



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General
Office of Audit Services

REGION IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

JUN 25 2009

Report Number: A-04-06-07009

Mr. Lanier M. Cansler, Secretary
Department of Health and Human Services
Adams Building, 101 Blair Drive
Raleigh, North Carolina 27603

Dear Mr. Cansler:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of North Carolina's Accounts Receivable System for Medicaid Provider Overpayments." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, OIG reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act. Accordingly, this final report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Mark Wimple, Audit Manager, at (919) 790-2765, extension 24 or through e-mail at Mark.Wimple@oig.hhs.gov. Please refer to report number A-04-06-07009 in all correspondence.

Sincerely,

A handwritten signature in cursive script, appearing to read "Peter J. Barbera".

Peter J. Barbera
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Jackie Garner, Consortium Administrator
Consortium for Medicaid and Children's Health Operations
Centers for Medicare & Medicaid Services
233 North Michigan Avenue, Suite 600
Chicago, Illinois 60601

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF NORTH CAROLINA'S
ACCOUNTS RECEIVABLE SYSTEM
FOR MEDICAID PROVIDER
OVERPAYMENTS**



Daniel R. Levinson
Inspector General

June 2009
A-04-06-07009

Office of Inspector General

<http://oig.hhs.gov>

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EXECUTIVE SUMMARY

BACKGROUND

Section 1903(d)(2) of the Social Security Act (the Act) is the principal authority that the Centers for Medicare & Medicaid Services (CMS) cites in disallowing the Federal share of overpayments to providers. Section 9512 of the Consolidated Omnibus Budget Reconciliation Act of 1985 amended this section of the Act.

The Act allows 60 days from the date of discovery of an overpayment to recover or attempt to recover the overpayment from a provider before the State must refund the Federal share of the overpayment, whether or not it recovers the overpayment from the provider. The implementing Federal regulations require States to refund the Federal share of overpayments on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program, Form CMS-64 report (CMS-64) as an offset to expenditures for the quarter in which the 60-day period ends. We defined this offset as an overpayment adjustment.

The Act also states that the Federal share of a Medicaid overpayment does not have to be repaid to the Federal Government if the State is unable to recover the overpayment because the provider filed for bankruptcy or went out of business, assuming that the State followed proper due diligence during the 60-day period. If the State has reported an overpayment and subsequently determines that the provider is bankrupt or out of business, the State may reclaim the overpayment on the CMS-64. We defined these types of transactions as reclaiming adjustments.

For the audit period October 1, 2004, through December 31, 2005, the North Carolina Department of Health and Human Services, Division of Medical Assistance (the State agency) reported a total of \$4,211,302 in overpayment adjustments and made reclaiming adjustments of \$697,030.

OBJECTIVE

Our objective was to determine whether the State agency reported Medicaid provider reclaiming and overpayment adjustments in accordance with Federal requirements.

SUMMARY OF FINDINGS

The State agency properly reported reclaiming adjustments for previously reported overpayments during the audit period. However, it did not report 749 Medicaid provider overpayment adjustments totaling \$816,806 and return the Federal share of \$519,312 in accordance with Federal requirements. This failure to report some overpayment adjustments also resulted in a potential loss to the Federal Government of \$17,557 in interest.

The failure to report some overpayment adjustments occurred because the State agency had insufficient written procedures for reporting and writing off overpayments discovered by the State agency's Fiscal Agent and had an inadequate system for recording overpayments in a timely manner.

RECOMMENDATIONS

We recommend that the State:

- include unreported overpayments totaling \$816,806 on the CMS-64 and refund to the Federal Government \$519,312 (Federal share);
- implement reporting and write-off procedures sufficient to ensure that overpayments discovered by the State's fiscal agent are reported within 60 days;
- establish an adequate integrated accounting system that records, ages, and accurately reports all agency sources of overpayments on the CMS-64; and
- identify any overpayments that were not reported or were reported incorrectly following our audit period and refund any money due the Federal Government.

STATE AGENCY COMMENTS

In written comments to the draft report, the State agency concurred with our findings and recommendations. The complete text of the State agency's comments is included as the Appendix.

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INTRODUCTION

BACKGROUND

Medicaid Program

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

In North Carolina, the Department of Health and Human Services, Division of Medical Assistance (the State agency) administers the Medicaid program. The State agency contracted with a fiscal agent, Electronic Data Systems (EDS), to process and pay Medicaid program claims. The State agency and EDS perform identification and collection efforts of provider overpayments.

