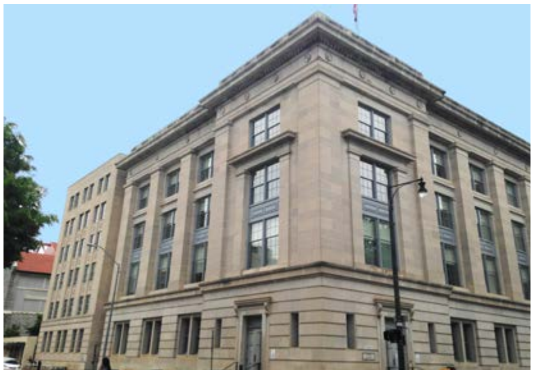
State of North Carolina

Office of The State Auditor

Beth A. Wood, CPA



North Carolina Department of Health and Human Services

Raleigh, North Carolina

Statewide Federal Compliance Audit Procedures

For the Year Ended June 30, 2019

The Taxpayers' Watchdog

Beth A. Wood, CPA
State Auditor

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STATE OF NORTH CAROLINA
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, 2019.

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 93.268 – Immunization Cooperative Agreements
- CFDA 93.556 – Promoting Safe and Stable Families
- TANF Cluster:
  - CFDA 93.558 – Temporary Assistance for Needy Families (TANF)
  - CFDA 93.714 – ARRA – Emergency Contingency Fund for TANF State Programs
- CFDA 93.667 – Social Services Block Grant (SSBG)
- 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)

- CFDA 93.788 – State Targeted Response (STR) to the Opioid Crisis
- CFDA 93.917 – HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)
- CFDA 93.959 – Block Grants for Prevention and Treatment of Substance Abuse (SABG)
- Disability Insurance/SSI Cluster:
    - CFDA 96.001 – Social Security – Disability Insurance (DI)
    - CFDA 96.006 – Supplemental Security Income (SSI)

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.

<u>Other Matters</u>

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 findings two, five, six and ten in the accompanying schedule of Findings, Recommendations, and Responses section.

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. Therefore, material weaknesses and significant deficiencies may exist that were not identified. However, as discussed in the Findings, Recommendations and Responses section, we did identify certain deficiencies in internal control over compliance that we consider to be a material weakness and significant deficiencies. The deficiency described in finding one is considered to be a material weakness in internal control over compliance. Furthermore, the deficiencies described in findings two through 15 are considered to be significant deficiencies in internal control over compliance.

<u>Reporting Sensitive Information</u>

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.

<u>North Carolina Department of Health and Human Services' Response to Findings</u>

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.

<u>Purpose of This Transmittal</u>

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.

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 transmittal.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 20, 2020

FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Federal Compliance Audit Objectives

CFDA 93.556 – PROMOTING SAFE AND STABLE FAMILIES

1. INADEQUATE MONITORING OF PROGRAM RECIPIENTS

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[1] 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[2] 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).

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.

[1] The Division of Social Services is the division within DHHS that administers the Promoting Safe and Stable Families grant.

[2] 2 CFR 200.303 - Internal controls

TANF CLUSTER – TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

2. DEFICIENCIES IN THE TANF ELIGIBILITY DETERMINATION PROCESS

The Department paid $54,706 in Temporary Assistance for Needy Families (TANF) benefits[3] 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[4]. 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)[5]. 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)[6], as well as lack of verification of income and other non-financial[7] 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[8]. 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[9].

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3 TANF Benefits include Cash Assistance paid directly to eligible families and Child Care Subsidy Assistance paid directly to Child Care Providers on behalf of eligible families.

4 When the payments of $54,706 that were made to or on behalf of ineligible families found in the sample are projected to the entire population, the most likely total error is $4.5 million. When the errors are evaluated at a 95% confidence interval, the results are unlikely to be less than $2.7 million or more than $6.2 million.

5 *North Carolina General Statute* §108A-27.6(a)(2)

6 The MRA is an agreement between the recipient and the county that describes the steps the family will take to become self-sufficient and the supportive services the county will provide.

7 Examples of non-financial eligibility requirements include verifying that immunization/medical checks-ups are current, and that kinship and family cap requirements were met.

8 TANF funds can be used for child care assistance to support families that are working.

9 2 CFR 200.516(a)(3) requires auditors to report known questioned costs that are greater than $25,000 for a type of compliance requirement for a major program.

According to the Department the eligibility errors occurred because of defects in NC FAST[10] 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[11] state that recipients are only eligible if they meet the requirements of a financially needy family with children. Additionally, state eligibility manuals[12] 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 - September 30, 2019) and 1901NCTANF (October 1, 2018 - September 30, 2020).

Recommendation: 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.

