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OFFICE OF INSPECTOR GENERAL
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PHILADELPHIA, PENNSYLVANIA 19106-3499

OCT 13 2004

Report Number: A-03-04-00205

Philip Soule', Deputy Director
Medical Assistance Program
Department of Health & Social Services
1901 North Dupont Highway
New Castle, Delaware 19720

Dear Mr. Soule':

Enclosed are two copies of the Department of Health and Human Services, Office of Inspector General report entitled "Review of Delaware's Accounts Receivable System for Medicaid Provider Overpayments." This review was part of a nationwide audit requested by the Centers for Medicare & Medicaid Services. The objective of our review was to determine whether Delaware reported all identified Medicaid provider overpayments in a timely and accurate manner.

Should you have any questions or comments concerning the matters commented on in this report, please direct them to the Department official identified below.

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To facilitate identification, please refer to report number A-03-04-00205 in all correspondence relating to this report.

Sincerely,

Stephen Virbitsky
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Nancy B. O'Connor, Acting Regional Administrator
Centers for Medicare & Medicaid Services - Region III
U.S. Department of Health and Human Services
150 South Independence Mall West, Suite 216
Philadelphia, Pennsylvania 19106-3499

Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

REVIEW OF DELAWARE'S ACCOUNTS RECEIVABLE SYSTEM FOR MEDICAID PROVIDER OVERPAYMENTS

OCTOBER 2004
A-03-04-00205

Office of Inspector General

http://oig.hhs.gov

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OAS FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

This report is part of a nationwide audit focusing on States' accounts receivable systems for Medicaid provider overpayments.

The principal authority cited by Centers for Medicare & Medicaid Services (CMS) in disallowing Federal financial participation (FFP) in overpayments to providers is section 1903(d)(2) of the Social Security Act (Act). This section was amended by section 9512 of the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA).

The Act states that CMS will adjust reimbursements to a State for any overpayment or underpayment and requires States to make overpayment adjustments within 60 days from the date of discovery, whether or not the overpayment has been recovered. The State must credit the Federal share of those overpayments on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64) for the quarter in which the 60-day period ends. The Act also states that no adjustment will be made in the Federal payment if the State is unable to recover an overpayment due to the provider filing for bankruptcy or going out business.

In Delaware, the Department of Health & Social Services (the Department) administers the Medicaid program.

OBJECTIVE

The audit objective was to determine whether the Department reported all identified Medicaid provider overpayments (overpayments) to CMS in a timely and accurate manner.

FINDINGS

The Department did not report identified overpayments until they were collected and did not report collected overpayments in a timely and accurate manner.

We found that the Department:

- did not report 3,184 overpayments totaling $838,906 ($437,592 Federal share) because it had not collected them

- did not report 205 overpayments totaling $440,861 ($226,460 Federal share) within the required timeframes because it did not use the correct date of discovery

- incorrectly netted overpayments against expenditures because it could not separately identify overpayment collections from other collections. In addition,

the Department incorrectly reported provider overpayments totaling $1,108,545 on the wrong line of the CMS-64 because of an incorrect spreadsheet formula

As a result, the Department did not return the Federal share totaling $437,592 for the unreported overpayments and delayed returning the Federal share totaling $226,460 for the untimely overpayments. In addition, the inaccurate reporting resulted in CMS having incorrect Medicaid expenditure and overpayment data.

RECOMMENDATIONS

We recommend that the Department:

- include unreported overpayments totaling $838,906 on the CMS-64 and refund the Federal Government $437,592 representing the Federal share
- ensure overpayments are reported within 60 days in accordance with Federal regulations
- establish an adequate integrated accounting system that records, ages and accurately reports overpayments on the CMS-64
- review and correct the spreadsheet formulas that consolidate provider overpayments reported on the CMS-64

OTHER MATTERS

Opportunity Cost

By not reporting overpayments in a timely manner, the Department effectively denied CMS the use of funds that would have otherwise been available for the Medicaid program. The Cash Management Improvement Act (CMIA) of 1990 provides a means to calculate the value of opportunity costs such as this. Applying that methodology, CMS could have realized potential interest income totaling $7,472.

AUDITEE COMMENTS

Delaware responded to our draft report in a letter dated September 29, 2004. Delaware agreed with our recommendations and has taken action to implement procedures to ensure that overpayments are identified and reported within 60 days. Delaware also stated that it conducted an initial review of the unreported overpayments identified in our report. Delaware's review determined that some overpayments were associated with State funded programs, were already credited to the Federal Government, or were documented as uncollectible. The remaining balance will be reported to the Federal Government on the December 2004 CMS-64.

