

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Ralph Campbell, Jr.**  
State Auditor

2 S. Salisbury Street, Raleigh, NC  
Mailing Address: 20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.ncauditor.net>

---

**PRESS RELEASE**

---

For Immediate Release:

April 13, 2004

For additional information contact:

Ralph Campbell, Jr., State Auditor  
(919) 807-7500  
[rcampbel@ncauditor.net](mailto:rcampbel@ncauditor.net)

## Auditor Campbell questions \$415.3 million in spending by state--\$414 million from Medicaid division alone

RALEIGH \_ Auditors questioned whether \$415.3 million in federal funds were properly spent by state agencies during 2002-2003 -- \$414 million of it alone coming from the Medicaid program – in audits released Tuesday by North Carolina State Auditor Ralph Campbell.

Campbell released the Single Audit Report, which compiles audits of all federal funding in the State, and a separate report on the State Department of Health and Human Services which is included as part of the Single Audit.

Because of federal concerns about misuse of reimbursement programs within Medicaid, auditors closely checked the Disproportionate Share Hospital Program, which reimburses hospitals that serve unusually large numbers of poor patients. While the Office of the State Auditor checks Medicaid each year, auditors previously have focused on claims, which make up about 90 percent of Medicaid spending.

Auditors found that the Division of Medical Assistance, which oversees the Medicaid program, had surrendered control of the Disproportionate Share program to Carolinas Medical Center, the hospital that benefits most from the program, and the hospital's attorney.

The Division allowed the hospital and its attorney to design the repayment formula used for hospitals in North Carolina, analyze cost data and gather the cost data from other hospitals.

Carolinas Medical Center and two other hospitals also formed a "liaison committee" between the Division and 41 public hospitals to distribute Medicaid disproportionate share funds, an apparent violation of federal laws. The payment system allowed legal, banking and other fees to be deducted before the funds were distributed to hospitals.

Auditors also found that outdated information was being used to calculate some Medicaid payments to hospitals. That outdated information led to overpayments to those facilities.



The Division was supposed to perform “cost settlements” or negotiations to compare actual and estimated costs within 12 months of cost data being submitted by hospitals to the Division. But auditors found that no cost settlements have been performed since 1996. Without the cost settlements, hospitals could have been overpaid or underpaid for their Medicaid costs.

Hospitals that were ineligible for DSH payments received them anyway, auditors discovered, and required information from providers such as ownership, third-party arrangements and any criminal convictions was not gathered.

There were a number of other findings related to record-keeping in the Division which could have affected payments made to hospitals and other Medicaid providers.

Auditors concluded that the internal control environment within the Department was seriously deficient, and allowed questionable practices to continue for years. The Department of Health and Human Services was addressing some of the problems while the audit was in progress, but more needs to be done, Campbell said.

“We have grave concerns about the way the Division of Medical Assistance has operated the Medicaid program,” Campbell said at a news conference to release the reports. “All business dealings with hospitals and other Medicaid providers must be conducted at arm’s length. And the Division must regain full operational control of the programs

“Of real concern to us was an attitude that obviously existed in the Division for several years that it could do whatever it wanted, regardless of federal rules and regulations,” he said. “That attitude, which goes to the heart of many of the problems we uncovered, must be reversed. The very least that taxpayers expect is that agencies will follow the rules in how they spend the funds they are given.”

The Health and Human Services report is available on-line at <http://www.ncauditor.net/EPSWEB/EDSreportdetail.asp?RepNum=FIN-2003-4410>. The full Single Audit Report is available at <http://www.ncauditor.net/EPSWEB/EDSreportdetail.asp?RepNum=FIN-2003-8730>.

Copies of the report may be obtained at the office’s web site at [www.ncauditor.net](http://www.ncauditor.net). Printed copies of the report can be obtained by filing a request under the Audits section of the web site or by calling the Office of the State Auditor at 919-807-7500.





# North Carolina OFFICE OF THE STATE AUDITOR

ACCOUNTABILITY • INTEGRITY • RELIABILITY

Ralph Campbell, Jr.  
State Auditor

[Home](#)

[Search](#)

[EPS](#)

[Audit Reports](#)

[NonProfits](#)

[From the Auditor](#)

[Information](#)

[About Us](#)

[Contact](#)

[Opportunities](#)

[Sites / Links](#)

[Visitor Statistics](#)

[Text version](#)

## Report Details

To view the full report you need Acrobat Reader. Click [here](#) to download Acrobat Reader.

<b>Report Number</b>	<a href="#">FIN-2003-4410</a> (Please click on the report number to view the full report)
<b>Title</b>	Health and Human Services - CAFR and Single Audit
<b>Audit Type</b>	Financial Audits
<b>Agency Name</b>	Health and Human Services - CAFR and Single Audit
<b>Keywords</b>	CAFR and Single Audit
<b>Abstract</b>	Auditors found a number of problems with Internal Controls and instances of noncompliance with federal or State regulations.
<b>Release Date</b>	4/13/2004

**This report has findings.**

[Click here to return to the top of the page.](#)

[Disclaimer](#) • [Privacy](#) • [Security](#) • [Accessibility](#)

## Embedded Secure Document

The file <http://www.ncauditor.net/EPSSWeb/Reports/Financial/FIN-2003-4410.pdf> is a secure document that has been embedded in this document. Double click the pushpin to view.

