



DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, GA 30303

January 19, 2011

Report Number: A-04-10-01092

Dr. Craigan L. Gray, M.D., M.B.A, J.D.
Director
Division of Medical Assistance
1985 Umstead Drive
Raleigh, NC 27603-2001

Dear Dr. Gray:

Enclosed is the U.S. Department of Health & Human Services, Office of Inspector General (OIG), final report entitled *Reconciliation of North Carolina Division of Medical Assistance's Form CMS-64 for the Medicaid Family Planning Program*. 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, the final report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (404) 562-7750, or contact Mary Moreno, Audit Manager, at (404) 562-7770 or through email at Mary.Moreno@oig.hhs.gov. Please refer to report number A-04-10-01092 in all correspondence.

Sincerely,

/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 (CMCHO)

Centers for Medicare & Medicaid Services

233 North Michigan Avenue, Suite 600

Chicago, IL 60601

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RECONCILIATION OF NORTH CAROLINA
DIVISION OF MEDICAL ASSISTANCE'S
FORM CMS-64 FOR THE MEDICAID
FAMILY PLANNING PROGRAM**



Daniel R. Levinson
Inspector General

January 2011
A-04-10-01092

Office of Inspector General

<http://oig.hhs.gov>

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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.

EXECUTIVE SUMMARY

BACKGROUND

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 North Carolina Division of Medical Assistance (DMA) is responsible for administering the Medicaid program.

The amount of funding that the Federal Government reimburses to State Medicaid agencies, known as Federal financial participation (FFP) or alternatively as the Federal share, is determined by the Federal medical assistance percentage (FMAP). The DMA FMAP ranged from 63.49 percent to 64.52 percent for claims paid from October 1, 2004, through September 30, 2007.

Federal requirements also make provisions for various specified services to be reimbursed at higher (enhanced) rates of FFP. Section 1903(a)(5) of the Act and 42 CFR §§ 433.10(c)(1) and 433.15(b)(2) authorize reimbursement at an enhanced 90-percent FFP rate for family planning services. Section 4270 of the CMS *State Medicaid Manual* defines family planning services as those that prevent or delay pregnancy or otherwise control family size.

The DMA reports, on a quarterly basis, family planning expenditures and drug rebate collections on the standard Form CMS-64, *Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program* (CMS-64 report), which summarizes actual Medicaid expenditures for each quarter and is used by CMS to reimburse States for the Federal share of Medicaid expenditures.

For Federal fiscal years 2005 through 2007, DMA reported to CMS approximately \$105 million (Federal Share) in Medicaid family planning expenditures and drug rebate collections for a variety of family planning services at the enhanced 90-percent FFP rate.

OBJECTIVE

Our objective was to reconcile to supporting documentation the CMS-64 reports for DMA's Family Planning Program.

SUMMARY OF FINDINGS

The CMS-64 reports for DMA's Family Planning Program did not always reconcile to supporting documentation. DMA underreported family planning drug rebate collections at the enhanced 90-percent FFP rate. As a result, DMA overstated Federal Medicaid expenditures on its CMS-64 reports for the quarters ending December 31, 2004, and March 31, 2007, by \$541,513. The overstatement occurred because of accounting errors made when DMA manually

input family planning drug rebate collections received from its contractor, HP Enterprise Services (formerly Electronic Data Systems).

RECOMMENDATIONS

We recommend that DMA:

- reimburse CMS \$541,513 for family planning drug rebate collections,
- submit a revised CMS-64 report showing corrections made for drug rebate collections at the enhanced 90-percent FFP rate for the quarters ending December 31, 2004, and March 31, 2007, and
- ensure all family planning drug rebate collections manually entered on the CMS-64 report are correct.

NORTH CAROLINA DIVISION OF MEDICAL ASSISTANCE COMMENTS

In written comments on our draft report, DMA concurred with our summary of findings and stated it is implementing corrective actions to address our recommendations.

DMA's comments are included in their entirety as the Appendix.

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NORTH CAROLINA DIVISION OF MEDICAL ASSISTANCE COMMENTS	

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.

State of North Carolina Medicaid Program

In North Carolina, the Division of Medical Assistance (DMA) is responsible for administering the Medicaid program. The DMA contracts with HP Enterprise Services (formerly Electronic Data Systems) to maintain its Medicaid Management Information System (MMIS), a computerized payment and information reporting system that processes and pays Medicaid claims.

The Federal medical assistance percentage (FMAP) determines the amount of funding, known as Federal financial participation (FFP) or Federal share, that the Federal Government reimburses to State Medicaid agencies. The DMA FMAP ranged from 63.49 percent to 64.52 percent for claims paid from October 1, 2004, through September 30, 2007.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to reconcile to supporting documentation the CMS-64 reports for DMA's Family Planning Program.

