

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

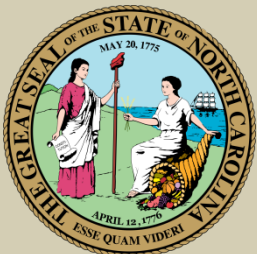
BETH A. WOOD, CPA



DEPARTMENT OF HEALTH AND HUMAN SERVICES

RALEIGH, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES
FOR THE YEAR ENDED JUNE 30, 2018



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Beth A. Wood, CPA
State Auditor

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Office of the State Auditor



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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Dr. Mandy K. Cohen, Secretary
North Carolina Department of Health and Human Services

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs, we have completed certain audit procedures at the North Carolina Department of Health and Human Services for the year ended June 30, 2018.

Our responsibility is to express an opinion on compliance for each of the State of North Carolina's major federal programs based on our audit of the types of compliance requirements referred to above. However, the results included herein are in relation to our audit scope at the Department and not to the State of North Carolina as a whole. The State Auditor expresses an opinion on the State's compliance with requirements applicable to its major federal programs in the State's *Single Audit Report*.

Our federal compliance audit scope at the North Carolina Department of Health and Human Services included the following:

- CFDA 10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children
- CFDA 10.558 – Child and Adult Care Food Program
- CFDA 84.181 – Special Education—Grants for Infants and Families
- Aging Cluster:
 - CFDA 93.044 – Special Programs for the Aging—Title III, Part B—Grants for Supportive Services and Senior Centers
 - CFDA 93.045 – Special Programs for the Aging—Title III, Part C—Nutrition Services
 - CFDA 93.053 – Nutrition Services Incentive Program
- Child Care and Development Fund (CCDF) Cluster:
 - CFDA 93.575 – Child Care and Development Block Grant

- CFDA 93.596 – Child Care Mandatory and Matching Funds of the Child Care and Development Fund
- CFDA 93.563 – Child Support Enforcement
- CFDA 93.568 – Low-Income Home Energy Assistance (LIHEAP)
- CFDA 93.569 – Community Services Block Grant
- Medicaid Cluster:
 - CFDA 93.775 – State Medicaid Fraud Control Units
 - CFDA 93.777 – State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
 - CFDA 93.778 – Medical Assistance Program (Medicaid; Title XIX)

Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

We conducted our audit of compliance in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

Other Matters

Compliance

The results of our audit procedures at the North Carolina Department of Health and Human Services disclosed instances of noncompliance that are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of Findings, Recommendations, and Responses section of this report. These include the following findings:

Finding Number	Type of Compliance Requirement	CFDA	Major Federal Program
3	Activities Allowed or Unallowed / Allowable Costs / Cost Principles / Eligibility	93.778	Medical Assistance Program
6	Eligibility	93.778	Medical Assistance Program

Internal Controls

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that were not identified. However, as described in the accompany Findings, Recommendations, and Responses section, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

We consider the deficiency for the following finding described in the Findings, Recommendations, and Responses section of this report to be a material weakness in internal control over compliance.

Finding Number	Type of Compliance Requirement	CFDA	Major Federal Program
6	Eligibility	93.778	Medical Assistance Program

We consider the deficiencies for the following findings described in the Findings, Recommendations, and Responses section of this report to be significant deficiencies in internal control over compliance.

Finding Number	Type of Compliance Requirement	CFDA	Major Federal Program
1	Subrecipient Monitoring	93.575	Child Care and Development Block Grant
2	Reporting	93.568	Low-Income Home Energy Assistance
3	Activities Allowed or Unallowed / Allowable Costs / Cost Principles / Eligibility	93.778	Medical Assistance Program
4	Allowable Costs / Cost Principles / Special Tests and Provisions	93.778	Medical Assistance Program
5	Allowable Costs / Cost Principles / Special Tests and Provisions	93.778	Medical Assistance Program

Reporting Sensitive Information

We noted certain deficiencies in information systems controls that were only generally described in this transmittal. Details about these deficiencies, due to their sensitive nature, were communicated to management in a separate letter.

North Carolina Department of Health and Human Services' Response to Findings

The Department's responses to the findings identified in our audit are included in the Findings, Recommendations, and Responses section of this transmittal. The Department's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Purpose of This Transmittal

The purpose of this transmittal is solely to describe the scope of our testing of internal control over compliance and testing of compliance and the results of that testing at the North Carolina Department of Health and Human Services based on the requirements of the Uniform Guidance. Accordingly, this transmittal is not suitable for any other purpose.

