

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF ESCHEATED WARRANTS
FOR THE STATE OF MARYLAND'S
DEPARTMENT OF HEALTH AND
MENTAL HYGIENE**

STATE FISCAL YEARS 1999 - 2001



JANET REHNQUIST
Inspector General

January 2003
A-03-02-00202

Office of Inspector General

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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/OAS. Authorized officials of the HHS divisions will make final determination on these matters.





DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES
150 S. INDEPENDENCE MALL WEST
SUITE 316
PHILADELPHIA, PENNSYLVANIA 19106-3499

January 13, 2003

Arlene Hahn Stephenson, Acting Secretary
Department of Health and Mental Hygiene
201 West Preston Street
Executive Suite 5th Floor
Baltimore, Maryland 21201

The Honorable Nancy K. Kopp
State Treasurer
State of Maryland
Goldstein Treasury Building
80 Calvert Street
Annapolis, Maryland 21401

Dear Ms. Stephenson and Ms. Kopp:

This final report presents the results of our REVIEW OF ESCHEATED WARRANTS FOR THE STATE OF MARYLAND'S DEPARTMENT OF HEALTH AND MENTAL HYGIENE. Escheated warrants are uncashed checks that are subsequently canceled by the issuer because the recipient failed to cash the check within a prescribed period of time.

The objective of our audit was to assess the effectiveness and efficiency of the State of Maryland's (the state's) procedures for identifying, crediting and reporting the Federal financial participation (FFP) of escheated warrants. Our review of escheated warrants covered State Fiscal Years (SFYs) 1999 through 2001 (July 1, 1998 through June 30, 2001).

We determined that for the 3 years ended June 30, 2001, the State's Department of Health and Mental Hygiene (DHMH) did not reimburse FFP of: 1) \$62,265 in unrepresented checks; 2) \$10,441 in undeliverable checks; and 3) \$6,248 for canceled or deleted checks. We calculated accrued interest of \$23,499 for the FFP portion on the escheated warrants.

We recommend that the state:

- 1) Reimburse \$78,954 in FFP for escheated warrants for the 3 years ended June 30, 2001 and \$23,499 of accrued interest.
- 2) Establish controls to ensure compliance with Federal regulations regarding escheated warrants.

By letter dated November 8, 2002, the state responded to a draft of this report. The state agreed that there were instances of noncompliance with the Medicaid requirement to return or credit federal funds associated with checks uncashed after 180 days. However, the state maintained that the amount of FFP due to the federal government is less than we determined. The state also agreed that the policies and procedures at the time of the audit were not adequate to ensure that the applicable funds were credited back to the Medicaid Program. The state's response indicated that its agencies were working together to ensure compliance with all applicable Federal grant programs.

Also, the state provided additional documentation with its response. The documentation included support for some of the deleted checks that we had requested during the audit, but had not received. We adjusted the audit findings to reflect these items. The state also advised us that as a result of its analysis of the checks we identified as unrepresented or undeliverable, it has reissued some of those checks, and they have subsequently been cashed. The state provided documentation supporting both the reissuance and cashing of those checks subsequent to our audit fieldwork.

We have included the state's response in the findings section of the report and summarized the state's response and our comments after the Conclusions and Recommendations section of this report. In addition, we attached the state's letter in its entirety as Appendix C to this report.

INTRODUCTION

BACKGROUND

The Medicaid program was authorized under Title XIX of the Social Security Act and is a joint Federal/state program. The purpose of the Medicaid program is to provide FFP to states for payment of medical assistance on behalf of eligible cash assistance recipients, children, pregnant women, and the aged who meet income and resource requirements, and other categorically eligible groups. Financial assistance is also provided to states to pay for Medicare premiums, co-payments, and deductibles for qualified Medicare beneficiaries meeting certain income requirements.

At the Federal level, the Centers for Medicare & Medicaid Services (CMS), within the Department of Health and Human Services (HHS), administers the Medicaid program. The CMS awards funds to states quarterly based on states' estimates of funds needed. Federal funds in the form of FFP are provided to assist the states in funding for medical

care. States use an electronic transfer system for monthly cash draws and are required to submit certified expenditure reports within 30 days after the end of each quarter.

The DHMH administered the Medicaid program at the state level. As part of its responsibility, DHMH processed Medicaid claims submitted to the state. While DHMH did not issue checks for Medicaid payments, it did determine and approve payment amounts.

