

DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF DIRECTOR

ACTION REFERRAL

TO <i>Day</i>	DATE <i>6-26-14</i>
------------------	------------------------

DIRECTOR'S USE ONLY	ACTION REQUESTED
1. LOG NUMBER <i>000428</i>	<input checked="" type="checkbox"/> Prepare reply for the Director's signature DATE DUE <i>7-25-14</i>
2. DATE SIGNED BY DIRECTOR <i>CC: Kost, Roberts</i> <i>* Note date date on letter</i> <i>Cleared 6/11/14, letter attached.</i>	<input type="checkbox"/> Prepare reply for appropriate signature DATE DUE _____ <input type="checkbox"/> FOIA DATE DUE _____ <input type="checkbox"/> Necessary Action

APPROVALS (Only when prepared for director's signature)	APPROVE	* DISAPPROVE (Note reason for disapproval and return to preparer.)	COMMENT
1.			
2.			
3.			
4.			

Jan Polatty

From: Zyga, Elizabeth C (OIG/OAS) <Elizabeth.Zyga@oig.hhs.gov>
Sent: Thursday, June 26, 2014 10:55 AM
To: Anthony Keck; Jan Polatty
Cc: Bowen, Eric D (OIG/OAS); Ordonez, Osvaldo (OIG/OAS); 'ROchiORA@cms.hhs.gov'; CMS KC_OIG_Audit
Subject: Official Correspondence - Report from U.S. Department of Health and Human Services, Office of Inspector General (Report Number A-04-13-00092)
Attachments: 41300092_ROsigned.pdf

Attached is the Office of Inspector General final report entitled *South Carolina Did Not Always Accurately Report and Refund the Federal Share of Medicaid Collections for July 1, 2011, Through December 31, 2012* (Report Number A-04-13-00092). The report will be available to the public at <http://oig.hhs.gov>.

If you have any questions or comments about the attached report, please do not hesitate to call Eric Bowen at (404) 562-1189 or email him at Eric.Bowen@oig.hhs.gov. To facilitate identification, please refer to the report number in all correspondence.

If you have trouble opening the attached report and need this email resent, please contact the staff listed below.
Attachments – as stated

Elizabeth C. Zyga

Program Support Specialist

US Department of Health and Human Services
Office of the Inspector General
61 Forsyth St., SW, Suite 3T41
Atlanta, GA 30303
Ph: 404-562-7768 Fax: 404-562-7795
Elizabeth.Zyga@oig.hhs.gov

This email may contain confidential and/or privileged information. If you are not the intended recipient (or have received this email in error) please notify the sender immediately and destroy this email. Any unauthorized copying, disclosure, or distribution of the material in this email is strictly forbidden.

When sending any Personally Identifiable or other Sensitive Information to the OIG, always use a FIPS 140-2 compliant encryption method.



please consider the environment before printing this email, and use grayscale/duplex printing when possible.

Log: Day

C: Kost
Legal

Director's Sig

RECEIVED

JUN 26 2014

Department of Health & Human Services
OFFICE OF THE DIRECTOR



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION IV
61 FORSYTH STREET, SW, SUITE 3T41
ATLANTA, GA 30303

June 26, 2014

Report Number: A-04-13-00092

Anthony E. Keck
Office of the Director
P.O. Box 8206
Columbia, SC 29202

Dear Mr. Keck:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *South Carolina Did Not Always Accurately Report and Refund the Federal Share of Medicaid Collections for July 1, 2011, Through December 31, 2012*. 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, this report will be posted at <https://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Eric Bowen, Audit Manager, at (404) 562-7789 or through email at Eric.Bowen@oig.hhs.gov. Please refer to report number A-04-13-00092 in all correspondence.

Sincerely,

Lori S. Pilcher
Regional Inspector General
for Audit Services

Enclosure

Office of Inspector General

<https://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

EXECUTIVE SUMMARY

For the period July 1, 2011, through December 31, 2012, South Carolina underreported the Federal share of its Medicaid collections to be refunded to the Federal Government by \$445,000.

