, they did not review the supporting documentation for Opioid expenditures during the annual monitoring visit because the LME-MCO site visit monitoring procedures were not updated. The Division received the first Opioid grant in state fiscal year 2017. However, they did not update their site visit monitoring procedures to include the Opioid program, which could have directed them to review the LME-MCO's financial and programmatic records to support the Opioid funds received.

Further, the Department did not communicate all of the required federal award information to its subrecipients because Division management did not know that the links provided in the subaward documents did not include references to the omitted elements.

Federal regulations require the Department to monitor the activities of its subrecipients as necessary to ensure that the subaward was used for authorized purposes, in compliance with the Federal statutes, regulations, and the terms and conditions of the subaward; and that performance goals are achieved. Further, federal regulations require the department to clearly identify the award as a subaward and include specific federal award information at the time of the subaward.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.788 (Opioid State Targeted Response); Federal Award Numbers (award periods): T1080257 (May 1, 2017 – January 31, 2020) and H79T1081710 (September 30, 2018 – September 29, 2020).

OSA Recommendation: Department management should modify their subrecipient site visit monitoring procedures as necessary when new sources of funding are provided to their subrecipients. Additionally, Department management should test the links in the contracts and allocation memorandums to ensure they include all required federal award information in their subrecipient subaward documentation.

Agency Response: The Department agrees with the finding. The Office of the State Auditor (OSA) is correct that the Opioid grant was not included in the LME/MCO Annual Systems Performance Review

(ASPR) for SFY 2019. While the ASPR is an important part of DMH/DD/SAS's grant oversight, it is not the only tool used. Specifically, the ASPR occurs annually and at a single point in time. However, throughout SFY 2019, DMH/DD/SAS engaged in ongoing, meaningful programmatic and budgetary monitoring of the Opioid grant funds.

Nonetheless, the Department recognizes the need to include the Opioid grant in the ASPR cycle. Therefore, it will be included in the ASPR for state fiscal year 2020. Further, the Department has taken corrective actions as of September 1, 2019 to include all required federal award information and/or all grant-required data elements in the award letters to its subrecipients. The Department has updated processes to ensure this federal requirement is met.

Corrective Action Plan: The Opioid STR grant will be included in the Department's Annual Systems Performance Review (ASPR) for state fiscal year 2020.

Additionally, all required federal award information will be included in the award letter to its subrecipients. As of September 1, 2019, the Department has updated its processes to ensure that this requirement is met moving forward.

Anticipated Completion Date: The Department has already begun to implement these corrective actions and will complete implementation by November 1, 2020.

OIA Follow-up Results

OIA conducted a follow-up review and determined that the Department has not implemented sufficient procedures to address the OSA finding. The Department has updated the monitoring review tool to incorporate the review of the State Opioid Grant.

In March 2020, the Department issued a letter to the subrecipients (LME-MCOs) stating that "all state and Medicaid audits, settlements, and other oversight functions that do not impact consumer health and safety" will be recessed due to COVID-19. The Department anticipates the SFY 2020 monitoring reviews will be completed by July 1, 2021.

The Department included all required federal award information in the revised SFY 2021 State Opioid Grant award letters sent to the LME-MCOs.

The Department has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2019-067.

OIA considers this finding partially resolved with an anticipated completion date of July 1, 2021.

15. OSA FINDING AND RECOMMENDATION – 2019-069: SUBRECIPIENT MONITORING NEEDS IMPROVEMENT 93.959 BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE

Finding 2019-069: The Department did not adequately monitor subrecipients of the Block Grants for Prevention and Treatment of Substance Abuse (SABG). During the audit period, the Department provided \$36.4 million in SABG funds to subrecipients.

The Division of Mental Health/Development Disabilities/Substance Abuse Services (Division) did not perform timely settlement reviews at the seven Local Management Entity-Managed Care Organizations (LME-MCOs). The settlement reviews that were performed during the audit period were for SFY 2015 and 2016 instead of the state fiscal year that had most recently ended, which was 2018. Settlement

reviews are required annually and gives the Division the opportunity to review supporting documentation of the prior state fiscal year (SFY) expenditures.

Additionally, we reviewed the subaward documentation for all 17 subrecipients that received a subaward during the audit period and noted that the documentation for nine (53%) subrecipients were missing some or all of the following required federal award information:

- Subrecipient's Unique Entity Identifier
- Federal Award Identification Number (FAIN)
- Identification of whether the award is research and development
- Indirect Cost Rate for the federal award
- Federal Award Project Description
- Name of the Federal Awarding Agency
- CFDA Number and Name
- Amount of Federal Funding obligated to the subrecipient

Inadequate monitoring increased the risk that the Department would not detect if SABG funds were not used in accordance with the federal requirements.