The State Treasurer's Office (STO) was responsible for issuing checks once requests for payment were submitted to its office by DHMH. In addition to issuing checks, the STO reconciled the bank statements, maintained a list of checks that were uncashed, and canceled the uncashed checks when appropriate. This department was also responsible for administering and maintaining both the Unpresented and Undeliverable Checks Funds. These accounts were funded by escheated warrants, which are uncashed checks that were subsequently canceled by the issuer because the recipients failed to cash the checks within a prescribed period of time. The Federal share of an escheated warrant must be refunded to the Federal Government because no expenditure was made.

The 42 Code of Federal Regulations (C.F.R.) Section 433.40, 45 C.F.R. Section 201.67, and 31 C.F.R. Section 205 address the treatment of uncashed and canceled Medicaid checks. These regulations state that if a check remains uncashed beyond a period of 180 days from the date it was issued, it will no longer be regarded as an amount expended because no funds have actually been disbursed. If the state agency has claimed and received FFP for the amount of the uncashed check, it must refund the amount of FFP received.

The state divided uncashed checks into two categories, unpresented and undeliverable. An unpresented check is a check that has not been submitted for payment. An undeliverable check is one that was sent out and then returned to either STO or DHMH. The state established an Unpresented Checks Fund and an Undeliverable Checks Fund for uncashed checks. The Annotated Code of Maryland sets forth the state regulations for both funds.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of the audit was to assess the effectiveness and efficiency of Maryland's procedures for identifying, crediting and reporting FFP of escheated warrants. Our review included two departments within the state, DHMH and STO.

To accomplish our objectives we:

- Obtained an understanding of the state's process for handling uncashed checks.
- Obtained a listing of all unpresented checks from the state's bank covering the period of July 1, 1998 through June 30, 2001.

- Obtained a listing from the state of all undeliverable checks that were directly related to DHMH for the period of July 1, 1998 through June 30, 2001.
- Traced each check selected for review through the state's R*Stars system and/or its General Accounting Division (GAD) check research screen.
- Evaluated each check to determine the amount of escheated warrants that contained FFP not refunded to the Federal Government.
- Computed the interest on the escheated warrants that were either not returned to DHMH and credited back, or that were replaced, but over the 180 day period in accordance with Federal regulations 42 C.F.R. Section 443.40, 45 C.F.R. Section 201.67 and 31 C.F.R. Section 205.
- Obtained and reviewed line 9 of the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64) filed with CMS during the period of July 1, 1998 through June 30, 2001.

We obtained the numbers of all state checks issued for the audit period from the account where the DHMH checks originated. From these issued checks, we identified the unpresented and undeliverable checks. The STO provided a listing of all unpresented checks for the 3-year period ended June 30, 2001. The STO and DHMH also provided a list of all undeliverable checks specifically designated to DHMH.

For the 3-year period July 1, 1998 to June 30, 2001, the state recorded 28,649 unpresented checks totaling \$21,920,339. Not all of these checks were issued for DHMH payments. However, the DHMH checks could not be separated from the rest of the unpresented checks by the bank. Therefore, we drew a stratified random sample of 862 checks from the total for review. The sample was designed with three strata with check values ranging from \$100 to over \$10,000 with a value totaling \$21,455,129. (For the detailed sampling methodology see Appendix A.)

We projected the FFP for stratum 1 and 2, and included the total from stratum 3 to determine the amount of escheated warrants that should be returned to the Federal Government (see Appendix B). Using statistically valid sampling techniques, we estimated with 90 percent confidence that at least \$176,450 (lower limit) should have been reimbursed to the Federal Government for Medicaid related FFP provided but not redeemed by the payee. Of this amount, the state has subsequently reissued a check with FFP of \$114,185, reducing by that much the amount still owed to the Federal government.

We used applicable laws, regulations and Medicaid guidelines to determine whether the state followed Federal regulations concerning escheated warrants. We limited our review of internal controls to those that related to escheated warrants.

Our audit was performed in accordance with generally accepted government auditing standards. We conducted the audit at DHMH in Baltimore, Maryland and STO in Annapolis, Maryland between January 2002 and May 2002.

FINDINGS AND RECOMMENDATIONS

For the period July 1, 1998 through June 30, 2001, we determined that DHMH did not report or credit \$62,265 of FFP for unrepresented checks on Form CMS-64 line 9. Also, there was an additional \$16,689 of FFP in undeliverable checks not reported or credited on Form CMS-64 line 9. As a result, we calculated interest of \$23,499 for not reporting these credits in a timely manner. We believe these errors resulted from a lack of procedures.

