RECOMMENDATION FOLLOWUP: MICHIGAN DID NOT REPORT AND REFUND THE FULL FEDERAL SHARE OF MEDICAID OVERPAYMENTS

Inquiries about this report may be addressed to the Office of Public Affairs at Public.Affairs@oig.hhs.gov.

Amy J. Frontz
Deputy Inspector General for Audit Services

April 2020
A-05-18-00022
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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.
Why OIG Did This Audit
In a previous audit, OIG determined that Michigan did not properly report $1.3 million (Federal share) in Medicaid overpayments for Federal fiscal years (FYs) 2008 and 2009. We performed this audit as a followup to the previous audit. Specifically, we wanted to determine whether the Michigan Department of Health and Human Services (State agency) had reported the overpayments that we identified in the previous audit, as well as Medicaid overpayments identified in FYs 2011 through 2015.

Our objective was to determine whether the State agency reported and refunded Medicaid overpayments on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (Form CMS-64) in accordance with Federal requirements.

How OIG Did This Audit
Our audit covered $287 million in 3,039 provider overpayments identified by Michigan between January 1, 2011, and September 30, 2015. From this period, we selected and reviewed a stratified random sample of 124 overpayments totaling $126.9 million ($29.7 million Federal share).

Recommendation Followup: Michigan Did Not Report and Refund the Full Federal Share of Medicaid Overpayments

What OIG Found
Of the 124 overpayments in our sample, Michigan did not report an overpayment of $1.9 million ($1.2 million Federal share) and reported 70 overpayments at the incorrect Federal Medical Assistance Percentage (FMAP), which netted an underreported amount of $46,370 (Federal share). Michigan reported the remaining overpayments in accordance with Federal requirements.

Also, Michigan did not report $648,194 of the $1.3 million (Federal share) in overpayments identified in our previous report, as we had recommended.

Michigan did not follow its procedures for reporting overpayment collections on the Form CMS-64 as prior period adjustments and at the FMAP in effect at the time the original overpayments were reported.

What OIG Recommends and Michigan Comments
We recommend that Michigan refund to the Federal Government $1.2 million in overpayments not reported and $46,370 for overpayments returned at the incorrect FMAP from the current audit and $648,194 in overpayments not reported from the previous audit.

We also recommend that the State agency follow its policies and procedures to ensure that overpayment collections are reported on the Form CMS-64 as prior period adjustments and at the FMAP in effect at the time the original overpayments were reported.

Michigan agreed with our findings and recommendations and outlined the corrective actions that it was taking.

The full report can be found at https://oig.hhs.gov/oas/reports/region5/A51800022.asp.
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INTRODUCTION

WHY WE DID THIS AUDIT

In a previous audit, the Office of Inspector General (OIG) determined that the Michigan Department of Health and Human Services (State agency) did not properly report $2,340,182 ($1,320,131 Federal share) in overpayments for Federal fiscal years (FYS) 2008 and 2009.\(^1\) We performed the current audit as a followup to the previous audit. Specifically, we wanted to determine whether the State agency had reported the overpayments that we identified in the previous audit, as well as Medicaid overpayments identified in FYS 2011 through 2015.

OBJECTIVE

Our objective was to determine whether the State agency reported and refunded Medicaid overpayments on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (Form CMS-64) in accordance with Federal requirements.

BACKGROUND

The Medicaid program provides medical assistance to certain 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 Federal requirements. The Federal Government pays its share of a State’s Medicaid expenditures based on the Federal Medical Assistance Percentage (FMAP), which varies depending on the State’s relative per capita income.

States use the Form CMS-64 to report actual Medicaid expenditures for each quarter and credit CMS with any refunds due. CMS uses the information on the Form CMS-64 to calculate the reimbursement due to the States for the Federal share of Medicaid expenditures.

Section 1903(d)(2) of the Act requires States to refund the Federal share of Medicaid overpayments. The State has up to 1 year from the time an overpayment is discovered to recover or attempt to recover the overpayment before an adjustment must be made on the Form CMS-64. Except as otherwise provided, the adjustment in the Federal payment must be made at the end of the 1-year period, whether or not recovery was made.

The State Medicaid Manual, section 2500.6(B), requires that upon the receipt of recoveries of expenditures claimed in prior quarters, the State agency must determine the date or period of

the expenditure for which the refund is made to establish the FMAP at which the original expenditure was matched by the Federal Government. Refunds of the Federal share must be made at the FMAP for which the State agency was reimbursed. When recoveries cannot be related to a specific period, the State agency is required to compute the Federal share at the FMAP rate in effect at the time the State agency received the overpayment refund. The State agency must then adjust prior periods in subsequent Forms CMS-64 to reflect the correct FMAP rate.