Scope

Our audit covered DMA's standard Forms CMS-64, *Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program* (CMS-64 reports) for the periods October 1, 2004, through September 30, 2007. We did not review the overall internal control structure of DMA or the Medicaid program. Rather, we reviewed only the internal controls that pertained directly to our objective.

We performed our fieldwork at the North Carolina DMA in Raleigh, North Carolina, from March 2010 through July 2010.

Methodology

To accomplish our objective, we:

- reviewed the State plan and Federal laws, regulations, and guidance;
- reviewed DMA's accounts receivable data reported on CMS-64 reports for the period October 1, 2004, through September 30, 2007;
- reviewed DMA's current policies and procedures;
- interviewed regional and headquarters CMS officials to understand CMS requirements and guidance furnished to DMA officials concerning Medicaid family planning services and the CMS-64 report;
- reviewed CMS-64 reports for the periods October 1, 2004, through September 30, 2007, from Region 4 CMS officials;
- interviewed DMA officials to understand DMA's policies, procedures, and guidance for claiming Medicaid reimbursement for family planning services;
- interviewed DMA officials to understand the policies and procedures related to the computation of the CMS-64 report limited to the family planning program;
- reconciled to DMA's supporting documentation current- and prior-period State and waiver¹ family planning services reported on the CMS-64 report;
- reviewed CMS guidance issued to State Medicaid directors and other information pertaining to the Medicaid Family Planning Program;
- reviewed copies of the CMS-64 report limited to the Family Planning Program for the period October 1, 2004, through September 30, 2007;
- reviewed the following DMA reports to verify and reconcile the CMS-64 report totals limited to the Family Planning Program:
 - Financial Participation Reports,
 - Detail Transaction Ledger,
 - Drug Rebate Family Planning Invoice Distribution reports, and
 - Budgetary Control Entries.

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

¹ DMA implemented the Family Planning Waiver program on October 1, 2005, to extend eligibility for family planning services to eligible women, ages 19 through 55, and eligible men, ages 19 through 60, whose income is at or below 185% of the Federal poverty level.

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 CMS-64 reports for DMA's Family Planning Program did not always reconcile to supporting documentation. DMA underreported family planning drug rebate collections at the enhanced 90-percent FFP rate. As a result, DMA overstated Federal Medicaid expenditures on its CMS-64 reports for the quarters ending December 31, 2004, and March 31, 2007, by \$541,513. The overstatement occurred because of accounting errors made when DMA manually input family planning drug rebate collections received from its contractor, HP Enterprise Services.

Form CMS-64

The CMS-64 report is a statement of expenditures for which States are entitled to Federal reimbursement under Title XIX. The amounts reported on the CMS-64 report and its attachments must be actual expenditures for which all supporting documentation has been compiled and is available immediately at the time the claim is filed.

If States are unable to develop and document a claim for expenditures on a current basis, they must withhold that claim until the actual amount, supported by final documentation, has been determined. The State must report that amount on a future Form CMS-64 as a prior-period adjustment. Section 1905(a)(4)(C) of the Act requires States to furnish family planning services and supplies to individuals of childbearing age (including minors who can be considered to be sexually active) who are eligible under the State plan and who desire such services and supplies. Section 1903(a)(5) of the Act, as well as 42 CFR §§ 433.10(c)(1) and 433.15(b)(2), authorize reimbursement at an enhanced 90-percent FFP rate for family planning services.

DMA reports family planning expenditures and drug rebate collections on CMS-64 reports. The CMS-64 report summarizes actual Medicaid expenditures for each quarter. CMS uses the CMS-64 report to reimburse States for the Federal share of Medicaid expenditures.

For Federal fiscal years 2005 through 2007, the DMA reported to CMS approximately \$105 million (Federal Share) in Medicaid family planning expenditures and drug rebate collections for a variety of family planning services at the enhanced 90-percent FFP rate.

Reconciliation of North Carolina Division of Medical Assistance Form CMS-64

DMA's MMIS generates the information DMA reports on its CMS-64 report. The MMIS is a mechanized claims processing and information retrieval system that States are required to have for Medicaid purposes to process claims, control program expenditures, monitor service utilization, and stay informed of program trends.

The MMIS generates monthly Financial Participation Reports, and the reports are entered into North Carolina's Accounting System to generate the Special Purpose Budget Report (SPBR).

The total dollars reported on the SPBR, plus the quarterly family planning drug rebate collections received from its contractor, HP Enterprise Services, should equal the amount reported on the CMS-64 report.