Neither DHMH nor STO had written procedures detailing how the Federal Government was to be credited for the FFP in uncashed Medicaid checks. However, undeliverable checks returned to DHMH, which were not reissued to payees, were credited to the Federal Government through the CMS-64. Undeliverable checks returned to STO were not credited on the CMS-64.

Our audit showed that except for the undeliverable checks returned to DHMH, the procedures for uncashed checks that were followed did not provide for the return of FFP to the Federal Government. The procedures for both unrepresented and undeliverable checks were in conflict with Federal regulations. In addition, for undeliverable checks returned to STO, the procedures were in conflict with the Annotated Code of Maryland in that the funds were not returned to the source when not used.

For the Medicaid program, the Federal share claimed for an uncashed check must be returned to the Federal program because no expenditure has been made. General provisions found in 42 C.F.R. Section 443.40 and 45 C.F.R. Section 201.67 state:

- *“If a check remains uncashed beyond a period of 180 days from the date it was issued; i.e., the date of the check, it will no longer be regarded as an allowable program expenditure. If the State has claimed and received FFP for the amount of the uncashed check, it must refund the amount of FFP received.”*
- *“At the end of each calendar quarter, the State agency must identify those checks which remain uncashed beyond a period of 180 days after issuance. The State agency must report on the Quarterly Statement of Expenditures for that quarter all FFP that it received for uncashed checks. Once reported on the quarterly Statement of Expenditures for a quarter, an uncashed check is not to be reported on subsequent Quarterly Statement of Expenditures. If an uncashed check is cashed after the refund is made, the State agency may submit a new claim for FFP.”*

In addition, for undeliverable checks that are in the Undeliverable Checks Fund, the Annotated Code of Maryland, Part IV, Section 7-229 (f) states, “On a warrant charged against the Fund, the Treasurer, the Chief Deputy Treasurer, or a Deputy Treasurer shall disburse to the original source any money in the Fund that federal or State law requires to be returned to the source or that the Treasurer considers proper to return to the source.” The state did not follow this requirement for the checks we reviewed. The Annotated Code of Maryland did not contain such a requirement for unrepresented checks.

Unrepresented Checks

For the 3-year period ended June 30, 2001, we statistically projected that the state had not reimbursed the Federal Government \$176,450 in FFP for unrepresented checks originally issued with Federal funds. Based on a stratified random sample, we identified 42 DHMH Medicaid unrepresented checks that were outstanding more than 180 days beyond the issue date. The state reissued one check, with FFP of \$114,185, subsequent to our audit.

We reviewed a sample of 862 unrepresented checks issued between July 1, 1998 and June 30, 2001. These checks totaled \$18,616,261. We found 42 errors in the sample totaling \$292,695 (FFP \$142,453). Based on these 42 errors we projected that DHMH issued and did not credit FFP of \$176,450 for unrepresented checks over the 3-year period. The amount still due to the Federal government has been reduced to \$62,265 because the state submitted documentation showing that a check with FFP of \$114,185 has been issued and cashed subsequent to and as a result of our audit. The following table summarizes the sample information.

UNPRESENTED CHECKS SAMPLE			
Stratum	Range of Dollar Values	Sample Size	Number of DHMH Checks with FFP
1	\$100 to \$1,000	500	32
2	\$1,000.01 to \$10,000	200	7
3	Over \$10,000	162	3
Total		862	42

State Response

The state concurred with our unrepresented check findings but not to the extent presented in the initial audit findings. The state proposed an adjustment to the sample to reflect the check that was identified in our findings and which it reissued after the completion of our fieldwork. The check HC-AS2N-1 p. 2/3 totaled \$226,724 with FFP of \$114,185. The state recalculated the amount of escheated warrants associated with unrepresented checks by attempting to calculate the amount of the sample that was not escheated and applying a ratio of “correctly” claimed FFP to FFP claimed.