WHY WE DID THIS REVIEW

The Federal Government pays its share of a State's medical assistance costs under the Medicaid program on the basis of the Federal medical assistance percentage (FMAP), which varies depending on the State's relative per capita income. Previous Office of Inspector General reviews have shown that States did not always report collections properly or refund the Federal share at the appropriate FMAP.

The objective of our audit was to determine whether the South Carolina Department of Health and Human Services (State agency) accurately reported Medicaid collections for July 1, 2011, through December 31, 2012 (audit period).

BACKGROUND

Title XIX of the Social Security Act (the Act) established the Medicaid program to provide medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly administer and fund the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the Medicaid 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 South Carolina, the State agency administers the Medicaid program.

The FMAP varies depending on the State's relative per capita income. Although FMAPs are adjusted annually for economic changes in the States, Congress may increase FMAPs at any time.

States claim Medicaid expenditures and the associated Federal share on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64). The CMS-64 shows the disposition of Medicaid funds used to pay for medical and administrative costs for the quarter being reported and any prior-period adjustments.

To account for overpayments, refunds, and similar receipts, States report collections on the CMS-64. Collections decrease both the total expenditures reported for a quarter and the amount of Federal funding that States receive. If collections are underreported, the Federal share for the quarter will be higher than it should be. Conversely, overreporting collections results in a lower Federal share.

TABLE OF CONTENTS

INTRODUCTION	1
WHY WE DID THIS REVIEW	1
OBJECTIVE	1
BACKGROUND	1
The Medicaid Program: How It Is Administered and How States Claim Federal Reimbursement for Expenditures.....	1
South Carolina Department of Health and Human Services	2
HOW WE CONDUCTED THIS REVIEW.....	2
FINDING	3
FEDERAL SHARE INACCURATELY REPORTED FOR COLLECTIONS	3
Medicaid Management Information System Too Restrictive, Burdensome, and Challenging	3
RECOMMENDATIONS	4
STATE AGENCY COMMENTS	4
APPENDIXES	
A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS	5
B: AUDIT SCOPE AND METHODOLOGY	6
C: FEDERAL REQUIREMENTS	8
D: STATE AGENCY COMMENTS	9

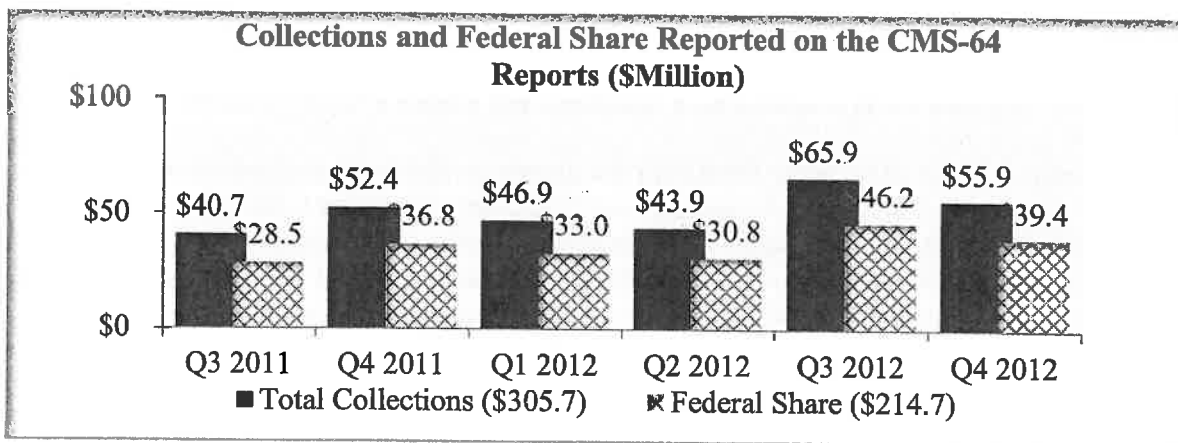
the CMS-64 is a summation of expenditures derived from source documents, such as claims, invoices, cost reports, and eligibility records.