CMS requested that we review the State agency's accounts receivable system for Medicaid provider overpayments. An overpayment is a payment to a provider in excess of the allowable amount.

Medicaid Overpayments

Section 1903(d)(2) of the Act, as amended by section 9512 of the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), is the principal authority that CMS cites in requiring States to refund the Federal share of overpayments to providers. Section 1903(d)(2)(A) states:

The Secretary shall then pay to the State, in such installments as he may determine, the amount so estimated, reduced or increased to the extent of any overpayment or underpayment which the Secretary determines was made under this section to such State for any prior quarter and with respect to which adjustment has not already been made under this subsection.

The Act allows 60 days from the date of discovery of an overpayment to recover or attempt to recover the overpayment from a provider before the State must refund the Federal share of the overpayment, whether or not it recovers the overpayment from the provider. The implementing Federal regulations require States to refund the Federal share of overpayments on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program, Form CMS-64 report (CMS-64) as an offset to expenditures for the quarter in which the 60 day period ends. We defined this offset as an overpayment adjustment.

For overpayments resulting from situations other than fraud and abuse, and other than those that are identified through Federal reviews, Federal regulations (42 CFR § 433.316) define the discovery date as the earliest of the following dates: (1) the date any Medicaid agency official or other State official first notifies a provider in writing of an overpayment and specifies a dollar amount that is subject to recovery, (2) the date a provider initially acknowledges a specific overpayment amount in writing to the Medicaid agency, or (3) the date any State official initiates a formal action to recoup a specific overpaid amount from a provider without having first notified the provider in writing.

An overpayment that results from fraud or abuse is discovered on the date of the final written notice of the State's overpayment determination that a Medicaid agency official or other State official sends to the provider. Finally, for overpayments identified through Federal reviews, CMS considers the overpayment as discovered on the date that the Federal official first notifies the State in writing of the overpayment and specifies a dollar amount subject to recovery.

Under certain circumstances, States are not required to refund the Federal share of overpayments made to providers. Regulations regarding these exceptions are found in 42 CFR §§ 433.318 and 433.320 and in section 1903(d)(2)(D) of the Act, which states:

In any case where the State is unable to recover a debt which represents an overpayment (or any portion thereof) made to a person or other entity on account of such debt having been discharged in bankruptcy or otherwise being uncollectible, no adjustment shall be made in the Federal payment to such State on account of such overpayment (or portion thereof).

Furthermore, the State may reclaim the Federal share of unrecovered overpayment amounts previously refunded to CMS if the State submits documentation showing that it has made reasonable efforts to recover the overpayments. We defined these types of transactions as reclaiming adjustments.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the State agency reported Medicaid provider reclaiming and overpayment adjustments in accordance with Federal requirements.

Scope

We examined reclaiming and overpayment adjustments subject to the requirements of 42 CFR § 433 subpart F reported on the quarterly CMS-64s for the audit period October 1, 2004, through December 31, 2005. During our audit period, the State agency reported reclaiming adjustments of \$697,030 and overpayment adjustments of \$4,211,302.

We did not review overpayments due to recipient eligibility errors, third-party payments, probate collections, unallowable costs recovered through per diem rate adjustments, or administrative costs because these overpayments are not subject to 42 CFR § 433 subpart F. Although cost settlements are subject to 42 CFR § 433 subpart F, these overpayments were not part of our review because these settlements are handled through the Medicaid cost report settlement.

We did not review the overall internal control structure of the State agency's operations or its financial management. However, we gained an understanding of its controls over processing reclaiming and overpayment adjustments and for recording accounts receivable. We performed our fieldwork at State agency offices in Raleigh, North Carolina.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal regulations and State guidance;
- gained an understanding of the State agency's procedures for processing reclaiming and overpayment adjustments;
- analyzed CMS-64s along with supporting documentation pertaining to the reporting of Medicaid provider overpayment and reclaiming adjustments;
- reconciled the CMS-64s to the State's accounting records;
- identified overpayment adjustments totaling \$4,211,302 and identified reclaiming adjustments totaling \$697,030 that were reported on the CMS-64 reports for our audit period;
- identified overpayments that were never reported on the CMS-64;
- reviewed reclaiming adjustments, totaling \$212,972, or 31 percent of the dollars, and obtained and reviewed the supporting documentation;
- compared the date that the overpayment adjustments were reported on the CMS-64s with the date that the provider was notified to identify overpayment adjustments that did not meet the 60-day criteria;
- calculated through December 31, 2005, using the number of days between the actual and required reporting date, the potential loss of interest to the Federal Government for those overpayments that were not reported within the required period.¹

¹We calculated the potential interest lost using the applicable daily interest rate per the Cash Management Improvement Act of 1990.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

The State agency properly reported reclaiming adjustments for previously reported overpayments during the audit period. However, it did not report 749 Medicaid provider overpayment adjustments totaling \$816,806 and return the Federal share of \$519,312 in accordance with Federal requirements. This failure to report some overpayment adjustments also resulted in a potential loss to the Federal Government of \$17,557 in interest.