HOW WE CONDUCTED THIS AUDIT

Our audit covered 3,039 State-identified Medicaid overpayments totaling $287,714,947 between January 1, 2011, and September 30, 2015. We selected a stratified random sample of 124 overpayments totaling $126,934,324 ($29,758,299 Federal share). We reviewed supporting documentation provided by the State agency to ensure that the overpayments were reported on the Form CMS-64 on the correct line and refunded at the correct FMAP. If the State agency did not report overpayments on the Form CMS-64 at the correct FMAP, we determined the correct FMAP in effect at the time of the original overpayments and computed whether overpayments were either under- or over-reported on the Form CMS-64.

Regarding the previous audit report, we followed up with the State agency and CMS to determine whether the $1,320,131 (Federal share) in previously unreported overpayments had been reported on the CMS-64 as recommended.

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

Appendix A contains the details of our audit scope and methodology.

FINDINGS

The State agency did not report and refund Medicaid overpayments on the Form CMS-64 in accordance with Federal requirements. Specifically, of the 124 overpayments in our sample, the State agency did not report an overpayment of $1,997,376 ($1,217,800 Federal share) and reported 70 overpayments at the incorrect FMAP, which netted an underreported amount of $46,370 (Federal share). The State agency reported the remaining overpayments in accordance with Federal requirements.

Also, regarding the previous audit report, the State agency did not report $648,194 of the $1,320,131 (Federal share) in overpayments, as we had recommended.
The State agency did not follow its procedures for reporting overpayment collections on the Form CMS-64 as prior period adjustments and at the FMAP in effect at the time the original overpayments were reported.

THE STATE AGENCY DID NOT REPORT ALL OVERPAYMENTS FROM THE CURRENT AUDIT

Section 1903(d)(2) of the Act requires States to refund the Federal share of Medicaid overpayments. When an overpayment is discovered, the State has a period of 1 year in which to recover or attempt to recover the overpayment before an adjustment is made to the Federal payment. Except as otherwise provided, the adjustment in the Federal payment must be made at the end of the 1-year period, whether or not the overpayment was recovered.

The State agency did not report an overpayment of $1,997,376 ($1,217,800 Federal share) on the Form CMS-64 in accordance with Federal requirements.

THE STATE AGENCY APPLIED THE INCORRECT FEDERAL MEDICAL ASSISTANCE PERCENTAGE

The *State Medicaid Manual*, section 2500.6(B), requires that upon receipt of recoveries of expenditures claimed in prior quarters, the State agency must determine the date or period of the expenditure for which the refund is made to establish the FMAP at which the original expenditure was matched by the Federal Government. Refunds of the Federal share must be made at the FMAP for which the State agency was reimbursed. When recoveries cannot be related to a specific period, the State agency must compute the Federal share at the FMAP in effect at the time the refund was received. The State agency must then make adjustments to prior periods in subsequent CMS-64 forms to reflect the correct FMAP.

The State agency refunded 70 overpayments at the incorrect FMAP. Of these 70 overpayments, the State agency underreported 44 overpayments and overreported 26 overpayments. In most instances, the State agency incorrectly reported overpayments at the current period FMAP rather than the FMAP in effect at the time the original payments were reported on the Form CMS-64.

THE STATE AGENCY DID NOT REPORT ALL AUDIT OVERPAYMENTS FROM THE PREVIOUS AUDIT

In a previous audit, OIG determined that Michigan did not properly report $1,320,131 (Federal share) in Medicaid overpayments for Federal FYs 2008 and 2009.

We followed up with the State agency and CMS to determine whether the $1,320,131 (Federal share) in previously unreported overpayments had been reported on the Form CMS-64 as recommended. As of February 1, 2020, the State agency had not reported $648,194 of the $1,320,131 (Federal share) in overpayments as recommended in the previous audit.
THE STATE AGENCY DID NOT FOLLOW ITS PROCEDURES

The State agency had policies and procedures in place to: (1) identify and report overpayments, (2) determine the line on which the Form CMS-64 expenditures should be reported, and (3) determine whether overpayments should be reported as current year or prior year adjustments.

However, the State agency did not follow its procedures for reporting overpayment collections on the Form CMS-64 as prior period adjustments and at the FMAP in effect at the time the original overpayments were reported.

State officials acknowledged the issues but did not identify the corrective actions that are necessary or will be taken to ensure that the State agency’s policies and procedures will be followed in the future.