OAS Comment

The state agreed with the fact that a check for \$226,724 (\$114,185 FFP) was outstanding for more than 180 days. It took corrective action by reissuing the check. While we agree that the FFP associated with that check is now eligible for FFP, we do not agree with the method the state used to determine the amount of FFP due for unrepresented checks. The sample used to estimate unrepresented checks was composed of three distinct strata. The check in question was 1 of 3 checks in the third stratum, checks greater than \$10,000, for which all 162 checks were reviewed. We questioned 3 checks with FFP of \$129,394 out of the 162 checks issued. The value of the 162 checks was \$17,937,029 (FFP was not determined for checks that were not questioned). The state, in its attempt to calculate the total amount of unrepresented checks due, tried to estimate the value of legitimate checks in the population. It did so by dividing the amount of the FFP for the one check it subsequently reissued by the total amount of FFP questioned for the third stratum. It erroneously reasoned that this should result in the amount of allowed FFP for the population, and that the inverse represented the amount that should be questioned. The state then applied the inverse ratio to the lower limit of the amount we questioned for unrepresented checks. As a result, the final figure proposed by the state is inaccurate and unreliable because it fails to consider the amount claimed, the results of the other two strata, and the effect that ignoring the check will have on precision and sample validity.

Furthermore, the state's basis for adjusting the questioned amount lies solely in the argument that one of the checks was reissued. The fact remains that the state did not comply with the statutory requirements, the finding is valid, and the resulting projection is statistically valid. It is not appropriate to ignore the initial finding by removing it from the results. The subsequent reissuance of a check with \$114,185 FFP as a result of the audit represents concurrence with that portion of the finding and, in effect, a partial reimbursement. The effect of reissuing the check is to offset the amount of FFP still owed, and we adjusted our recommendation accordingly.

Undeliverable Checks

We found that the state failed to properly credit the Federal Government for 180 of the 944 undeliverable checks issued in SFYs 1999 through 2001. The Federal share of these undeliverable checks totaled \$16,689. Of the remaining 764 checks we concluded that for the most part FFP was either credited, or there was no FFP involved. In a limited number of cases we could not verify if there was any FFP associated with the checks. The following table shows a breakout of the various categories of the checks reviewed.

REVIEW OF UNDELIVERABLE CHECKS			
Category	Number of Checks	Value of Checks	FFP Portion of Checks
Checks with FFP	162	\$ 19,465	\$10,441
Checks Canceled or Deleted with FFP	18	12,488	6,248
Checks with no FFP	575	2,188,952	0
Checks returned to DHMH	25	3,962	n/a
Checks with no Supporting Documentation	137	68,687	n/a
Checks Deleted with no Support	27	6,232	n/a
Total	944	\$ 2,299,786	\$16,689

n/a = not applicable

There were 162 undeliverable checks that contained FFP totaling \$10,441. All 162 checks were outstanding for more than 180 days beyond their issue dates. Medicaid checks were returned for a variety of reasons including the postal service’s inability to deliver them to the addressees. When undeliverable checks were returned, either DHMH or STO attempted to resolve any issues, including searching for a current address and resending the check.

The STO processed returned checks differently than DHMH. If a check was returned to DHMH and a current address could not be found, the check was canceled and the FFP portion of the check was credited to the Federal Government. If a check was returned to the STO and a current address could not be found, after 30 days the money was transferred to the Undeliverable Checks Fund. After a check remained in the Undeliverable Checks Fund for a period of seven years, it would be transferred to the state’s General Fund. The Annotated Code of Maryland requirement to disburse to the original source any money in the Undeliverable Checks Fund that Federal or state law required to be returned to the source was not followed.

The 944 undeliverable checks included 18 canceled or deleted checks that contained FFP totaling \$6,248. These checks were coded in the state’s accounting system as canceled or deleted. However, we determined that although the state’s accounting system had deleted or canceled the checks, not all accounting adjustments were made and the FFP was not refunded.

There were also 575 checks reviewed that did not contain FFP. These checks were funded by state money only or were funded from sources other than Medicaid. Another 25 checks were returned to DHMH and FFP was credited back to the Federal Government.

We did not review 164 checks totaling \$74,919. Of this amount, 137 checks totaling \$68,687 represented checks that were originally undeliverable and subsequently reissued. They were not reviewed because the state could not provide documentation concerning the check numbers under which they were reissued. Based on our observation that all reissued checks we were able to examine were subsequently cashed and eligible for FFP,

we did not pursue this matter further. The remaining 27 checks, totaling \$6,232 had been classified as deleted on the state's GAD system. We did not review these checks because the documentation was not readily available. Also, based on our observations that checks deleted from the State's GAD system did not include a significant number of DHMH checks, we concluded that the amount of FFP would be minimal. Therefore we did not pursue resolution of these amounts.

