



OCT 20 2004

Region IX
Office of Audit Services
50 United Nations Plaza
Room 171
San Francisco, CA 94102

Report Number: A-09-04-00047

Mr. Joel Gilbertson, Commissioner
Alaska State Department of Health and Social Services
350 Main Street, Room 404
P.O. Box 110601
Juneau, Alaska 99811-0601

Dear Mr. Gilbertson:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Alaska's Accounts Receivable System for Medicaid Provider Overpayments." A copy of this report will be forwarded to the HHS action official noted below 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 the 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.

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Please refer to report number A-09-04-00047 in all correspondence.

Sincerely,

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures – as stated

Directly Reply to HHS Action Official:
R. J. Ruff, Jr., Regional Administrator
Centers for Medicare & Medicaid Services – Region X
U.S. Department of Health and Human Services
2201 6th Ave, MS-40, Room 911
Seattle, Washington 98121

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

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



**OCTOBER 2004
A-09-04-00047**

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



EXECUTIVE SUMMARY

BACKGROUND

This audit was part of a nationwide review of States' accounts receivable systems for overpayments to Medicaid providers reportable during the period October 1, 2002 through September 30, 2003. An overpayment is a payment to a provider in excess of the allowable amount.

Title XIX of the Social Security Act (the Act) provides the Centers for Medicare & Medicaid Services (CMS) the authority to approve States' plans for administering the Medicaid program. Section 1903(d)(2) of the Act provides CMS the authority to disallow the Federal share for any Medicaid provider overpayments. States are required to return the Federal share of overpayments within 60 days of the date of discovery. A State must credit the Federal share on the CMS-64 report for the quarter in which the 60-day period ends.

In Alaska, the Department of Health and Social Services (the State) is responsible for administering the Medicaid program.

OBJECTIVES

Our objectives were to determine if the State:

- reported Medicaid provider overpayments in accordance with Federal regulations
- adequately performed and documented procedures to support credit adjustments

SUMMARY OF FINDING

During the period October 1, 2002 through September 30, 2003, the State did not report Medicaid provider overpayments in accordance with Federal regulations. Specifically, the State did not report \$1,874,978 in overpayments and netted other overpayments against expenditures. The State did not properly report overpayments because it did not have adequate policies and procedures. As a result, the State did not refund the Federal share of \$1,092,663, and CMS is unable to monitor the total amount of overpayments each year.

Because the State did not make any credit adjustments, we did not review this issue.

RECOMMENDATIONS

We recommend that the State:

- report the \$1,874,978 in overpayments on the CMS-64, thereby refunding the Federal share of \$1,092,663
- establish policies and procedures to ensure that all overpayments are reported in accordance with Federal regulations

STATE COMMENTS

In its written comments on our draft report, the State concurred with our finding and recommendations. The State will report the overpayments on the CMS-64, as required by Federal regulations. Also, the State will implement new policies and procedures to ensure proper reporting of overpayments. The State's comments are included in their entirety as an appendix.

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INTRODUCTION

BACKGROUND

This audit was part of a nationwide review of States' accounts receivable systems for overpayments to Medicaid providers reportable during the period October 1, 2002 through September 30, 2003.

Medicaid Program

Title XIX of the Social Security Act authorizes Federal grants to States for Medicaid programs that provide medical assistance to needy persons. Each State Medicaid program is jointly financed by the Federal and State Governments and administered by the State in accordance with an approved State plan. While the State has considerable flexibility in designing its plan and operating its Medicaid program, it must comply with Federal requirements. The Federal Government pays its share of Medicaid expenditures to a State according to a formula.

In Alaska, the Department of Health and Social Services is responsible for administering the Medicaid program.

Federal Requirements for Recovery of Medicaid Overpayments

Title XIX of the Act provides CMS the authority to approve States' plans for administering the Medicaid program. Section 1903(d)(2) of the Act provides CMS the authority to disallow the Federal share for any Medicaid provider overpayments. States are required to return the Federal share of overpayments within 60 days of the date of discovery. A State must credit the Federal share on the CMS-64 report for the quarter in which the 60-day period ends.