To account for overpayments, refunds, and similar receipts, States report collections on the CMS-64. Collections decrease both the total expenditures reported for a quarter and the amount of Federal funding that States receive. If collections are underreported, the Federal share for the quarter will be higher than it should be. Conversely, overreporting collections results in a lower Federal share.

South Carolina Department Of Health And Human Services

At the end of each quarter, a State agency official used a State-generated general ledger report to identify collections to be reported on the CMS-64. Among other things, it included collections related to third-party liability (TPL) sources² and program integrity (PI) efforts.³

As shown on the following graph, the State agency reported collections totaling about \$305.7 million (\$214.7 million Federal share) on its CMS-64s for the audit period.



HOW WE CONDUCTED THIS REVIEW

We limited our review to Medicaid collections reported on the State agency's CMS-64s from July 1, 2011, through December 31, 2012 (audit period). We reviewed these collection amounts and supporting documentation to determine whether the State agency adequately supported specific-period FMAPs used to calculate the Federal share of collections refunded on the CMS-64s.

² TPL sources included collections from private health insurance, Medicare, employment-related health insurance, medical support from non-custodial parents, long-term care insurance, other federal programs, court judgments or settlements from a liability insurer, State workers' compensation, and first party probate-estate recoveries.

³ The purpose of PI efforts is to guard against fraud, abuse, and deliberate waste of Medicaid program benefits.

rates used in recouping funds, particularly as data needed to be purged for capacity management. Considering the percentage differences between the various FMAPs immaterial, the State agency had previously elected to have the MMIS automatically calculate the Federal share of TPL and PI collections using the current FMAP, instead of the FMAP in effect at the time of the original expenditure. State agency officials also stated that these differences had increased as TPL and PI collections increased and that MMIS enhancements currently underway would address this deficiency.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$444,806 to the Federal Government and
- develop and implement internal controls to ensure that it uses specific-period FMAPs to calculate the Federal share of TPL and PI collections to be refunded.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our recommendations and described corrective actions that it had taken or planned to take to address them.

APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our review covered Medicaid collections totaling 305,747,201 (\$214,747,859 Federal share) reported on the CMS-64s for July 1, 2011, through December 31, 2012 (audit period).

We limited our review to documentation supporting the collections reported on the CMS-64s and the methodologies that the State agency used to calculate the Federal share of collections. We did not review the overall internal control structure of the State agency or the Medicaid program. Rather, we limited our internal control review to the objective of our audit.

We conducted fieldwork at the State agency offices in Columbia, South Carolina, from March 2013 through March 2014.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal requirements and applicable sections of the Manual;
- interviewed State agency officials to gain an understanding of its procedures for identifying and reporting collections on the CMS-64s;
- interviewed State agency Medicaid Fraud Unit (MFU) personnel to determine whether the MFU deducted investigative expenses before sending the restitutions to the State agency for calculation of the Federal Share;
- interviewed the TPL contractor to gain an understanding of its collection efforts and how collections were reported to the State agency;
- obtained and analyzed quarterly CMS-64s for the audit period, along with supporting documentation;
- traced to supporting documentation Medicaid collections totaling \$305,747,201 (\$214,747,859 Federal share) reported for our audit period on the CMS-64s;
- calculated, using the FMAP in effect at the time of each payment, the Federal share for selected Program Integrity and Third Party Liability recoveries; and
- summarized our findings and discussed our results with State agency officials.

APPENDIX C: FEDERAL REQUIREMENTS

FEDERAL REQUIREMENTS FOR REPORTING AND REFUNDING MEDICAID COLLECTIONS

CMS reimburses each State at the FMAP for the quarter in which the expenditure was made (section 1903(a)(1) of the Act). According to section 2500.1(B) of the Manual, the State agency must report an overpayment or other collection on the CMS-64 report for the quarter in which the recovery is made and must compute the Federal share of collections at the Federal matching rate at which CMS matched the original expenditure.

When a State recovers a prior expenditure, it refunds the Federal share by reporting the recovery on the CMS-64 at the FMAP used to calculate the amount it originally had received. The Manual, section 2500.6(B), instructs States to:

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. Make refunds of the Federal share at the FMAP for which you were reimbursed. When recoveries cannot be related to a specific period, compute the Federal share at the FMAP rate in effect at the time the refund was received.