OIG RESPONSE

We believe that the actions proposed by Delaware, when implemented, will address our recommendations, with one exception. In its response to our first recommendation, Delaware stated that some overpayments were associated with State funded programs, were already credited to the Federal Government, or were documented as uncollectible. Delaware did not provide any details on these amounts. Therefore, until Delaware can provide this information to CMS, we believe that overpayments totaling $838,906 should be reported on the CMS-64 and the Federal share totaling $437,592 should be refunded to the Federal Government.

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INTRODUCTION

BACKGROUND

The Medicaid Program

Enacted in 1965, Medicaid is a combined Federal-State entitlement program that provides health and long term care for certain individuals and families with low incomes and resources. Within a broad legal framework, each State designs and administers its own Medicaid program, including how much to pay for each service. Each State operates under a plan approved by CMS for compliance with Federal laws and regulations. The Federal Government established a financing formula to calculate the Federal share of the medical assistance expenditures under each State's Medicaid program. In Delaware, the Department administers the Medicaid program. The Federal share of expenditures in Delaware for the first two quarters of fiscal year 2003 was 50 percent and for the last two quarters was 52.95 percent.

Criteria for Recovery of Medicaid Overpayments

Section 1903(d)(2) of the Act is the principal authority cited by CMS in disallowing FFP in overpayments to providers. COBRA amended this section of the Act.

The Act states that CMS will adjust reimbursements to a State for any overpayment or underpayment and requires States to make overpayment adjustments within 60 days from the date of discovery, whether or not the overpayment has been recovered. The Act also states that no adjustment will be made in the Federal payment if the State is unable to recover an overpayment due to the provider filing for bankruptcy or going out business.

The legislation is codified in 42 CFR, Part 433 Subpart F, "Refunding of Federal Share of Medicaid Overpayments to Providers." These regulations reference procedures on adjusting overpayments in accordance with the State plan, Federal law and regulations governing Medicaid. The State Medicaid manual outlines the overpayment reporting requirements for the CMS-64 report.

Prior State Reviews

We reviewed the three most recent State audit reports and identified two findings that addressed problems with the States identification and reporting of provider overpayments.

A June 2000 State audit report found that the State was reporting overpayments on the CMS-64 reports only as they were collected. This means that CMS received its share of provider overpayments only after the State collected the overpayment from the provider. The audit report recommended the State establish the appropriate controls to identify provider overpayments that are 60 days or older at the end of the quarter and report these overpayments on the CMS-64 report. The State responded that it would examine its procedures regarding monies that are collected from providers to assure timely reporting

and crediting to the Federal Government. At the end of the quarter, overpayments that are 60 days or more old and are outstanding will be reported on CMS-64 report.

A State audit report issued December 2002, found that the State was not reviewing overpayments identified on Medicaid Credit Balance Reports (MCBR) in a timely fashion. The report stated that final determination letters for the quarter ending December 31, 2001 were sent to the providers 7 months after the identification of the overpayment. The audit report recommended that the State implement procedures to ensure that credit balances identified by providers on the MCBRs are reviewed in a timely fashion. The State responded that all MCBRs would be reviewed within 45 days of return by the vendor and a determination made concerning overpayment. Those vendors identified as receiving an overpayment will be notified that a check for the amount due must be remitted to the Division or an account will be set up to recoup the overpayment from future payments.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The audit objective was to determine whether the Department reported all identified overpayments to CMS in a timely and accurate manner.

Scope

We examined overpayments that were reported or should have been reported on the four quarterly CMS-64 reports for the period October 1, 2002 through September 30, 2003. The review of overpayments for this period led us to identify overpayments that were not reported or were not reported timely on the December 31, 2003 or March 31, 2004 CMS-64.

The objective of our audit did not require an understanding or assessment of the overall internal control structure of the Department. However, we gained an understanding of controls with respect to overpayments and the aging of accounts receivables. Our review was limited in scope to controls over overpayments, and is not intended to be a full-scale internal control assessment of the Department's Medicaid operations or financial management system.

We performed our audit at both the offices of the Department and its fiscal agent in Newark, Delaware.