State Response

The state agreed that there were instances of noncompliance with the Medicaid requirement to return or credit federal funds associated with checks uncashed after 180 days. However, the state maintained that the amount of FFP due the Federal government was less than we determined. In response to our draft report, the state provided supporting documentation for some of the checks in two categories of undeliverable checks, Checks with FFP, and Checks Canceled or Deleted with FFP.

OAS Comment

For the first category, Checks with FFP, the state reissued 12 checks totaling \$6,663 with \$1,699 FFP. These checks were reissued after our fieldwork was completed and were subsequently cashed. The effect of reissuing the checks is to offset the amount of FFP still owed, and we adjusted our recommendation accordingly. Because they were outstanding for more than 180 days, these 12 checks were included in our calculation of interest due.

For the second category, Checks Canceled or Deleted with FFP, the state provided previously requested documentation that indicated that 17 checks were reissued under new check numbers and cashed within the statutory limits. Based on this documentation, we accepted support for those checks and adjusted the finding to reflect only 18 checks for which the state did not provide documentation or any other indication to dispute the audit finding.

Interest on the Escheated Warrants

The state did not return the FFP of most escheated warrants that were outstanding for more than 180 days. Therefore, based on Federal regulations, the state is liable for interest on the amount of escheated warrants greater than 180 days old. We calculated accrued interest of \$23,499 on the questioned unrepresented and undeliverable checks. Under 45 C.F.R. Section 74.21, there should be a minimum time lapse between the transfer of funds from the U.S. Treasury and disbursement by the state.

Under 31 C.F.R. Section 205.15, a state incurs interest liability on refunds of Federal funds from the day the refund is credited to a state account (in this case the state's General Fund) to the day the refund is either paid out for Federal assistance program purposes or credited to the Federal government. In addition, 45 C.F.R. Section 74.47 states: "...grantees shall remit to the Federal Government any interest or other

investment income earned...” Based on these Federal guidelines, we determined that the amount of interest due to the Federal Government should be based on the actual amount of interest earned on the funds by the state. Accordingly, we calculated the amount of interest due based on the interest actually earned by the state.

Using a statistical sampling methodology (for the detailed sampling methodology see Appendix A), we calculated accrued interest of \$22,743 (see Appendix B) on the FFP portion of the unrepresented checks. The accrued interest on the FFP portion of the undeliverable and the canceled or deleted checks was \$534 and \$222 respectively. The following table shows a breakout of the interest calculated.

INTEREST	
Type of Check	Amount of Interest
Unpresented	\$22,743
Undeliverable	534
Canceled or Deleted (Undeliverable)	222
Total	\$23,499

The interest was calculated from day 181 after a check was issued to March 31, 2002. Therefore, the interest period varied depending on the issue date of the check.

State Response

In its response the state agreed that interest was due but did not agree with the amount recommended in our draft report. The state’s calculation differed in two ways. First, the state adjusted for undelivered, canceled or deleted, and unpresented checks for which it provided documentation that the checks were reissued. Second, the state used interest rates provided for under the Cash Management Improvement Act (CMIA), which were lower than the rates we used. The state believed the CMIA rates are warranted because it considers the interest to be grant funds associated with the Medicaid program. The state also requested that the interest be waived and cited Medicaid Statute 433.40 as the basis for requesting the waiver.

OAS Comment

We adjusted the interest on the deleted and canceled checks to reflect the additional documentation submitted by the state showing that checks were previously paid. For the other unpresented and undeliverable checks that were paid subsequent to the interest period (day 181 after the check was issued to March 31, 2002) we did not adjust the interest. Those checks were reissued in response to our audit after March 31, 2002. The fact that they were subsequently reissued means the FFP can be claimed, but it does not cancel the interest due for periods the funds were outstanding beyond 180 days.

We determined through discussions with officials from the Department of Treasury and HHS, and a review of the Federal regulations, that the CMIA interest rates apply only to

the state's money management in terms of its check clearance patterns that are the basis for its drawdowns. However, the checks become stale dated after six months and the funds are escheated back to the state. These funds are then to be returned to HHS or used to reduce a future HHS drawdown. The interest rate appropriate for the audit findings was the actual interest rate earned on the funds by the state.

The reference provided by the state indicates that, contrary to the state's response, the federal share of escheated warrants must be returned. There is no provision for waiver included in 42 C.F.R. 433.40. Nevertheless, OIG does not make final resolution on recommendations contained in our reports. Where permitted, waivers must be negotiated through the action official designated for the program office.