According to the Department, settlement reviews were not timely because they did not have experienced and knowledgeable staff to perform the reviews. When the Division started performing the settlement reviews in SFY 2010, they were instructed to start with expenditures from SFY 2008 and 2009. The intent was to catch up to the most recent SFY. However, significant staff turnover and difficulties recruiting staff for this specialized work have delayed the Division's plan to get caught up on these reviews.

Further, the Department did not communicate all of the required federal award information to its subrecipients because Division management did not know that the links provided in the subaward documents did not include references to the omitted elements.

Federal regulations require the Department to monitor the activities of its subrecipients as necessary to ensure that the subaward was used for authorized purposes, in compliance with the Federal statutes, regulations, and the terms and conditions of the subaward; and that performance goals are achieved. Further, federal regulations require the department to clearly identify the award as a subaward and include specific federal award information at the time of the subaward.

Federal Award Information: Federal Awarding Agency: U.S. Department of Health and Human Services; CFDA Number (title): 93.959 (Block Grants for Prevention and Treatment of Substance Abuse); Federal Award Numbers (award periods): T1010032-17 (October 1, 2016 – September 30, 2018) and B08T1010032-18 (October 1, 2017 – September 30, 2019).

OSA Recommendation: Department management should employ multiple measures to ensure compliance. First, management should ensure that staff are properly trained to perform settlement reviews. Second, Department management should monitor the progress of the settlement reviews to ensure that, despite staffing issues, the reviews are performed as required to reduce the risk that federal funds may need to be refunded to the Federal awarding agency if noncompliance goes undetected.

Additionally, Department management should test the links in the contracts and allocation memorandums to ensure they include all required federal award information in their subrecipient subaward documentation.

Agency Response: *The Department agrees with the finding. The Office of the State Auditor (OSA) is correct that DMH/DD/SAS had not completed the relevant settlement audit when this audit was underway. While the settlement audit is an important part of DMH/DD/SAS's grant oversight, it is not the only tool used. Specifically, a final settlement audit occurs after a state fiscal year is over and at a single point in time. However, throughout SFY 2019, DMH/DD/SAS engaged in ongoing, meaningful programmatic, budgetary, and expense monitoring oversight for the Substance Abuse Block Grant (SABG).*

The Department is committed to administering federal grant awards in compliance with all applicable federal guidance. This finding was due to not having enough staff to perform timely annual settlement reviews at the Local Management Entity-Managed Care Organizations.

Prior to OSA's current audit of SABG subrecipient monitoring, the Department enhanced the established subrecipient monitoring plan and the settlement reviews process to ensure the reviews are performed timely. The plan is being implemented expeditiously. The SFY 2018 and SFY 2019 settlement audit cycles are scheduled to begin in early 2020, and the Department is on track to complete those by the end of the current state fiscal year. Also, as part of the review process, supporting documentation for expenditures will be reviewed to ensure federal compliance.

The Department implemented corrective actions as of September 1, 2019 to ensure all required federal award information and/or all grant-required data elements are included in the award letters to its subrecipients. In addition, the Department updated processes to ensure this federal requirement is met.

Corrective Action Plan: *Prior to the Office of the State Auditor's (OSA) current audit of SABG subrecipient monitoring, the Department enhanced the established subrecipient monitoring plan and the settlement reviews process to ensure the reviews are performed timely. The plan is being implemented expeditiously. The SFY 2018 and SFY 2019 settlement audit cycles are scheduled to begin in early 2020, and the Department is on track to complete those by the end of the current state fiscal year. Also, as part of the review process, supporting documentation for expenditures will be reviewed to ensure federal compliance.*

The Department implemented corrective actions as of September 1, 2019 to ensure all required federal award information and/or all grant-required data elements are included in the award letters to its subrecipients. In addition, the Department updated processes to ensure this federal requirement is met.

Anticipated Completion Date: The Department has already begun to implement these corrective actions and will complete implementation by December 31, 2020.

OIA Follow-up Results

OIA conducted a follow-up review and determined that the Department has not implemented sufficient procedures to address the OSA finding. The Department began the SFY 2018 and 2019 settlement audits in February 2020. In March 2020, the Department issued a letter to the LME-MCOs stating that "all state and Medicaid audits, settlements, and other oversight functions that do not impact consumer health and safety" will be recessed due to COVID-19. The Department anticipates the SFY 2020 monitoring reviews will be completed by July 31, 2021.

The Department utilizes an Allocation Letter Checklist. A copy of the award letter is requested so that all required federal award information can be referenced correctly in the allocation letters. The required federal award information was incorporated into the SFY 2021 Allocation Letter template

which included a functioning link. The template will be used to generate the SFY 2021 award letters to send to the LME-MCOs.

The Department has partially implemented the corrective action plan and partially mitigated the risk associated with finding 2019-069.

OIA considers this finding partially resolved with an anticipated completion date of July 31, 2021.