The legislation is codified in 42 CFR, subpart F, "Refunding of Federal Share of Medicaid Overpayments to Providers." Also, these regulations reference State plans and State statutes for reporting requirements.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine if the State:

- reported Medicaid provider overpayments in accordance with Federal regulations
- adequately performed and documented procedures to support credit adjustments

Scope

We examined overpayments identified during the period October 1, 2002 through September 30, 2003. We did not review the overall internal control structure of the State's operations or its financial management. However, we gained an understanding of controls related to overpayments and the collection of accounts receivable. We conducted our fieldwork in April and May 2004 at the State's Division of Health Care Services in Anchorage and the State's Division of Administrative Services in Juneau.

Methodology

To accomplish our objectives, we:

- reviewed section 1903 of the Social Security Act, 42 CFR part 433, and applicable sections of the CMS State Medicaid Manual
- interviewed staff and reviewed the records of the Financial Services and Recovery Unit and the Program Integrity Unit of the Division of Health Care Services; Finance Section of the Division of Administrative Services; the Office of Rate Review; and First Health Services Corporation, the State's Medicaid fiscal intermediary
- analyzed the quarterly CMS-64 reports for the period October 1, 2002 through September 30, 2003, along with supporting documentation provided by the State
- determined if overpayments were included in the State's accounting system and promptly reported on the CMS-64

We conducted our review in accordance with generally accepted government auditing standards.

FINDING AND RECOMMENDATIONS

During the period October 1, 2002 through September 30, 2003, the State did not report Medicaid provider overpayments in accordance with Federal regulations. Specifically, the State did not report \$1,874,978 in overpayments and netted other overpayments against expenditures. The State did not properly report overpayments because it did not have adequate policies and procedures. As a result, the State did not refund the Federal share of \$1,092,663, and CMS is unable to monitor the total amount of overpayments each year.

Because the State did not make any credit adjustments, we did not review this issue.

FEDERAL REQUIREMENTS FOR REPORTING OVERPAYMENTS

The requirements for reporting overpayments on the CMS-64 are set forth in 42 CFR part 433 and the CMS State Medicaid Manual. According to 42 CFR § 433.312, the State must refund the Federal share of overpayments within 60 days following discovery, whether or not the State has recovered the overpayment from the provider. The State Medicaid Manual specifies that overpayments and adjustments should be reported on line 10C of the CMS-64 and should include the total amount as well as the Federal share. The amounts reported on line 10C should be supported by CMS-64.9o, titled “Medicaid Overpayment Adjustment.”

OVERPAYMENTS NOT PROPERLY REPORTED

The State did not report 29 overpayments on the CMS-64 within the 60-day discovery period, as required by Federal regulations. The amount of overpayments not reported to the Federal Government totaled \$1,874,978.

In addition, the State netted overpayments against expenditures. It used two methods:

- For overpayments identified by the Program Integrity Unit and Office of Rate Review, the State netted the overpayments against expenditures reported on the CMS-64 when payments were collected from providers. These overpayments totaled \$697,479.
- For adjustments in the Medicaid Management Information System, the State could not determine which amounts were overpayments. Since these adjustments were made as they occurred, the overpayments were netted against expenditures within the 60-day discovery period.

INADEQUATE POLICIES AND PROCEDURES

The State did not have policies and procedures to record and promptly report overpayments as required by Federal regulations.

FEDERAL SHARE NOT REFUNDED

Because the State did not report \$1,874,978 in overpayments, CMS was not credited with the Federal share of \$1,092,663. Federal regulations disallow the use of Federal matching funds for overpayments to providers and require the State to refund the Federal share within 60 days.

Although the State netted overpayments against expenditures, Federal regulations require the State to report the total overpayment amount as well as the Federal share on line 10C of the CMS-64. While there is no monetary effect, CMS is unable to monitor the total amount of overpayments identified by the State each year.

RECOMMENDATIONS

We recommend that the State:

- report the \$1,874,978 in overpayments on the CMS-64, thereby refunding the Federal share of \$1,092,663
- establish policies and procedures to ensure that all overpayments are reported in accordance with Federal regulations

STATE COMMENTS

In its written comments on our draft report, the State concurred with our finding and recommendations. The State will report the overpayments on the CMS-64, as required by Federal regulations. Also, the State will implement new policies and procedures to ensure proper reporting of overpayments. The State's comments are included in their entirety as an appendix.