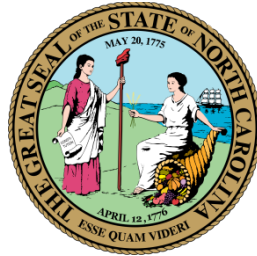
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Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 19, 2019



FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Federal Compliance Audit Objectives**CCDF CLUSTER – CHILD CARE AND DEVELOPMENT FUND**

1. FEDERAL AWARD INFORMATION WAS NOT INCLUDED IN SUBAWARD

The Department did not communicate all the required federal award information when awarding funds to subrecipients of the Child Care Development Fund Cluster (CCDF). During the audit period, the Department provided \$2.6 million in CCDF funding to North Carolina Public Schools and Partnerships for Children to provide high-quality pre-kindergarten services.

The Department awarded funds to 79 pre-kindergarten subrecipients during the audit period, using contracts to communicate the Federal award information. Out of a sample of 16 contracts, eight (50%) did not include the following federal award information:

- Subrecipients unique entity identifier
- Federal Award Identification Number (FAIN)
- Federal award date
- Federal awarding agency
- CFDA name and number
- Identification of whether the award is research and development
- Indirect cost rate for the federal award

Not communicating all the required federal award information increases the risk that CCDF funds would not be used in accordance with the federal requirements.

According to the Department, the information was not included in the pre-kindergarten contracts because it was not aware of the requirement. The Department only included the federal award information in the contract if the amount of federal funding equaled or exceeded \$25,000. The subrecipients were awarded less than \$25,000 in all the errors identified.

There were an additional 29 pre-kindergarten contracts where the amount of the federal funding was less than \$25,000 and part of the federal award information was omitted.

Federal regulations¹ require the Department to 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): 93.575 (Child Care and Development Fund Block Grant); Federal Award Number (award period): G1701NCCCDF (October 1, 2016 – September 30, 2019).

¹ 2 CFR section 200.331(a)(1) – provides the complete list of the required information that should be identified to the subrecipient at the time of the award.

Recommendation: Department management should ensure that staff responsible for managing the grant have a clear understanding of the Federal regulations, and should include all of the required federal award information in all contracts with their subrecipients.

Agency Response: The Department agrees with the finding. The Department revised its current practice and is now notifying all subrecipients of all required federal award information.

CFDA 93.568 – LOW-INCOME HOME ENERGY ASSISTANCE (LIHEAP)

2. INACCURATE HOUSEHOLD INFORMATION REPORTED TO FEDERAL GOVERNMENT

The Department submitted an inaccurate special report for the Low Income Home Energy Assistance Program (LIHEAP)² to the U.S. Department of Health and Human Services, Administration for Children and Families (ACF). During the audit period, the Department provided \$79.8 million in LIHEAP Assistance to eligible households.

Auditors obtained the supporting data and recalculated the amounts included in the *Annual Report on Households Assisted by the Low Income Home Energy Assistance Program* submitted in December 2017 for the period of October 1, 2016 – September 30, 2017. The report contains information such as the number and income levels of households that applied for and were assisted by LIHEAP funding. Variances were identified between the submitted report and the auditor recalculated amounts.

The following variances were identified:

Category	December 2017 submission	Auditor Results	Variance
Households receiving crisis assistance	104,853	107,073	(2.12%)
Households receiving emergency repair or replacement assistance	1,004	801	20.22%
Households receiving weatherization assistance	1,142	1,079	5.52%
Households applying for heating assistance	135,658	135,553	0.08%
Households applying for crisis assistance	112,795	115,331	(2.25%)
Households applying for emergency repair or replacement assistance	1,170	1,070	8.55%
Households applying for weatherization assistance	1,328	1,227	7.61%

² LIHEAP provides assistance to eligible households to help meet their immediate home energy costs, increase their energy self-sufficiency, and reduce their vulnerability from energy needs.

As a result, there were additional errors in the reported number of assisted and applicant households by poverty level and the number of assisted households by vulnerable population.

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

According to the Department, the errors in the report occurred because there were no written procedures on how to accumulate and reconcile the data and prepare the report. Further, the review and approval of the completed report were not detailed enough to ensure the report was prepared accurately.

Federal regulations³ require that each state receiving funds shall submit to the U.S. Department of Health and Human Services a report of “the number and income level of the households which apply and the number which are assisted with LIHEAP funds; and the number of households so assisted with one or more members who attained 60 years of age; one or more members who were disabled; and one or more young children.”