Methodology

To accomplish our objectives, we:

- reviewed applicable Federal criteria, including section 1903 of the Act, Title 42 Part 433 of the CFR and applicable sections of the State Medicaid manual

- reviewed prior year audit reports

- gained an understanding of the Department's procedures for managing provider overpayments

- interviewed key staff and reviewed records in the Department's Division of Social Services, Division of Managed Services (DMS), and Surveillance and Utilization Review (SUR) unit as well as the Delaware Office of the Attorney General, and Electronic Data Services, the fiscal agent for Delaware

- analyzed the four CMS-64 reports for fiscal year 2003 along with supporting documentation pertaining to the reporting of overpayments and credit adjustments

- reviewed a listing of 53,646 uncollected accounts receivable that were at least 60 days old as of December 31, 2003

- selected a judgmental sample of 51 uncollected accounts receivables and traced them to source documents

- determined that the total recoupment amount for all account receivables in the Medicaid Management Information System (MMIS) for our period was $89.2 million

- calculated the number of days between the actual and required reporting dates for all identified overpayments and for those overpayments that were reported late, calculated the potential lost interest using the CMIA Rate[1]

The review was conducted in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

The Department did not report identified overpayments until they were collected and did not report collected overpayments in a timely and accurate manner.

We found that the Department:

- did not report 3,184 overpayments totaling $838,906 ($437,592 Federal share) because it had not collected them

[1] 1.32 percent annualized interest rate per the CMIA of 1990. The CMIA of 1990 was passed to improve the transfer of Federal funds between the Federal Government and the States and provides a means to assess an interest liability to the Federal Government and/or the States to compensate for the lost value of funds.

- did not report 205 overpayments totaling $440,861 ($226,460 Federal share) within the required timeframes because it did not use the correct date of discovery

- incorrectly netted overpayments against expenditures because it could not separately identify overpayment collections from other collections. In addition, the Department incorrectly reported provider overpayments totaling $1,108,545 on the wrong line of the CMS-64 because of an incorrect spreadsheet formula

As a result, the Department did not return the Federal share totaling $437,592 for the unreported overpayments and delayed returning the Federal share totaling $226,460 for the untimely overpayments. In addition, the inaccurate reporting resulted in CMS having incorrect Medicaid expenditure and overpayment data.

Overpayments Were Not Reported

The Department did not report 3,184 overpayments totaling $838,906 ($437,592 Federal share) on the CMS-64 because they were not collected. Six hundred sixty-three overpayments totaling $481,960 ($248,589 Federal share) should have been reported on the CMS-64 as of September 30, 2003 and 2,521 overpayments totaling $356,946 ($189,003 Federal share) were not reported as of December 31, 2003 or March 31, 2004.

Section 1903(d)(2) of the Act, as amended by section 9512 of the COBRA, states that when an overpayment is discovered, the State has 60 days in which to recover or attempt to recover such overpayment before an adjustment is made in the Federal payment to the State. Except for providers that are out of business or bankrupt, the adjustment in the Federal payment shall be made at the end of 60 days, whether or not recovery was made.

The Department does not have a system for reporting identified overpayments until they are collected. The Department processes identified overpayments through either its Division of Social Services or the fiscal agent. An account receivable was created in the MMIS for an overpayment when it was collected through a provider payment or through an adjustment to future claims. Each quarter the Department's DMS generates MMIS reports that summarize all account receivables that have been collected. It reports this data on the CMS-64 by netting the account receivables out of reported expenditures. The fiscal agent maintains an aging list of uncollected account receivables, but the Department did not write off any uncollectible account receivables. Therefore, overpayments that were not collected remained open in the MMIS as an accounts receivable and were not reported to CMS.

We obtained an aging listing of all accounts receivables that were over 60 days old as of December 31, 2003. We reviewed the listing and found 663 uncollected provider overpayments totaling $481,960 ($248,589 Federal share) that were identified as far back as 1993 and had not been reported on the CMS-64 report as of September 30, 2003. We also found 2,521 overpayments totaling $356,946 ($189,003 Federal share) that were identified after August 1, 2003, but not reported on the CMS-64. Since the Department has 60 days to report an identified overpayment, overpayments identified from August 1 to October 31, 2003 should have been reported on the December 31, 2003 CMS-64 and

overpayments identified from November 1 to December 31, 2003 should have been reported on the March 31, 2004 CMS-64.

We identified 3,184 overpayments totaling $838,906 that the Department did not report to CMS. As a result, the Department did not return the Federal share totaling $437,592.

Overpayments Were Reported Untimely

The Department did not report 205 collected overpayments totaling $440,861 ($226,460 Federal share) within the required timeframes because it did not use the correct date of discovery. These overpayments consisted of 94 overpayments totaling $398,948 ($204,267 Federal share) reported untimely as of September 30, 2003 and 111 overpayments totaling $41,913 ($22,193 Federal share) reported untimely as of either December 31, 2003 or March 31, 2004.