CONCLUSION AND RECOMMENDATIONS

For the 3 years ended June 30, 2001, DHMH did not reimburse the following:

SUMMARY OF FINDINGS			
	Total FFP	Interest	Total
Unpresented	\$62,265	\$22,743	\$85,008
Undeliverable	10,441	534	10,975
Canceled or Deleted	6,248	222	6,470
Total	\$78,954	\$23,499	\$102,453

Current state procedures do not provide for return of the FFP for checks that were uncashed over 180 days past the issue dates.

Therefore, we recommend that the state:

- (1) Reimburse \$78,954 in FFP for escheated warrants for the 3 years ended June 30, 2001, and \$23,499 for accrued interest.
- (2) Establish controls to ensure compliance with Federal regulations regarding escheated warrants.

Maryland Response and OIG Comments

Recommendation (1)

The state agreed that there were instances of noncompliance with the Medicaid requirement to return or credit Federal funds associated with checks uncashed after 180 days, however, the state maintained that the amount of FFP due to the Federal government was less than we determined. Along with the response, the state provided support for the deleted checks that was requested during the audit but not received. Also provided was support for some checks that were identified during the audit as uncashed. The state followed up on these checks by reissuing them after which the checks were cashed. We adjusted the audit findings as appropriate to reflect these items.

The state also believed that the CMIA interest rates should be applied to the audit findings rather than the actual interest earned on the funds. We do not agree. Based on information provided by the U.S. Department of Treasury, the CMIA interest rates apply only to the state's money management in terms of its check clearance patterns that are the basis for its drawdowns. Because the checks reviewed fell outside that period, the appropriate interest rate for the audit findings was the actual interest rate earned on the funds by the state.

Also, the state requested in its response that interest be waived under Medicaid Statute 433.40. We reviewed 42 C.F.R. 433.40 and noted no such provision.

Recommendation (2)

The state agreed that the policies and procedures at the time of the audit were not adequate to ensure the proper recipients always obtained their payment or that the applicable funds were credited back to the Medicaid Program. The state's response indicated that its agencies were working together to ensure compliance with all applicable Federal grant programs. The state was developing a report within the State Financial Management Information System to identify and provide to all Maryland State agencies receiving Federal funds the ability to obtain a report on demand with an aging report that identifies outstanding agency checks that include FFP.

We believe the steps that the state is taking will help to identify escheated warrants so the agencies can take appropriate action timely. This should enable the state to comply with the Federal requirements.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action 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.

Page 13 – Arlene Hahn Stephenson, Acting Secretary
The Honorable Nancy K. Kopp

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To facilitate identification, please refer to report number A-03-02-00202 in all correspondence relating to this report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Stephen Virbitsky", with a long horizontal flourish extending to the right.

Stephen Virbitsky
Regional Inspector General
for Audit Services

Direct Reply to HHS Action Official:

Sonia A. Madison
Regional Administrator
Centers for Medicare and Medicaid Services, Region III
Public Ledger Building, Suite 216
150 S. Independence Mall West
Philadelphia, Pennsylvania 19106-3499

APPENDICES

SAMPLING METHODOLOGY FOR UNPRESENTED CHECKS

Review Objective:

The objective of our review was to determine the FFP for escheated warrants not refunded to the Federal Government for the 3-year period ended June 30, 2001.

Population:

The population of escheated warrants we statistically sampled totaled 5,018 unpresented checks with a value \$21,455,129.62. These escheated warrants consisted of:

- Stratum 1 represented checks between \$100.00 and \$1,000.00.
- Stratum 2 represented checks between \$1,000.01 and \$10,000.00.
- Stratum 3 represented all checks over \$10,000.00.

Stratum	Total Check Dollar Amount	Total Interest Dollar Amount	Total Population
Stratum 1	\$ 1,252,252.50	\$ 354.60	4,056
Stratum 2	2,265,848.62	862.29	800
Stratum 3	17,937,028.50	18,837.04	162
Totals	\$21,455,129.62	\$20,053.93	5,018

We did not review 23,631 checks totaling \$465,209.29, each with a value less than \$100.00, nor did we project any amounts to the population.

Sample Unit:

The sampling unit was an unpresented check \$100.00 or greater that was issued between July 1, 1998 and June 30, 2001 and was still outstanding as of December 31, 2001.