Additionally, the Governmental Accountability Office (GAO) states that government managers have a fundamental responsibility for “ensuring that management and financial information is reliable and properly reported.”⁴

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

Recommendation: Department management should develop written procedures on how the household data should be accumulated and reconciled for completeness and accuracy as well as establish a detailed supervisory review and approval process of the report and the underlying data before it is submitted.

Agency Response: The Department agrees with the finding and is currently in the process of developing detailed procedures to address the issues going forward.

MEDICAID CLUSTER

3. ERRORS IN MEDICAID PROVIDER BILLING AND PAYMENT PROCESS

The Department made an estimated \$71.7 million net overpayment to Medicaid providers during state fiscal year 2018. During that period, the Department processed more than 84 million payments for fee-for-service claims totaling \$7.93 billion.

Auditors reviewed 726 fee-for-service payments totaling approximately \$45.9 million⁵ and identified 14 (1.9%) payments that contained errors. Specifically:

³ 42 USC 8624(c)(1)(G)

⁴ GAO, *Government Auditing Standards: Appendix 1: 2011 Revision*

⁵ The 726 items reviewed included 29 items that were deemed significant. These items were tested 100% and removed from the population. The other 697 items were selected from the remaining population using stratified variable sampling.

- Ten (1.4%) claims lacked documentation to support the services rendered by the provider. The result was a net overpayment of \$6,112 (federal share \$4,131).
- Four (0.5%) claims contained medical coding errors which impacted payment calculation. The result was a net underpayment of \$7,882 (federal share \$5,272).

As a result, the Department overpaid an estimated \$71.7 million⁶ that could have been used to provide additional services to other eligible beneficiaries or reduce overall program costs. Additionally, the overpayments of \$6,248 (federal share \$4,222) found in the sample are being questioned.⁷

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 regulations⁸ 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 agreement⁹ 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 2017 Statewide Single Audit as finding number 2017-024.

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): 05-1705NC5MAP (October 1, 2016 to September 30, 2017) and 05-1805NC5MAP (October 1, 2017 to September 30, 2018).

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 the finding. The Department routinely provides education to providers which details compliance requirements for federal, state and local regulatory rules and/or laws.

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

⁶ Auditors used stratified sampling to calculate the most likely error of \$71.7 million in overpayments. The largest underpayment was found in the significant items, which represented only 4% of total fee-for-service claims tested. Errors identified for these items are not projected to the population. All of the overpayment errors were found in the remaining population from which the sample was taken and were projected into the sampled population. When the known overpayment of \$6,248 found in the sample is projected to the sampled population, the likely total errors are \$71.7 million.

⁷ When the errors are evaluated at a 90% confidence interval, the results are unlikely to be less than an underpayment of \$175 million or more than an overpayment of \$319 million.

⁸ 2 CFR 200.403

⁹ In accordance with 42 CFR 431.107

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

4. LACK OF QUALITY ASSURANCE REVIEWS INCREASED RISK OF UNDETECTED PAYMENT ERRORS

The NC Department of Health and Human Services (Department) did not adequately monitor the work of some of its contractors that help ensure Medicaid services are medically necessary and payments are not fraudulent. The Department paid approximately \$11.4 billion to 19,247 providers during the fiscal year ended June 30, 2018.

First, the Department did not perform quality assurance reviews of the work that General Dynamics Information Technology (GDIT, formerly CSRA) performed. In part, GDIT was contracted to perform prior approvals of certain Medicaid services,¹⁰ products, and procedures to verify documentation of medical necessity.

Second, the Department did not consistently follow its plan for quality assurance reviews of the Local Management Entity-Managed Care Organizations (LME-MCOs).¹¹ LME-MCOs are contractually required to have a program integrity function to look for fraud in their programs and report cases to the Department and law enforcement, as necessary. The Department's plan required it to review cases closed, but not referred to the Department, by the LME-MCO's program integrity function on a sample basis to ensure that the LME-MCO made the correct decision.

Each quarter, the Department was required to review 20% (or no less than 2) of the cases closed by each LME-MCO's program integrity function but not referred to the Department. However, the Department failed to review the required amount for the first 2 quarters of the audit period at some of the LME-MCOs. Out of 7 LME-MCOs reviewed each quarter, the Department's monitoring consisted of:

- Quarter 1 – reviewed less than 20% of cases at 4 LME-MCOs (from 11%-19%)
- Quarter 2 – reviewed less than 20% of cases at 2 LME-MCOs (from 17%-19%)

Because the Department did not perform adequate quality assurance reviews, there was an increased risk that errors (i.e. services rendered that would have been denied or payments made for fraudulent claims) occurred and remained undetected. Without adequate reviews, the Department did not have reasonable assurance that the contractors effectively reviewed claims and identified payment errors.