Section 1903(d)(2) of the Act, as amended by section 9512 of the COBRA, states that when an overpayment is discovered, the State has 60 days in which to recover or attempt to recover such overpayment before an adjustment is made in the Federal payment to the State. 42 CFR Part 433, subpart F, defines discovery as the date on which a provider initially acknowledges a specific overpaid amount in writing to the Medicaid Agency.

The Department misinterpreted Medicaid's definition of the date of discovery of an overpayment and therefore did not report overpayment collections within the required timeframes. Delaware requires providers with over $10,000 in Medicaid claims in a quarter to submit an MCBR within 30 days after the end of the quarter. When the Department's SUR unit receives an MCBR that identifies an overpayment, it conducts a review that takes up to 45 days to determine if the provider's conclusion is correct. Once the review is completed, the SUR unit sends a final determination letter to the provider requesting a refund of the overpayment within 30 days. If the provider does not submit the payment within the 30 days, the SUR unit requests an MMIS adjustment against future claims to recoup the overpayment.

The Department defines discovery as the date it issued the final determination letter and not as the date the MCBR with an identified overpayment was received. We compared the date the MCBR was received to the date the Department reported the overpayment on the CMS-64. Our comparison found that the Department took an average of 215 days to report the overpayment, with some taking as long as 8 months.

We identified 205 collected overpayments totaling $440,861 that were not reported within the required 60 days. As a result, the Department delayed returning the Federal Share of $226,460.

Overpayments Were Reported Inaccurately

The Department did not accurately report provider overpayments on the CMS-64. The Department did not separately identify overpayment collections from other collections

and incorrectly netted them against expenditures reported on the CMS-64. The Department also incorrectly reported $1,108,545 in overpayment collections on the wrong line of the CMS-64.

The State Medicaid manual § 2500 requires State Medicaid Agencies to accurately report overpayments that they collect other than third party liability, probate, or fraud as other Medicaid collections on the CMS-64.

The Department does not have an accounting system that separately identifies collected overpayments from other collections. Through its fiscal agent, the Department enters each overpayment identified after June 30, 2003 into the MMIS as an account receivable. The MMIS is not set up to separate overpayment collections from other collections, but instead consolidated all account receivables collected through recoupments, refunds and voided claims. The Department then netted the collections against expenditures reported on the CMS-64. For fiscal year 2003, the Department netted $89.2 million in collections against expenditures. The Department could not identify what portion of the $89.2 million represented overpayments that should have been reported on the CMS-64.

Also, 48 provider overpayments totaling $1,108,545 were incorrectly reported on the wrong line of the CMS-64. Before July 1, 2003, some overpayments were processed manually outside the MMIS. DMS consolidated these overpayments on an excel spreadsheet for reporting on the CMS-64. The overpayments were incorrectly reported on the wrong line of the CMS-64 due to an incorrect formula on the spreadsheet.

The Department did not accurately report provider overpayments on the CMS-64. As a result, CMS did not have correct Medicaid expenditure and overpayments data for Delaware.

RECOMMENDATIONS

We recommend that the Department:

- include unreported overpayments totaling $838,906 on the CMS-64 and refund the Federal Government $437,592 representing the Federal share

- ensure overpayments are reported within 60 days in accordance with Federal regulations

- establish an adequate integrated accounting system that records, ages and accurately reports overpayments on the CMS-64

- review and correct the spreadsheet formulas that consolidate provider overpayments reported on the CMS-64

OTHER MATTERS

Opportunity Cost

By not reporting overpayments in a timely manner, the Department effectively denied CMS the use of funds that would have otherwise been available for the Medicaid program. The CMIA of 1990 provides a means to calculate the value of opportunity costs such as this. Applying that methodology, CMS could have realized potential interest income totaling $7,472.

AUDITEE COMMENTS

Delaware responded to our draft report in a letter dated September 29, 2004. Delaware concurred with our recommendations and stated that it:

- conducted an initial review of the unreported overpayments identified in our report. The review determined that some overpayments were associated with State funded programs, were already credited to the Federal Government, or were documented as uncollectible. The remaining balance will be reported to the Federal Government on the December 2004 CMS-64.

- directed it's fiscal agent to make the development of a system that guarantees timely and accurate crediting of Federal funds for aged accounts receivable a high priority. Delaware agreed to develop procedures to ensure overpayments are reported within 60 days. It also revised its policy for collecting overpayments identified on Medicaid Credit Balance Reports. Providers are now required to pay all amounts owed or submit a copy of the remittance advice that indicates that an adjustment has been made.