RECOMMENDATIONS

We recommend that the Michigan Department of Health and Human Services:

• refund $1,217,800 of overpayments not reported on the Form CMS-64,

• refund $46,370 for overpayments returned at the incorrect FMAP on the Form CMS-64,

• refund $648,194 of overpayments not reported from the previous audit on the Form CMS-64, and

• follow its policies and procedures to ensure that overpayment collections are reported on the Form CMS-64 as prior period adjustments and at the FMAP in effect at the time the original overpayments were reported.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency agreed with our findings and recommendations and outlined the corrective actions that it was taking to address them. The State agency is in the process of returning the overpayments identified in our audits, creating account coding rules to ensure that Medicaid overpayments entered as gross adjustments are correctly reported, and researching whether other overpayment scenarios need to be modified to ensure proper reporting of the FMAP on the Form CMS-64.

The State agency’s comments appear in their entirety as Appendix B.
APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered $287,714,947 in 3,039 provider overpayments identified by the State agency between January 1, 2011, and September 30, 2015. From this period, we selected and reviewed a stratified random sample of 124 overpayments totaling $126,934,324 ($29,758,299 Federal share).

Regarding the previous audit report, we followed up with the State agency and CMS to determine whether the $1,320,131 (Federal share) in previously unreported overpayments had been reported on the CMS-64 as recommended.

We did not review the State agency’s overall internal control structure. We limited our internal control review audit to obtaining an understanding of the identification, collection, and reporting policies and procedures for Medicaid overpayments and related interest collected.

We conducted fieldwork at the State agency’s offices in Lansing, Michigan, from March 2018 through February 2020.

METHODOLOGY

To accomplish our audit objective, we:

- reviewed Federal laws, regulations, and other requirements governing Medicaid overpayments;
- interviewed State agency officials regarding policies and procedures related to reporting overpayments on the Form CMS-64;
- obtained the identified Medicaid provider overpayment data from the State agency;
- used a stratified random sample of Medicaid provider overpayments consisting of three strata, as detailed below;
Table: Sample Design

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<th>Stratum Number</th>
<th>Stratum Bounds</th>
<th>Frame Count</th>
<th>Frame Dollar Value</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
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<td>1</td>
<td>&gt; $1,000 and &lt; $117,200</td>
<td>2,616</td>
<td>$68,535,939</td>
<td>42</td>
</tr>
<tr>
<td>2</td>
<td>&gt; $117,200 and &lt; $880,000</td>
<td>386</td>
<td>$105,813,676</td>
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<td>&gt; $880,000</td>
<td>37</td>
<td>$113,365,332</td>
<td>37</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>3,039</strong></td>
<td><strong>$287,714,947</strong></td>
<td><strong>124</strong></td>
</tr>
</tbody>
</table>

- established the dates of discovery using the dates that the State agency notified Medicaid providers in writing of the overpayments and the dollar amount subject to recovery;
- determined the quarter in which the 1-year period following the date of discovery of the overpayment ended;
- reviewed the Forms CMS-64 to determine whether the overpayments were reported within the quarter in which the 1-year period following discovery ended, as applicable;
- determined whether the State agency applied the appropriate FMAP when refunding the Federal share of overpayments;
- determined the Federal share impact when the State agency did not appropriately apply FMAP rates when refunding overpayments;
- determined whether the $1,320,131 (Federal share) in previously unreported overpayments have been reported on the CMS-64 as recommended; and
- discussed the results of our audit with the State agency.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
March 30, 2020

Ms. Sheri L. Fulcher  
Regional Inspector General for Audit Services  
Office of Inspector General  
Office of Audit Services, Region V  
233 North Michigan Avenue, Suite 1360  
Chicago, IL 60601

Re: Report Number A-05-18-00022

Dear Ms. Fulcher:

Thank you for providing an opportunity to comment on draft audit report A-05-18-00022 entitled “Recommendation Followup: Michigan Did Not Report and Refund the Full Federal Share of Medicaid Overpayments.” We recognize the importance of ongoing evaluation, review, and quality improvement to ensure that Medicaid funds are used as efficiently as possible.

Enclosed is the Michigan Department of Health and Human Services’ response to the draft report. If you have any questions regarding this response, please refer them to Pam Myers at Myersp3@michigan.gov or (517) 241-4237.

Sincerely,

Robert Gordon

Robert Gordon  
RG:kk  
Enclosure

c: Elizabeth Hertel  
Farah Hanley  
Kate Massey  
Pam Myers
Management Response:
MDHHS agrees that during the audit period not all overpayments were reported accurately and that established policies were not always followed.

Corrective Action Plan:
MDHHS is in the process of returning the $648,194 in overpayments reported from the previous audit and the $1,264,170 identified in this audit.

All the overpayments identified in the audit were processed via gross adjustments. MDHHS is in the process of creating account coding rules within CHAMPS to ensure Medicaid overpayments entered as gross adjustments are correctly report on the CMS-64. In addition, MDHHS is researching to determine if there are other overpayment scenarios that need to be modified to ensure proper reporting of FMAP on the CMS-64.