The failure to report some overpayment adjustments occurred because the State agency had insufficient written procedures for reporting and writing off overpayments discovered by the State agency's Fiscal Agent and had an inadequate system for recording overpayments in a timely manner.

OVERPAYMENTS NOT REPORTED

Federal Requirements

Pursuant to 42 CFR §§ 433.312, 433.316, and 433.320, a State has 60 days from the date of discovery of an overpayment to a provider to recover or seek to recover the overpayment before refunding the Federal share to CMS. Discovery is defined as notification to the provider that an overpayment exists and is due the State.

The discovery date is the beginning date of the 60-calendar-day period. The State must refund the Federal share of overpayments at the end of the 60-day period, whether or not the State has recovered the overpayment from the provider. The State must credit the Federal share of overpayments subject to recovery on the CMS-64 submitted for the quarter in which the 60-day period following discovery ends.

Overpayment Adjustments Not Reported

During the period October 1, 2004, through December 31, 2005, the State agency did not report 749 overpayment adjustments identified by its fiscal agent in accordance with the 60-day reporting requirement. The overpayment adjustments totaled \$816,806 (\$519,312 Federal share).

The State agency processed overpayments identified through both its Controller's Office and its fiscal agent. Those overpayments identified by the fiscal agent that were not subsequently offset against future claims were removed from the accounts receivable

system maintained by the fiscal agent after 120 days with the State agency's approval. However, the State agency did not report these overpayment adjustments on the CMS-64.

Consequently, the State did not return the Federal share of overpayments totaling \$519,312 in accordance with Federal regulations, which also resulted in a potential loss of interest of approximately \$17,557 to the Federal Government as of December 31, 2005.

The State agency's failure to report the overpayments identified by the fiscal agent resulted from the State agency not establishing and implementing sufficient reporting and write-off procedures. Additionally, the State agency did not have an adequate accounting system to ensure that all overpayments were identified, recorded, and reported on the CMS-64 in a timely manner.

RECLAIMING ADJUSTMENTS

The State made proper reclaiming adjustments to previously reported overpayments on the CMS-64s during the audit period.

RECOMMENDATIONS

We recommend that the State:

- include unreported overpayments totaling \$816,806 on the CMS-64 and refund to the Federal Government \$519,312 (Federal share);
- implement reporting and write-off procedures sufficient to ensure that overpayments discovered by the State's fiscal agent are reported within 60 days;
- establish an adequate integrated accounting system that records, ages, and accurately reports all agency sources of overpayments on the CMS-64; and
- identify any overpayments that were not reported or were reported incorrectly following our audit period and refund any money due the Federal Government.

STATE AGENCY COMMENTS

In written comments to the draft report, the State agency concurred with our findings and recommendations. The State agency said that it had already returned \$437,109 of the \$519,312 (Federal share). Before returning the remaining Federal share, it is investigating the accounts receivable items to ensure that it has not already returned the refund amount due.

The State agency also said that it is coordinating a full review of its process, will implement any additional procedures needed to eliminate these occurrences in the future, and will correct any other errors found on the next CMS-64 report.

The complete text of the State Medicaid agency comments is included as the Appendix.

APPENDIX



North Carolina Department of Health and Human Services
2001 Mail Service Center • Raleigh, North Carolina 27699-2001
Tel 919-733-4534 • Fax 919-715-4645

Beverly Eaves Perdue, Governor

Lanier M. Cansler, Secretary

April 17, 2009

Mr. Peter J. Barbera
Regional Inspector General for Audit Services
US DHHS Office of Inspector General
61 Forsyth Street SW
Suite 3T41
Atlanta, GA 30303

Re: Review of North Carolina's Accounts Receivable System for Medicaid Provider Overpayments **CIN A-04-06-07009**

Dear Mr. Barbera:

The North Carolina Department of Health and Human Services (NCDHHS) received your March 12, 2009 letter and the draft report entitled "Review of North Carolina's Accounts Receivable System for Medicaid Provider Overpayments" [Audit A-04-06-07009].