- initiated modifications to its MMIS. The modifications will include revised input screens to provide appropriate account start dates and accurate aging, system flags to identify that funds for an overdue accounts receivable were returned to the Federal Government and reporting to capture the information required on the CMS-64.

- corrected the spreadsheet formulas that consolidate provider overpayments for reporting purposes to assure that they are reported correctly.

Delaware's response is included as an Appendix to this report.

OIG RESPONSE

We believe that the actions proposed by Delaware, when implemented, will address our recommendations, with one exception. In its response to our first recommendation, Delaware stated that some overpayments were associated with State funded programs, were already credited to the Federal Government, or were documented as uncollectible.

Delaware did not provide any details on these amounts. Therefore, until Delaware can provide this information to CMS, we believe that overpayments totaling $838,906 should be reported on the CMS-64 and the Federal share totaling $437,592 should be refunded to the Federal Government.

DELAWARE HEALTH AND SOCIAL SERVICES
DIVISION OF SOCIAL SERVICES

TELEPHONE: (302) 255-9500

September 29, 2004

Mr. Stephen Virbitsky
Regional Inspector General
Department of Health & Human Services
Office of Inspector General
Office of Audit Services
150 S. Independence Mall West
Suite 316
Philadelphia, Pennsylvania 19106-3499

Dear Mr. Virbitsky:

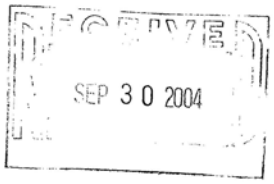
Please find the State of Delaware's response to the recommendations in the audit report Number A-03-04-00205.

If you have any questions, please contact Mr. Frank Long at (302) 255-9624.

Sincerely,

Philip Soulé,
Medicaid Deputy Director

pc: Frank Long
Robert Bubacz



AUDIT RESPONSE
ACCOUNTS RECEIVABLE SYSTEM FOR MEDICAID
PROVIDER OVERPAYMENTS
REPORT NUMBER A-03-04-00205

Recommendation Number 1.

That the Delaware Department of Health and Social Service include unreported overpayments totaling $839,906 on the CMS-64 and refund the Federal Government $437,592 representing the Federal Share.

Response

The State of Delaware concurs that overpayments need to be reported and has conducted an initial review of the list of overpayments identified by the Federal auditors. The State has found that some of the overpayments described in the audit were actually associated with 100% State funded programs and some have already been since credited to the Federal government. For the remaining balances identified in the audit where credit is still due to the Federal government, the State is establishing a systematic process to flag these balances to assure accurate credit is given to the Federal government and not credited a second time as the balances continue to be liquidated over time. The State will identify a credit to the Federal government on the CMS-64 which ends December, 2004. This will be the net of the identified overpayment in the audit less overpayments that were for State funded programs, those identified in the audit that have been already credited to the Federal government, or those documented as uncollectible

Recommendation Number 2.

That the Delaware Department of Health and Social Services ensure overpayments are reported within 60 days in accordance with Federal regulations.

Response

The State concurs with the finding and for future balances which may exceed the 60 day requirement; the State has directed its contracted fiscal agent to make the development of a system which guarantees timely and accurate crediting of Federal funds for aged accounts receivable a high priority. Procedures will be developed to ensure overpayments are reported within 60 days. Reports will be developed to provide the information required on the CMS64 report.

The State has revised its policy for collecting balances report on the Medicaid Credit Balance Report. Providers having a balance, at the time the Medicaid Credit Balance Report is submitted, now must pay all amounts owed to Medicaid by check, or submit a copy of the remittance advice that indicates that an adjustment has been made.

Recommendation Number 3.

That the Delaware Department of Health and Social Services establish an adequate integrated accounting system that records, ages and accurately reports overpayments on the CMS-64.

Response

The State concurs with the finding and System change requests will be initiated to modify the MMIS. Areas to be addressed are input screens to provide appropriate accounts receivable start dates and accurate aging, system flags to identify that funds for an overdue AR were returned to the Federal Government and reporting to capture the information required on the CMS64 for overdue accounts receivables.

Recommendation Number 4.

That the Department of Health and Social Services review and correct the spreadsheet formulas that consolidate provider overpayments reported on the CMS-64.

Response

The State concurs with the finding and the formulas have been corrected.

ACKNOWLEDGMENTS

This report was prepared under the direction of Stephen Virbitsky, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

Eugene Berti, *Audit Manager*
Leonard Piccari, *Senior Auditor*
Michael Romano, *Auditor-in-Charge*
Richard Polen, *Auditor*

For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619-1343.