According to Department management, the lack of monitoring occurred for two reasons.

First, monitoring of GDIT did not occur because the Department did not have written procedures for quality assurance reviews of contractors who perform prior approvals.

¹⁰ Services for which prior approvals are required include medical, surgical, pharmacy, durable medical equipment, dental services, and long-term services and support.

¹¹ LME-MCOs are quasi-governmental entities that contract with the Department to provide management and oversight of the public system of mental health, developmental disabilities, and substance abuse services at the community level.

Second, monitoring of LME-MCOs was inadequate because the Department lost its statistician. The statistician was responsible for selecting case files for quality assurance reviews. With the statistician gone, the Department did not have anyone who understood sampling methodology used to select case file for review. This also delayed the implementation of the monitoring plan until January 2018, retroactive to July 1, 2017.

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.¹²

Furthermore, federal regulations¹³ 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." The ongoing quality assurance reviews 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 Number (award period): 05-1705NC5MAP (October 1, 2016 to September 30, 2017) and 05-1805NC5MAP (October 1, 2017 to September 30, 2018).

Recommendation: Department management should develop and implement standardized contract monitoring policies and procedures to ensure that all prior approval contractors are monitored and are making decisions based on the need, reducing the risk of unnecessary Medicaid expenditures.

In addition, Department management should document the sampling methodology so that it is available to other employees in the future. The Department should train other employees to perform the sampling plan or develop other contingency plans to ensure that ongoing quality assurance reviews can be performed.

Agency Response: The Department agrees with this finding. The Department utilizes six vendors to perform prior approvals/assessments for the relevant services covered by North Carolina Medicaid. Monitoring procedures were not in place for one of the six vendors as noted by the State Auditor. NC Medicaid will implement a quarterly monitoring plan for GDIT utilizing a random sample of claims to be evaluated for proper prior approval treatment to ensure the vendor is following direct prior approval (PA) policy guidelines.

While the transition of the statistician role delayed the completion of the quality assurance reviews of LME/MCOs closed cases for quarters' one and two of State Fiscal Year 2018, the inadequate sample sizes were due to staff failing to replace sample items when an item was deemed to not meet the criteria for testing. The Department enhanced the sampling methodology documentation and provided training to appropriate staff on November 3, 2017 to ensure adequate coverage for sampling needs. Additionally, the Department will enhance the LME/MCO quality assurance review procedures to ensure executed sample sizes meet the 20% threshold as noted in the Department's quality

¹² <https://files.nc.gov/ncdoa/pandc/Documents/Contract-Administration-and-Monitoring-Guide/Contract-Administration-Guide.pdf>

¹³ 2 CFR 200.303 - Internal controls.

assurance review guidelines. The enhanced procedures will include a control to ensure a sufficient number of cases are reviewed.

5. INADEQUATE MONITORING OF THIRD PARTY CONTRACTOR

The results of our audit disclosed a security deficiency 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 Number (award period): 05-1705NC5MAP (October 1, 2016 to September 30, 2017) and 05-1805NC5MAP (October 1, 2017 to September 30, 2018).

Agency Response: The Department is committed to maintaining adequate information security and system access controls. The Department has designed and/or implemented corrective actions to address the risks identified in this audit. These corrective actions have been detailed in a response separately submitted to the State Auditor. Security risks are given the highest priority by the Department and corrective actions will be monitored.

6. DEFICIENCIES IN ELIGIBILITY DETERMINATION PROCESS

The Department made a projected \$29.1 million¹⁴ in Medical Assistance Program (Medicaid) payments for ineligible beneficiaries due to inaccurate and inadequately documented eligibility determinations. During the audit period, approximately 2 million beneficiaries received \$11.4 billion in Medicaid benefits.

The task of determining Medicaid eligibility has been delegated to the county departments of social services (DSS).¹⁵ However, the Department was responsible for ensuring compliance with the eligibility requirements.