[10] The North Carolina Families Accessing Services Through Technology (NC FAST) is the eligibility system used in the TANF Program.
[11] 42 USC 601
[12] North Carolina Work First Manual

3. INACCURATE TANF DATA ON FAMILIES WAS SUBMITTED TO FEDERAL GOVERNMENT

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%[13] of the adjusted State Family Assistance Grant (SFAG)[14] 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[15] (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)[16] management, the ACF-199 reports submitted for federal fiscal year 2018 were not accurate due to ongoing issues with the transition to NC FAST[17], 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[18] 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)."

[13] 45 CFR 262.1 (a)(3)
[14] The SFAG is the fixed amount of the federal TANF funding for the state. The adjusted SFAG for federal fiscal year 2018 was $215,825,632 per the September 30, 2018 TANF financial report (form ACF-196R).
[15] The WPR is a measure of how well a state succeeds in helping work eligible individuals find work activities during a fiscal year. A state must meet an overall and a two-parent participation requirement.
[16] DSS is the division within the Department that is responsible for administering the TANF program.
[17] NC FAST is the eligibility system used in the TANF program. It stands for North Carolina Families Accessing Services through Technology.
[18] 45 CFR 265.3

Furthermore, federal regulations[18] 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).

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.

CFDA 93.667 – SOCIAL SERVICES BLOCK GRANT (SSBG)

4. SUBRECIPIENT MONITORING PROCEDURES NEED IMPROVEMENT

The Department did not adequately monitor subrecipients[19] of the Social Services Block Grant (SSBG). During the audit period, the Department provided[20] $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.

[19] Subrecipients are counties, Local Management Entities (LME's), and non-governmental entities that use SSBG funds to provide a variety of services for individuals and families.

[20] The Department provides SSBG funds to subrecipients through the following Divisions: Division of Social Services, Division of Aging and Adult Services, and the Division of Mental Health/Development Disabilities/Substance Abuse Services.

Additionally, auditors reviewed the subaward documentation[21] 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[22] 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.

[21] Contracts and/or allocation memorandums are used to communicate the federal award information.
[22] 2 CFR 200.331(d)

Further, federal regulations[23] 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).

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.

MEDICAID CLUSTER

5. ERRORS IN MEDICAID PROVIDER BILLING AND PAYMENT PROCESS

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[24] 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[25] 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[26].

[23] 2 CFR 200.331(a)(1) – provides the complete list of the required information that should be communicated to subrecipients.

[24] The 694 items reviewed included 26 items that were deemed significant. These items were tested 100% and removed from the population. The other 668 items were selected from the remaining population using stratified variable sampling.

[25] When the errors found in the sample are projected to the sample population, the most likely total errors are $71.4 million in net overpayments. When the errors are evaluated at a 90% confidence interval, the results are unlikely to be less than an underpayment of $116 million or more than an overpayment of $259 million.

[26] 2 CFR 200.516(a)(3) requires auditors to report known questioned costs when likely questioned costs are greater than $25,000.

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[27] 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[28] 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 - September 30, 2019).

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[29], 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.

6. MEDICAID DISPROPORTIONATE SHARE HOSPITAL PAYMENT MADE INCORRECTLY

The Department made a $9.5 million federal Medicaid Disproportionate Share Hospital (DSH) payment[30] 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[31]) received a payment from

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[27] 2 CFR 200.403
[28] In accordance with 42 CFR 431.107
[29] CMS calculates the PERM error rate as projected dollars in error divided by projected payments. In the report, the Office of the State Auditor projects $71.4 million in error across $7.99 billion in payments, yielding an error rate of .89%.
[30] DSH payments provide financial assistance to hospitals that serve a large number of low-income patients, such as people with Medicaid or the uninsured. Hospitals may be eligible to receive DSH payments from state funds, federal Medicaid funds, or a combination of both.
[31] There are three state operated ADATC's which are IMD's that are specifically designed to provide inpatient treatments, psychiatric stabilization and medical detoxification for individuals with substance use and other co-occurring mental health diagnoses.

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 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[32] 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).

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.

7. LACK OF QUALITY ASSURANCE PROCEDURES INCREASED RISK OF UNDETECTED ERRORS

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

[32] 42 USC 1396a(a)(1) and 1396r-4

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[33].

Furthermore, federal regulations[34] 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).

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

33 https://files.nc.gov/ncdoa/pandc/Documents/Contract-Administration-and-Monitoring-Guide/Contract-Administration-Guide
34 2 CFR 200.303 - Internal controls

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.

8. DEFICIENCIES IN SYSTEM ACCESS

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.

9. DEFICIENCIES IN THE MEDICAID PROVIDER ENROLLMENT AND TERMINATION PROCESS

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)[35] 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[36] per month when the monitoring plan required them to review five.
- For the month of September 2018, DHB reviewed 21 applications[37] when the monitoring plan required 50 to be reviewed.

