Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

INDIANA DID NOT ALWAYS MAKE CORRECT MEDICAID CLAIM ADJUSTMENTS

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

Brian P. Ritchie
Assistant Inspector General
for Audit Services

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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

Indiana did not always use the correct Federal medical assistance percentages when processing Medicaid claim adjustments, resulting in a net overpayment of $1.9 million (Federal share) to the State from October 2008 through September 2013.

WHY WE DID THIS REVIEW

Previous Office of Inspector General reviews found that States improperly adjusted Medicaid claims reported to the Centers for Medicare & Medicaid Services (CMS) on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program, Form CMS-64 (CMS-64) at incorrect Federal medical assistance percentages (FMAPs). We conducted a similar review of claim adjustments submitted by the Indiana Family and Social Services Administration (State agency), which administers the Medicaid program in that State.

The objective of this review was to determine whether the State agency used the correct FMAPs when it processed Medicaid claim adjustments reported on the CMS-64.

BACKGROUND

The State agency uses the CMS-64 to claim actual Medicaid expenditures and to report claim adjustments for each quarter. Claim adjustments occur for a variety of reasons, including correcting inaccurate provider billings and retroactive changes in provider payment rates. Federal reimbursement for claim adjustments is available at the FMAP in effect at the time the State made the expenditure. The State agency reports claim adjustments on specific lines of the CMS-64 for prior-period increases and decreases.

We reviewed 23,693,045 Medicaid claim adjustments, composed of 20,736,493 private and 2,956,552 public provider adjustments, totaling $10.7 billion. These claims were adjusted from October 2008 through September 2013. During the adjustment period, the State agency's FMAPs ranged from 66.52 percent to 76.21 percent.

WHAT WE FOUND

The State agency did not always use the correct FMAPs when processing Medicaid claim adjustments reported on the CMS-64. Of the 23,693,045 Medicaid claim adjustments we reviewed, we determined that 23,274,319 adjustments used the correct FMAP or did not result in a payment difference. However, the remaining 418,726 claim adjustments were paid using incorrect FMAPs resulting in a net overpayment to the State agency of $1,915,375 (Federal share). These errors occurred because the State agency did not have adequate internal controls to process public provider claim adjustments in accordance with Federal requirements. Specifically, the State agency did not report public provider increasing claim adjustments using the FMAP associated with the original claim as required.

WHAT WE RECOMMEND

We recommend that the State agency:

- refund $1,915,375 to the Federal Government,
- determine and revise any additional amounts related to claim adjustments that were made at incorrect FMAPs after our audit period, and
- ensure that it processes future adjustments in accordance with Federal requirements.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our recommendations and provided details about corrective actions.

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INTRODUCTION

WHY WE DID THIS REVIEW

Previous Office of Inspector General (OIG) reviews[1] found that States improperly adjusted Medicaid claims reported to the Centers for Medicare & Medicaid Services (CMS) on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program, Form CMS-64 (CMS-64) at incorrect Federal medical assistance percentages (FMAPs). We conducted a similar review of claim adjustments submitted by the Indiana Family and Social Services Administration (State agency), which administers the Medicaid program in that State.

OBJECTIVE

Our objective was to determine whether the State agency used the correct FMAPs when it processed Medicaid claim adjustments reported on the CMS-64.

BACKGROUND

Medicaid Program

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, 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 Indiana, the State agency administers the Medicaid program.

Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program

States use the standard CMS-64 to report actual Medicaid expenditures for each quarter and CMS uses it to reimburse States for the Federal share of Medicaid expenditures. The amounts reported on the CMS-64 and its attachments must be actual expenditures and be supported by documentation. States also use the CMS-64 to process claim adjustments. The State agency makes adjustments for a variety of reasons, including corrections to inaccurate provider billings and retroactive changes in provider payment rates. The State agency uses its Medicaid Management Information System (MMIS)[2] to process claims.

Federal Medical Assistance Percentages

The amount that the Federal Government reimburses to State Medicaid agencies, which is also referred to as the Federal share, is determined by the FMAP. The FMAP is a variable rate that is

[1] See Appendix A for related OIG reports.

[2] MMIS is a computerized payment and information reporting system that States are required to use to process and pay Medicaid claims.

based on a State's relative per capita income. With regard to claim adjustments, Federal reimbursement is available at the FMAP in effect at the time the State made the expenditure.

For October 2008 through September 2013, the period in which the claims we audited were adjusted, the State agency's FMAPs ranged from 66.52 percent to 76.21 percent (see Appendix B for a chronology of FMAPs).

Federal Requirements

Federal Medical Assistance Percentage Rates for Reimbursement

The Federal Government must reimburse the State at the FMAP rate in effect at the time the State made the expenditure (the Social Security Act, § 1903(a)(1)).