Auditors reviewed the client files for a statistical sample of 9,600 paid claims¹⁶ and found one or more errors in 532 (5.54%) paid claims. Specifically:

- 466 (4.85%) paid claims were associated with client files that were missing some of the required eligibility documentation. Examples of missing information included proof of residency, online verification documentation, and inaccurate income calculations. However, auditors obtained updated information and determined that the beneficiaries were eligible.
- 66 (0.69%) paid claims were associated with client files that contained ineligible beneficiaries during the coverage period. In these client files, errors included incorrect certification periods,¹⁷ inaccurate eligibility determination calculations,

¹⁴ When the known error is projected to the entire population, the likely total error is \$29.1 million. When the errors are evaluated at a 95% confidence interval, the results are unlikely to be less than \$15.4 million or more than \$42.7 million.

¹⁵ *North Carolina General Statute §108A-25(b)*

¹⁶ Auditors selected 96 paid claims from each of the 100 counties.

¹⁷ The certification period is the continuous eligibility period for which the participant is considered eligible for services.

inaccurate program certifications, and untimely termination. Payments totaling \$6,268 (federal share \$4,229) were made on behalf of these ineligible beneficiaries.

As a result, the Department paid a projected \$29.1 million in error that could have been used to provide services for eligible beneficiaries.

The errors were made for two reasons.

First, the Department did not perform monitoring activities between October 2017 and June 2018 of county DSS eligibility determinations.

Second, the Department provided eligibility determination training to county DSS personnel that was neither mandatory nor sufficient to ensure consistent and accurate eligibility determinations.

These two procedural weaknesses existed despite the Department's awareness of deficiencies in the eligibility determination process. As auditors reported in January 2017,¹⁸ county DSS eligibility error rates ranged between 1.2% and 18.8% for new eligibility determinations and 1.2% and 23.2% for eligibility redeterminations.

Additionally, the procedural weaknesses existed despite the Department's awareness that the Legislature had addressed Medicaid eligibility errors. The North Carolina General Assembly enacted *North Carolina Session Law 2017-57*,¹⁹ which required the Department to establish accuracy standards, monitor quality, and audit the county eligibility determinations.

Federal regulations²⁰ 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 regulations²¹ 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 2017 Statewide Single Audit Report as finding number 2017-030.

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): 05-1705NC5MAP (October 1, 2016 to September 30, 2017) and 05-1805NC5MAP (October 1, 2017 to September 30, 2018).

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

¹⁸ Office of the State Auditor, North Carolina Medicaid Program Recipient Eligibility Determination, January 2017

¹⁹ Section 11H.22.(b)

²⁰ 42 CFR 431.10(b)(3)

²¹ 42 CFR 435

- Department management should monitor county DSS eligibility determinations to ensure that eligibility determinations are accurate and supporting documentation is maintained in the client files.
- Department management should develop and provide mandatory additional training on eligibility determinations and documentation to the county DSS.

Agency Response: The Department agrees with the identified errors and while the 2018 ineligible error rate of .69% decreased from the 2017 error rate of .92% (an approximate 20% improvement), the Department continues to work diligently to further reduce this rate, noting it is within the acceptable range established in G.S. 108A-70.47. Of the 100 counties reviewed, only thirty-seven (37) had an ineligible determination and only three (3) had an error rate which exceeded the established accuracy rate for ineligible determinations.

Following the issuance of the Auditor's January 2017 report on county DSS eligibility error rates, the Department took several steps to enhance training and monitoring of county eligibility determinations including strengthening the county second party review process and implementing NC FAST certifications. The Department continues to provide Medicaid eligibility training to county DSS staff through the Medicaid Eligibility Support Team cluster meetings and the NC FAST Learning Gateway. The Department will implement mandatory Medicaid policy training and certification through the NC FAST system for all county caseworkers that input Medicaid data or make Medicaid eligibility determinations. The Department will continue to ensure collaboration between the state Division of Social Services, Division of Health Benefits, and NC FAST to provide and enhance program support, policy guidance, training, onsite consultations and technical assistance regarding Medicaid eligibility determinations to county DSS staff. Additionally, the Department has fully implemented the requirements of North Carolina Session Law 2017-57 regarding the monitoring of Medicaid eligibility determinations.

The Department acknowledges that some county eligibility monitoring activities were temporarily delayed due to system issues. The Medicaid Quality Control Sample Portal tool, designed through the NC FAST eligibility system to generate random Medicaid eligibility samples utilized for monitoring and audit efforts, encountered defects which took some time to resolve. In June 2018, the system defects were corrected, and the Department resumed the monitoring activities retroactively to October 2017.

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This audit required 19,248 hours of auditor effort at an approximate cost of \$1,982,493. The cost of the specialist's effort was \$204,646. As a result, the total cost of this audit was \$2,187,139.