[35] The Division of Health Benefits is the division within the Department responsible for administering the Medicaid program.
[36] All North Carolina Licensing Boards provide a distribution list of any actions against professional providers.
[37] New providers submit applications to enroll in the Medicaid program while existing providers submit applications for reverification every five years.

- From July to December 2018, DHB did not perform the monthly reviews of the CMS logs[38].

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[39] transition project team and the Department did not allocate additional resources to ensure that GDIT would continue to be adequately monitored.

Federal regulations[40] 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).

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

38 The U.S. Centers for Medicare and Medicaid (CMS) compiles a list of providers that have been sanctioned which prohibits them from being eligible to participate in the Medicaid Program.
39 Session Law - 2015-245 - An act to transform and reorganize North Carolina's Medicaid and NC Health Choice programs.
40 2 CFR 200.303 – Internal controls

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.

10. DEFICIENCIES IN THE MEDICAID ELIGIBILITY DETERMINATION PROCESS

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)[41]. 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[42]. 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[43]. 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[44].

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[41] *North Carolina General Statute* §108A-25(b).

[42] The Patient liability share is the amount that the Medicaid beneficiary is required to pay each month.

[43] Forced eligibility is the manual process of determining eligibility outside of NC FAST. It is considered risky because the business rules of the eligibility process are not considered.

[44] 2 CFR 200.516(a)(3) requires auditors to report known questioned costs that are greater than $25,000 for a type of compliance requirement for a major program.

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[45]. 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 eligibility policies by the county DSS staff. The county DSS staff utilize NC FAST[46] to input data and make eligibility determinations, however, the Department is responsible for establishing the eligibility determination policies, maintaining NC FAST, and training the county DSS staff.

Federal regulations[47] 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[48] 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).

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[49]) 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

[45] Approximately $4.0 billion, or 35%, of total Medicaid benefit expenditures were for beneficiaries whose eligibility was determined via the MAGI methodology.
[46] The North Carolina Families Assessing Services Through Technology (NC FAST) is the eligibility system used in the Medicaid Program.
[47] 42 CFR 431.10(b)(3)
[48] 42 CFR 435
[49] The CMS PERM FY16 Medicaid Corrective Action Plan for North Carolina sets a target fee-for-service payment error rate of 3.2% yielding a 96.8% accuracy rate.

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.

11. BUSINESS CONTINUITY AND DISASTER RECOVERY PLAN NOT TESTED

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.

12. DELAYED REMEDIATION OF WEAKNESSES

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).

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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.

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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.

CFDA 93.788 – STATE TARGETED RESPONSE (STR) TO THE OPIOID CRISIS

14. SUBRECIPIENT MONITORING PROCEDURES NEED IMPROVEMENT

The Department did not adequately monitor subrecipients[50] 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[51] (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[52] (LME- MCO).

Additionally, we reviewed the subaward documentation[53] 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

[50] Subrecipients are LME-MCOs and non-governmental entities that use Opioid grant funds to address the opioid epidemic by increasing access to treatment.
[51] The Division of Mental Health/Development Disabilities/Substance Abuse Services is the Division within the Department that is responsible for administering the Opioid grant award.
[52] LME-MCO's 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.
[53] Contracts and/or allocations memorandums are used to communicate the federal award information.

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[54] 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[55] 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): TI080257 (May 1, 2017 – January 31, 2020) and H79TI081710 (September 30, 2018 – September 29, 2020).

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.

[54] 2 CFR 200.331(d)

[55] 2 CFR 200.331(a)(1) – provides the complete list of the required information that should be communicated to subrecipients.

CFDA 93.959 - BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE (SABG)

15. SUBRECIPIENT MONITORING NEEDS IMPROVEMENT

The Department did not adequately monitor subrecipients[56] 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[57] (Division) did not perform timely settlement reviews at the seven Local Management Entity-Managed Care Organizations[58] (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[59] 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

[56] Subrecipients are LME-MCOs and non-governmental entities that use SABG funds to plan, implement and evaluate activities that prevent and treat substance abuse and promote public health.

[57] The Division of Mental Health/Development Disabilities/Substance Abuse Services is the division within the Department that is responsible for administering the Block Grant.

[58] LME-MCO’s 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.

[59] Contracts and/or allocations memorandums are used to communicate the federal award information.

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[60] 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[61] 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): TI010032-17 (October 1, 2016 – September 30, 2018) and B08TI010032-18 (October 1, 2017 – September 30, 2019).

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 non-compliance 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.

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[60] 2 CFR 200.331(d)

[61] 2 CFR 200.331(a)(1) – provides the complete list of the required information that should be communicated to subrecipients.

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.

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This audit required 19,410 hours of auditor effort at an approximate cost of $2,018,640. The cost of the specialist's effort was $444,174. As a result, the total cost of this audit was $2,462,814.