Drug Rebates Underreported

During our reconciliation of the family planning drug rebate collections, we found that drug rebates for the quarters ending December 31, 2004, and March 31, 2007, were not reported correctly because the State miscalculated the drug rebate collections. For the quarter ending December 31, 2004, the Drug Rebate Family Planning Invoice Distribution reports received from HP Enterprise Services listed \$660,141 for drug rebate collections; however, DMA reported \$659,838 on the CMS-64, a difference of \$303. For the quarter ending March 31, 2007, the Drug Rebate Family Planning Invoice Distribution reports received from HP Enterprise Services listed \$727,414 for drug rebate collections; however, DMA reported \$186,204 on the CMS-64 report, a difference of \$541,210.

Federal Medicaid Expenditures Overstated

As a result of underreporting the family planning drug rebate collections, the Federal share of Medicaid expenditures that CMS reimbursed to DMA for the quarters ending December 31, 2004, and March 31, 2007, was overstated by \$303 and \$541,210, respectively.

Accounting Errors

DMA representatives stated that the December 31, 2004, family planning drug rebate collections were underreported by \$303 because they had incorrectly deducted interest from the CMS-64 report. DMA also stated that the March 31, 2007, family planning drug rebate collections were underreported by \$541,210 because the previous quarter's drug rebate collection entry was not adjusted out of the current quarter's drug rebate collection entry. These accounting errors occurred when DMA manually input family planning drug rebate collections received from its contractor, HP Enterprise Services.

RECOMMENDATIONS

We recommend that DMA:

- reimburse CMS \$541,513 for family planning drug rebate collections,
- submit a revised CMS-64 report showing corrections made for drug rebate collections at the enhanced 90-percent FFP rate for the quarters ending December 31, 2004, and March 31, 2007, and
- ensure all family planning drug rebate collections manually entered on the CMS-64 report are correct.

NORTH CAROLINA DIVISION OF MEDICAL ASSISTANCE COMMENTS

In written comments on our draft report, DMA concurred with our summary of findings and stated it is implementing corrective actions to address our recommendations.

DMA's comments are included in their entirety as the Appendix.

APPENDIX

APPENDIX: NORTH CAROLINA DIVISION OF MEDICAL ASSISTANCE COMMENTS



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

December 22, 2010

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: Reconciliation of North Carolina Division of Medical Assistance's Form CMS-64 for the Medicaid Family Planning Program **CIN A-04-10-01092**

Dear Mr. Barbera:

The North Carolina Department of Health and Human Services (NCDHHS) received your October 27, 2010 letter and the draft report entitled "Reconciliation of North Carolina Division of Medical Assistance's Form CMS-64 for the Medicaid Family Planning Program" [Audit A-04-10-01092].

The recommendations were to:

- Reimburse CMS \$541,513 for family planning drug rebate collections;
- Submit a revised CMS-64 report showing corrections made for drug rebate collections at the enhanced 90-percent FFP rate for the quarters ending December 31, 2004, and March 31, 2007, and
- Ensure all family planning drug rebate collections manually entered on the CMS-64 report are correct.

DHHS Response: The Department concurs with the summary of findings that the Division of Medical Assistance (DMA) overstated Federal Medicaid expenditures on its CMS-64 reports for the quarters ending December 31, 2004 and March 31, 2007 by \$541,513.

CMS was contacted for guidance on the most appropriate way to make the correction. We were advised to prepare a Line 10A referencing the OIG Audit number, in the amount of \$541,513, on the CMS-64 report for the Quarter Ending December 31, 2010.

Drug rebates collections has always been a reconciling item when balancing the CMS-64 reports to the North Carolina Accounting System (NCAS). The working papers include a spreadsheet titled BALFRC which reconciles the CMS-64 report to NCAS. A supervisor reviews the working papers and will verify the BALFRC

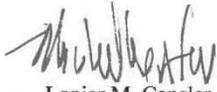
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Mr. Peter J. Barbera
Audit A-04-10-01092
December 22, 2010
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every quarter. Any differences between NCAS and the CMS-64 report will be noted and adjustments made accordingly.

In addition, DMA Budget Management has created CSR Number 13982, BM11.106 with contractor HP Enterprises Services (formerly Electronic Data Systems) that will approve the reporting of Drug Rebates by Eligibility Group (Family Planning). A report will be generated monthly instead of quarterly that will move the Rebate dollars to a Family Planning Federal Reimbursement Code (FRC). The anticipated target date for this new procedure to be implemented is April 1, 2011.

Sincerely,


Lanier M. Cansler
for

cc: Dan Stewart, CPA
Tara Larson
Eddie Berryman, CPA
Laketha M. Miller, CPA
Leigh Ann Kerr

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