Lesley, please check with Adriana to make sure this is not her log, per Jan. If so, please to contact Mr. Eric Bowen on the letter ASAP to let him know we are working on it and a time frame to have it ready. Due date was 7/25/14 for Tony's signature. Thanks, bj

RECEIVED

AUG 12 2014

Department of Health & Human Services
OFFICE OF THE DIRECTOR

Log # 428 ✓

APPENDIX D: STATE AGENCY COMMENTS



Nikki Haley
Anthony Keck
P.O. Box 8206 - Columbia, SC 29202
www.scdhhs.gov

June 11, 2014

Lori S. Pilcher
Regional Inspector General for Audit Services
US Department of Health & Human Services
Office of Audit Services, Region IV
61 Forsyth Street, SW Suite 3T41
Atlanta, Ga 30303

Re: A-04-13-00092

Dear Ms. Pilcher;

The South Carolina Department of Health & Human Services (SCDHHS) has reviewed the audit findings identified in the draft OIG report entitled: *South Carolina Did Not Always Accurately Report and Refund the Federal Share of Medicaid Collections for July 1, 2011 through December 31, 2012*. We offer the following response for your consideration.

Recommendation:

- Refund \$444,806 to the Federal Government
- Develop and implement internal controls to ensure that it (SCDHHS) uses specific-period FMAP to calculate the Federal Share of TPL and PI collections to be refunded.

Response:

SCDHHS concurs with the finding and agrees to refund the \$444,806 back to the federal Government prior to September 30, 2014 via a corresponding entry on the CMS 64 Medicaid Expenditure Report. SCDHHS has begun development of internal control measures to calculate recoveries in accordance with CMS regulations 2500.1(B) of the State Medicaid Manual. This systematic functionality is currently in test and is expected to be operational in FFY 2015.

Sincerely,

Anthony E. Keck
Agency Director

June 10, 2014

Lori S. Pilcher
Regional Inspector General for Audit Services
US Department of Health & Human Services
Office of Audit Services, Region IV
61 Forsyth Street, SW Suite 3T41
Atlanta, Ga 30303

Re: A-04-13-00092

Dear Ms. Pilcher;

The South Carolina Department of Health & Human Services (SCDHHS) has reviewed the audit findings identified in the draft OIG report entitled: *South Carolina Did Not Always Accurately Report and Refund the Federal Share of Medicaid Collections for July 1, 2011 through December 31, 2012*. We offer the following response for your consideration.

Recommendation:

- Refund \$444,806 to the Federal Government
- Develop and implement internal controls to ensure that it (SCDHHS) uses specific-period FMAP to calculate the Federal Share of TPL and PI collections to be refunded.

Response:

SCDHHS concurs with the finding and agrees to refund the \$444,806 back to the federal Government prior to September 30, 2014 via a corresponding entry on the CMS 64 Medicaid Expenditure Report. SCDHHS has begun development of internal control measures to calculate recoveries in accordance with CMS regulations 2500.1(B) of the State Medicaid Manual. This systematic functionality is currently in test and is expected to be operational in FFY 2015.

Sincerely,

Anthony E. Keck
Agency Director

TRANSMISSION REPORT

P.1

(THU) JUN 26 2014 16:32

User /Account :
 DESTINATION : Adriana Day
 ADDRESS : adriana.day@scdnhhs.gov

DOCUMENT# : 9304148-871
 TIME STORED : JUN 26 16:31
 TX START : JUN 26 16:31
 DURATION : 5sec
 COM. MODE : PC-M

PAGES : 10page
 RESULT : OK

DEPARTMENT OF HEALTH AND HUMAN SERVICES OFFICE OF DIRECTOR

ACTION REPORT

TO	D.
Day	

DIRECTOR'S USE ONLY	
1. LOG NUMBER	000428
2. DATE SIGNED BY DIRECTOR	cc: Kest, Roberts

APPROVALS (Only when prepared for director's signature)	APPROVE
1.	
2.	
3.	
4.	