



STATE OF NORTH CAROLINA

FISCAL CONTROL AUDIT REPORT ON HEALTH AND WELLNESS TRUST FUND RALEIGH, NORTH CAROLINA

FOR THE PERIOD FEBRUARY 1, 2002 THROUGH JANUARY 31, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FISCAL CONTROL AUDIT REPORT ON
HEALTH AND WELLNESS TRUST FUND
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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Commission Members, Health and Wellness Trust Fund
James Davis, Executive Director

This report presents the results of our fiscal control audit of the Health and Wellness Trust Fund for the period February 1, 2002 through January 31, 2003. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The objective of the audit was to gather and evaluate evidence about selected internal control policies and procedures designed to ensure reliable financial accounting and reporting and compliance with finance-related laws, regulations, and contract provisions.

The results of our tests disclosed no significant weaknesses in internal control or significant instances of noncompliance or abuse which require disclosure under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in black ink that reads 'Ralph Campbell, Jr.'.

Ralph Campbell, Jr.
State Auditor

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BACKGROUND INFORMATION

In 1998, the State of North Carolina and forty-six other states entered into a Master Settlement Agreement (MSA) with the nation's largest tobacco companies to settle claims for damages arising from the use of the tobacco products. Under the MSA, the tobacco companies are required to adhere to a variety of marketing, advertising, lobbying, and youth access restrictions; support smoking cessations and prevention programs; and provide payments to the states in perpetuity. North Carolina will receive an estimated \$4.6 billion through the year 2025 from this settlement.

North Carolina enacted legislation (General Statute 147-86.30) in 2000 that established the Health and Wellness Trust Fund (Fund). The Fund will receive 25% of the total tobacco settlement, approximately \$1.15 billion through 2025, which is to be used in a comprehensive plan to finance grants, programs, and initiatives to improve the health and wellness of the people of North Carolina. The legislation requires that one-half of the moneys received by the Fund be set aside as a permanent endowment. The other half, plus investment earnings on the endowment, are to be used to:

- Address the health needs of vulnerable and underserved populations in North Carolina;
- Fund programs and initiatives that include research, education, prevention, and treatment of health problems in North Carolina and increase the capacity of communities to respond to public health needs;
- Develop a comprehensive, community-based plan with goals and objectives to improve the health and wellness of the people with priority on preventing, reducing, and remedying the health effects of tobacco use and with an emphasis on reducing youth tobacco use.

Under the law, the Fund is administered by the eighteen-member Health and Wellness Trust Fund Commission. The members are appointed by the Governor, President Pro Tempore of the Senate, and the Speaker of the House of Representatives. Appointments are made to ensure that the Commission has a wide ranging background of health care experience from across the State. The Commission elected Lieutenant Governor Beverly E. Perdue to serve as Chair.

As required by the General Statutes, the Department of State Treasurer has served as custodian and investor of the Fund's assets and has accounted for all financial transactions of the Fund. Through contractual relationships between the Commission and the Department of Justice, attorneys at the Attorney General's Office have managed all legal matters of the Fund. In April 2002, the Commission hired an executive director to help administer and coordinate the work of the Fund. The executive director is assisted by a staff of three employees.

BACKGROUND INFORMATION (CONTINUED)

Significant actions affecting the Fund's finances and objectives since inception include:

- May 2001: The Commission voted to develop a three-year work plan to address focus areas that will be the primary initiatives of the Health and Wellness Trust Fund. The current focus areas identified are: (1) Prescription Drugs for Seniors, (2) Teen Smoking Prevention and Cessation, and (3) Research, Education and Prevention.
- December 2001: The Commission approved a prescription drug program for North Carolina seniors and allocated funding of \$32 million dollars per year for three years. This program, called *Senior Care*, covers all North Carolina seniors 65 and over with an income between 0% and 200% of the federal poverty level who are without any prescription drug insurance, projected to be approximately 100,000 people. The program is disease-specific, covering three diseases: cardiovascular disease, diabetes mellitus and chronic obstructive pulmonary disease. Participants are required to contribute 40% of the cost of covered drugs, and the State pays 60% with an annual expenditure limit of \$600.
- April 2002: The Governor directed by executive order that approximately \$32 million in payments due to the Fund be transferred to the State's General Fund to help balance the budget for the year ended June 30, 2002.
- May 2002: The Commission voted to adopt the Teen Tobacco Use Prevention and Cessation proposal that was based on the *NC Vision 2010 Comprehensive Plan* submitted by the Vision 2010 Coalition. The Commission allocated \$6.2 million annually to this initiative for three years. The Plan increases the capacity of communities to respond to the public's health needs by funding local community/school interventions. It places a priority on preventing, reducing and remedying the health effects of teen tobacco use by creating assistance for those who want to stop using tobacco products. Further, it places emphasis on reducing youth tobacco use through public education, school-based interventions, teen cessation programs and enforcement of the state law restricting tobacco sales to minors.
- October 2002: North Carolina enacted a budget for the fiscal year ending June 30, 2003 that included a \$40 million transfer of Fund receipts to the State's General Fund to help cope with the budget shortfall. To compensate for the transfer, the Trust was allowed to move up to \$18 million of endowment balance to unreserved, thus eliminating the amount endowed to date.
- October 2002: The Commission awarded a total of \$8.7 million over three years to twenty-four new and existing community-based programs to assist North Carolina seniors and low-income individuals of all ages in acquiring free, low cost, or discounted medications. In addition, any senior will be able to receive counseling on the safe and wise use of prescription drugs. Funded organizations will contract with local pharmacists to counsel seniors in identifying drug utilization issues such as

BACKGROUND INFORMATION (CONCLUDED)

drug-to-drug interactions and duplicative therapies. Seniors who are eligible for *Senior Care* will receive counseling services at no cost. Other seniors will be able to use the service through payment of a minimal fee based upon ability to pay. The grant will also cover the cost of both salary and training for Prescription Assistance Coordinators who will operate specially designed software provided by the Department of Health and Human Services to help clients locate and apply for the lowest-cost prescription drugs available.

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OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

OBJECTIVES

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes* and in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have conducted a fiscal control audit at the Health and Wellness Trust Fund. The objective of the audit was to gather and evaluate evidence about selected internal control policies and procedures designed to ensure reliable financial accounting and reporting and compliance with finance-related laws, regulations, and contract provisions for the period February 1, 2002 through January 31, 2003.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

SCOPE

Our audit scope included selected internal controls in the following areas:

Financial Accounting and Reporting

Grant Award and Disbursement Cycle - The entity's grant award and disbursement cycle consists of the activities associated with awarding grants and disbursing cash to grantees. The cycle also included funds disbursed to vendors that provide contracted personal services for allowable purposes. Financial statement accounts impacted by this cycle include cash, services, grants, and transfers out.

Finance-related Compliance

Allowability and Eligibility - Laws, regulations, and/or contracts commonly restrict the use of certain resources to specific allowable costs. Likewise, organizations and individuals must often meet specific criteria in order to be eligible for benefits in particular programs. For example, General Statutes allow only State agencies, local governments, and certain nonprofit entities to receive grants from the Fund. Grants are restricted to the development of programs and initiatives to improve the health and wellness of the citizens of North Carolina.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

Monitoring Grant Recipients - Laws, regulations, and/or contracts commonly require entities to monitor grant recipients to ensure that the funded programs are carried out in accordance with specified requirements. For example, the General Statutes require that the Commission develop criteria to measure and evaluate the outcomes of funded programs. Accordingly, the Commission has designed monitoring procedures such as requiring grantees to provide monthly financial reports, monthly activity reports, and semi-annual progress reports in a prescribed format and within a prescribed timeframe.

Special Provisions - Laws, regulations, and/or contracts commonly impose specific requirements on particular entities or activities. For example, General Statutes require that the Commission develop criteria for awarding grants. As a result, the Commission and staff drafted Chapter 20 of the North Carolina Administrative Code to set forth the requirements and procedures for the grant award process.

METHODOLOGY

To accomplish our audit objectives, we gained an understanding of internal control, performed tests of control effectiveness, and performed corroborating direct tests of the accounting records, reports, and/or compliance as we considered necessary in the circumstances. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Our procedures were more limited than would be necessary to give an opinion on internal control, and accordingly, we do not express such an opinion.

RESULTS

The results of our tests disclosed no significant weaknesses in internal control or significant instances of noncompliance or abuse which require disclosure under *Government Auditing Standards*.

The purpose of this report is to provide management and oversight organizations recommendations needed to improve internal control over financial accounting and reporting and compliance with finance-related laws, regulations, and contract provisions. Consequently, reporting on accomplishments in areas that appear to be functioning properly is beyond the scope of this audit.

DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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Mr. Robert L. Powell
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The Health and Wellness Trust Fund

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April 21, 2003

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