Sample Design:

A stratified random sample was used.

Sample Size:

1. Stratum 1 – 500 unpresented checks.
2. Stratum 2 – 200 unpresented checks.
3. Stratum 3 – all 162 unpresented checks.

Source of Random Numbers:

The random numbers for selecting the sample items were generated using an approved Department of Health and Human Services, Office of Inspector General, Office of Audit Services statistical software package that has been validated using the National Bureau of Standards methodology.

Characteristics to be Measured:

For the purpose of identifying escheated warrants due to the Federal Government, we considered a sample unit to be an error if: 1) the check was a DHMH check with FFP; 2) the amount of FFP was outstanding for more than 180 days; and 3) FFP had not been credited back to the Federal Government.

For the purpose of identifying the amount of interest due, we considered a sample unit to be an error if an unrepresented check met the characteristics listed above. Interest would be applied to the unrepresented check amount at the rate the state earned in the Unrepresented Checks Fund. The interest period would begin 181 days after the check was issued and end on March 31, 2002.

Method of Selecting Sample Items:

All dollar amounts of \$100.00 or higher from the total unrepresented list of checks provided to us by the state. From this we used a stratified sampling technique to select our sample. The checks within each stratum were numbered sequentially and independently.

Three sets of random numbers were drawn: 500 random numbers for stratum 1 for payments between \$100.00 and \$1,000.00; 200 random numbers for stratum 2 for payments between \$1,000.01 and \$10,000.00; and 162 for stratum 3 for all payments over \$10,000.00.

SAMPLE PROJECTION FOR UNPRESENTED CHECKS

Results of Sample:

The results of our review of 862 unrepresented escheated warrants were as follows:

UNPRESENTED CHECKS SAMPLE			
Stratum	Range of Dollar Values	Sample Size	Number of DHMH Checks with FFP
1	\$100 to \$1,000	500	32
2	\$1,000.01 to \$10,000	200	7
3	Over \$10,000	162	3
Totals		862	42

Variable Projection Unpresented Checks:

- Number of checks with errors identified in the sample: 42
- FFP Value of errors identified in the sample: \$142,453
- Point estimate FFP: \$200,283
- Upper Limit FFP (90 percent 2-sided confidence level): \$224,117
- Lower limit FFP (90 percent 2-sided confidence level): \$176,450

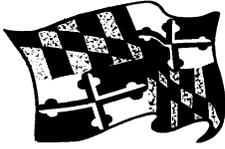
Using statistically valid sampling techniques, we estimate with 90 percent confidence that at least \$176,450 of the \$18,616,262 should have been reimbursed to the Federal Government for FFP provided but not redeemed by the payee. Our point estimate was \$200,283 with a precision of plus or minus \$23,834.

Variable Projection Interest Rates for Unpresented Checks:

- Number of claims with errors identified in the sample: 42
- Interest Value of errors identified in the sample: \$ 20,054
- Point estimate FFP: \$ 25,163
- Upper Limit FFP (90 percent 2-sided confidence level): \$ 27,583
- Lower limit FFP (90 percent 2-sided confidence level): \$ 22,743

Using statistically valid sampling techniques, we estimate with 90 percent confidence that at least \$22,743 of the \$18,616,262 should have been reimbursed to the Federal Government for interest owed on escheated warrants. Our point estimate was \$25,163 with a precision of plus or minus 2,420.

STATE REPSONSE



Maryland State Treasurer's Office



November 8, 2002

Nancy K. Kopp
• Treasurer

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

Common Identification Number: A-03-02-00202

Dear Mr. Virbitsky:

This letter is in response to the September 6, 2002 draft report that was provided to the Maryland State Treasurer's Office and the Secretary of the Maryland Department of Health and Mental Hygiene for an audit conducted on Medicaid escheated warrants.

The audit included two recommendations, which are discussed as follows:

RECOMMENDATION #1: Reimbursement of \$200,163 in Federal Financial Participation (FFP) and \$27,989 in accrued interest for the audit period July 1, 1998 through June 30, 2001.

Response: The Agencies agree that there were instances of noncompliance with the Medicaid requirement to return or credit federal funds associated with checks uncashed after 180 days, but not to the extent presented in the initial audit findings.

Based on our review of the documents provided by the HHS auditors, we submit changes to the calculation of FFP due and the associated interest as presented in the chart below. Exhibit A and the attached documents support these adjustments.