OTHER MATTER

The Cash Management Improvement Act provides a means to calculate the value of potentially lost interest income. Because the State did not report \$1,874,978 in overpayments, CMS was denied the use of the Federal share totaling \$1,092,663. As a result, CMS lost interest income of \$10,085¹ as of March 31, 2004.

¹ We calculated the potential interest income by using the 1.32 percent annualized interest rate from the Cash Management Improvement Act of 1990 and applied the rate to the Federal share of \$1,092,663.

APPENDIX

AUG-23-2004 MON 02:31 PM HHS/OIG/OAS

FAX NO. 4154378372

P. 01/01

STATE OF ALASKA

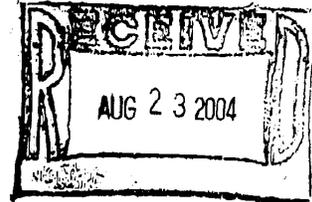
DEPT. OF HEALTH AND SOCIAL SERVICES

OFFICE OF THE COMMISSIONER

FRANK H. MURKOWSKI, GOVERNOR

P.O. BOX 110601
JUNEAU, ALASKA 99811-0801
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August 16, 2004



Lori A. Ahlstrand
Regional Inspector General for Audit Services
Office of Inspector General, Region IX
Office of Audit Services
50 United Nations Plaza, Room 171
San Francisco, CA 94102

RE: Review of Alaska's Accounts Receivable System for Medicaid Provider
Overpayments - Report A-09-04-00047

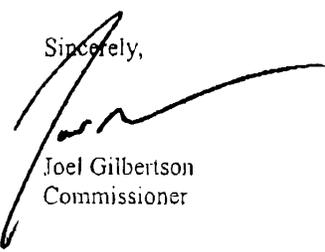
Dear Ms. Ahlstrand:

This is in response to a draft report dated July 19, 2004, titled *Review of Alaska's Accounts Receivable System for Medicaid Provider Overpayments*. The Alaska Department of Health and Social Services is the State Medicaid Agency.

The attached response addresses the findings and recommendations contained in your report. The Department appreciates the work done by the OIG in conducting this review and we look forward to implementing recommendations identified in this report.

For any questions regarding the response to this report, please contact: Michelle Grose, Finance Officer, Department of Health and Social Services, P.O. Box 110650, Juneau, Alaska 99811-0650, (907) 465-1690.

Sincerely,



Joel Gilbertson
Commissioner

JSG:lb

Cc: Jerry Fuller
Michelle Grose

Findings, Recommendations, and Responses:**OVERPAYMENTS NOT PROPERLY REPORTED*****OIG Finding:***

The State did not properly report 29 overpayments on the CMS-64 within the 60-day discovery period, as required by Federal regulations. The amount of overpayments not reported to the Federal Government totaled \$1,874,978.

In addition, the State netted overpayments against expenditures. It used two methods:

- For overpayments identified by the program Integrity Unit and Office of Rate Review, the State netted the overpayments against expenditures reported on CMS-64 when payments were collected from providers. These overpayments totaled \$697,479.
- For adjustments in the Medicaid Management Information System, the State could not determine which amounts were overpayments. Since these adjustments were made as they occurred, the overpayments were netted against expenditures within the 60-day discovery period.

OIG Recommendation:

Report the \$1,874,978 in overpayments on the CMS-64, thereby crediting the Federal Share of \$1,092,663.

DHSS Response:

The Department concurs with this finding. The State will report the overpayments on the CMS-64, as required by Federal regulation. The Department would like to note that although overpayments were being refunded to CMS, they were not being reported on form CMS-64.

INADEQUATE POLICIES AND PROCEDURES***OIG Finding:***

The State did not have policies and procedures to record and promptly report overpayments as required by Federal regulations.

OIG Recommendation:

Establish policies and procedures to ensure that all overpayments are reported according to Federal regulations.

DHSS Response:

The Department concurs with this finding. The DHSS has recently added a position to help track and monitor overpayments. New policies and procedures will be established to ensure proper reporting of overpayments.

ACKNOWLEDGMENTS

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

Janet Tursich, *Audit Manager*
James Okura, *Senior Auditor*
Mae Santos, *Auditor*