The report contained the following recommendations:

- Include unreported overpayments totaling \$816,806 on the CMS-64 and refund to the Federal Government \$519,312 (Federal share);
- Implement reporting and write-off procedures sufficient to ensure that overpayments discovered by the State's fiscal agent are reported within 60 days;
- Establish an adequate integrated accounting system that records, ages, and accurately reports all agency sources of overpayments on the CMS-64; and
- Identify any overpayments that were not reported or were reported incorrectly following our audit period and refund any money due the Federal Government.



Mr. Peter J. Barbera
Audit A-04-06-07009
April 17, 2009
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DHHS Response: Our response to the finding is indicated in the following narrative and is based on the audit findings of program overpayments in the table below.

ITEMS	Total Overpayments	FMAP	Item Count
EDS Write Off CFS Line 20	\$ 95,759.33	\$ 60,549.02	422
EDS Correction Write Offs CFS Line 21	\$ 686,954.57	\$437,109.19	1
EDS System 12-31-05 ARs	\$ 34,091.93	\$ 21,653.34	326
TOTAL	\$ 816,805.83	\$519,311.56	

Of the \$816,805.83 which had been identified as Medicaid provider overpayments, the NCDHHS found that one item for \$686,954.57 associated with Electronic Data Systems (EDS) Correction Write offs on the Checkwrite Financial Summary (CFS) on line 21 has been collected and remitted to the Federal government by offset through the weekly check write amount. The \$686,954.67 was associated with a single patient at the Dorothea Dix Hospital for an admission from February 11, 2003 through July 7, 2004. Due to the method by which lengthy stays are billed for our institutions, the \$686,954.57 was written off to bad debts prior to being recouped from the provider. This situation was identified as an error and the \$686,954.57 was recouped on the Dorothea Dix Hospital remittance advices (RA) on the dates and in the amounts indicated in the following table.

AMOUNT RECOUPED	REMITTANCE DATE	REMAINING BALANCE
\$136,422.00	10/31/2007	\$550,532.57
\$174,900.00	11/14/2007	\$375,632.57
\$173,734.00	11/21/2007	\$201,898.57
\$140,284.80	12/04/2007	\$61,613.77
\$53,636.00	12/11/2007	\$7,977.77
\$7,977.77	12/20/2007	\$0

The remainder of the \$816,805.83 identified consisted of 748 items totaling \$129,851.26. This amount was further broken down into \$95,759.33 for EDS Write offs in the CFS on line 20 and the \$34,091.93 identified as EDS System 12-31-2005 Accounts Receivable. The NCDHHS agrees that the federal share in the amounts indicated are due back to CMS if they have not already been adjusted. NCDHHS and the fiscal agent are investigating these 748 accounts receivable items, many of which are less than \$10, to ensure they have not already been recouped and the federal share has not been returned.

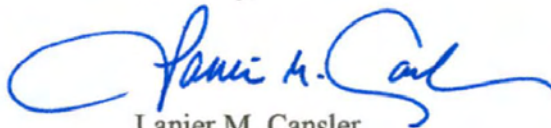
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The NCDHHS agrees with the audit report that the Federal share of overpayments must be credited back on the CMS-64 report for the quarter in which the 60-day period following discovery ends, regardless of whether or not the State has recovered the overpayment from the provider.

The NCDHHS is coordinating a full review of our process with the DHHS Controller's Office, DMA staff, EDS (fiscal agent) staff and the Attorney General's Office to ensure that we have a thorough process to comply with the law. We will implement any additional written procedures needed for reporting and writing off Medicaid overpayments and related system processes to eliminate these occurrences in the future and correct any errors that we find on the next CMS-64 report.

NCDHHS certainly appreciates the professionalism of the audit staff that conducted this audit and look forward to continuing to work with CMS staff to have an exemplary Medicaid administrative system in North Carolina.

Sincerely,



Lanier M. Cansler

cc: Dan Stewart, CPA
Allen Feezor
Tara Larson
Steve Owen
Eddie Berryman, CPA
Laketha M. Miller, CPA
Honorable Beth Wood, CPA

Notices

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Pursuant to the Freedom of Information Act, 5 U.S.C. § 552, Office of Inspector General reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.