ADJUSTED SUMMARY OF FINDINGS

	Total FFP	Interest	Total
Unpresented	20,733	1,124	21,857
Undeliverable	10,441	552	10,993
Canceled or Deleted	6,248	292	6,540
Total	37,422	1,968	39,390

Louis L. Goldstein Treasury Building • Annapolis, Maryland 21401
410-260-7160 • 800-322-4296 • FAX: 410-260-6056 • TTY: 800-735-2258

Mr. Stephen Virbitsky
November 8, 2002
Page Two

Exhibit A reflects interest calculated at the CMIA Interest Rate that is used for all Maryland grants included under the Cash Management Improvement Act Treasury State Agreement. It is our position that the CMIA Interest Rate should be used to determine the interest due on this audit because this program is included in our Agreement with the United States Treasury Department. Additionally, the State believes it is in compliance with 45 C.F.R. Section 74.21, because we are requesting Medicaid funds in accordance with the Treasury State Agreement.

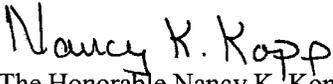
As documented, there is an outstanding principal and interest balance of \$37,422 and \$1,968, respectively. We request that the interest be waived as permitted under the Medicaid Statute 433.40. We were not aware of this requirement and have taken steps to alleviate the situation in the future, as will be described in our response to Recommendation #2.

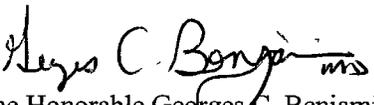
RECOMMEDATION #2: Establish controls to ensure compliance with Federal regulations regarding escheated warrants.

RESPONSE: The State agrees that the policies and procedures at the time of the audit were not adequate to ensure that the proper recipient always obtained their payment or that the applicable funds were credited back to the Federal Program. The Maryland Department of Health and Mental Hygiene (DHMH) and State Treasurer's Office (STO) have initiated processes to ensure future compliance with the escheat requirements of all Federal Programs. We are developing a report within the State Financial Management Information System to identify and supply all Maryland State agencies receiving Federal funds with the ability to obtain a report on demand that will provide them with an aging report that identifies outstanding agency checks that include FFP. We anticipate that this report will be available within six months.

DHMH and the Maryland State Treasurer's Office are working together to ensure we comply with all applicable Federal grant programs. We recognize the problems identified in the audit and appreciate the opportunity to improve our processes. We look forward to working with you to resolve any open issues and thank you for the opportunity to respond and explain our position.

Regards,


The Honorable Nancy K. Kopp
State Treasurer
State of Maryland
Goldstein Treasury Building
80 Calvert Street
Annapolis, MD 21401


The Honorable Georges C. Benjamin, M.D.
Secretary
Department of Health & Mental Hygiene
Executive Suite, 5th Floor
201 West Preston Street
Baltimore, MD 21201

Attachments

EXHIBIT A

SUMMARY OF REVISED PRINCIPAL INTEREST CALCULATION

	FY99	FY00	FY01	Audited FFP	Adjusted FFP	Audited Interest	Adjusted Interest
Undelivered Checks	836	3,548	7,756	12,140			
Adj for Paid Checks			(1,699)	(1,699)	10,441		
Adj Undelivered Ck Amt			6,057				
Interest	39	192	411			642	
Adj for Interest			(90)			(90)	552
			321				
Canceled & Deleted Checks							
Cumulative Amount	5,892	684	4,997	11,573			
Adj for Paid Checks	-	(350)	(4,975)	(5,325)			
Adj Canceled & Deleted	5,892	334	22	6,248	6,248		
Interest	273	37	265			575	
Adjusted Interest	273	18	1				292
Unpresented Checks							
Audited FFP-Sample Population				129,394			
Auditor Error in the Sample Population				114,185			
% of Sample Correct	114,185 /	129,394 -	1	0.1175			
Total Unpresented in Sample				176,450			
% of Correct Sample				0.1175			
Total Unpresented FFP				20,733	20,733		
Times CMIA Interest				0.0542			
Total Unpresented Interest				1,124			1,124
Total Revised Principal & Interest				37,422			1,968

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:

Michael Walsh, *Audit Manager*
Carolyn Hoffman, *Senior Auditor*
Michael Lieberman, *Auditor*
John Brisco, *Auditor*
Lynne Tocci, *Auditor*

Technical Assistance

David Graf, *Advanced Audit Techniques*

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