The CMS *State Medicaid Manual*, section 2500(D)(2), provides the following instructions to States: "When reporting expenditures for Federal reimbursement, apply the FMAP rate in effect at the time the expenditure was recorded in your accounting system. An expenditure occurs when a cash payment is made to a provider…. To establish the FMAP rate applicable to a given expenditure, determine when the expenditure was made."

Federal Medical Assistance Percentage Rate for Private Versus Public Providers

Section 2500.2(E)(4) states: "Increasing adjustments related to *private providers* are considered current expenditures for the quarter in which the expenditure was made and are matched at the FMAP rate for that quarter. Increasing adjustments related to *public providers* are considered adjustments to prior-period claims and are matched using the FMAP rate in effect at the earlier of the time the expenditure was paid or recorded by any State agency" (added emphasis).

HOW WE CONDUCTED THIS REVIEW

We reviewed 23,693,045 Medicaid claim adjustments, composed of 20,736,493 private and 2,956,552 public provider adjustments, totaling $10.7 billion. These claims were adjusted from October 2008 through September 2013.

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 C contains the details of our scope and methodology, and Appendix D contains applicable Federal requirements.

FINDING

The State agency did not always use the correct FMAPs when processing Medicaid claim adjustments reported on the CMS-64. Of the 23,693,045 Medicaid claim adjustments we reviewed, we determined that 23,274,319 adjustments used the correct FMAP or did not result in a payment difference. However, the remaining 418,726 claim adjustments were paid using incorrect FMAPs resulting in a net overpayment to the State agency of $1,915,375 (Federal share). These errors occurred because the State agency did not have adequate internal controls to process public provider claim adjustments in accordance with Federal requirements. Specifically, the State agency did not report public provider increasing claim adjustments using the FMAP associated with the original claim as required.

INCORRECT FEDERAL MEDICAL ASSISTANCE PERCENTAGES USED WHEN MAKING CLAIM ADJUSTMENTS

Contrary to Federal requirements, the State agency did not use the correct FMAPs when processing 418,726 public provider increasing claim adjustments reported on the CMS-64. Of these, 372,603 claim adjustments resulted in a net overpayment of $2,613,847 (Federal share), and the remaining 46,123 claim adjustments resulted in a net underpayment of $698,472 (Federal share). As a result, the State agency received net overpayments totaling $1,915,375 (Federal share).

In the example in the table below, the State agency processed an increasing adjustment for a public provider claim as a current period expenditure. The State agency reported the adjustment amount of the replacement claim on the CMS-64 using the current period FMAP. However, since the claim was submitted by a public provider, the State agency should have claimed the adjustment at the FMAP in effect when the State agency made the expenditure for the original claim; therefore, the State agency overstated the Federal share.

Table: An Example of an Incorrect Claim Adjustment (Amounts are Rounded)

Adjustment Made by the State Agency

Transaction Type	Payment Date	Paid	FMAP	Federal Share
Original claim	9/09/2008	$2,112	62.69%	$1,324
Adjustment amount	2/03/2009	$2,381	73.23%	$1,744
				$3,068

Office of Inspector General Recalculation of the Adjustment

Transaction Type	Payment Date	Paid	FMAP	Federal Share
Original claim	9/09/2008	$2,112	62.69%	$1,324
Adjustment amount	2/03/2009	$2,381	62.69%	$1,493
				$2,817

Amount of the Incorrect Claim Adjustment: $3,068– $2,817 = $251

Such errors occurred because the State agency did not have adequate internal controls to process public provider claim adjustments in accordance with Federal requirements. Specifically, the

State agency did not report public provider increasing claim adjustments using the original claim FMAP as required.

RECOMMENDATIONS

We recommend that the State agency:

- refund $1,915,375 to the Federal Government,
- determine and revise any additional amounts related to claim adjustments that were made at incorrect FMAPs after our audit period, and
- ensure that it processes future adjustments in accordance with Federal requirements.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our recommendations and provided details about corrective actions. The State agency comments are included in their entirety as Appendix E.

APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Report Title	Report Number	Date Issued
Ohio Did Not Always Make Correct Medicaid Claim Adjustments (A-05-14-00017)	A-05-14-00017	9/12/2016
New York Made Correct Medicaid Claim Adjustments (A-02-14-01006)	A-02-14-01006	5/17/2016
North Carolina Did Not Always Make Correct Medicaid Claim Adjustments (A-04-14-00100)	A-04-14-00100	3/24/2016
Iowa Did Not Always Make Correct Medicaid Claim Adjustments (A-07-14-01135)	A-07-14-01135	3/26/2015
Massachusetts Did Not Always Make Correct Medicaid Claim Adjustments (A-01-13-00003)	A-01-13-00003	9/29/2014
Maine Did Not Always Make Correct Medicaid Claim Adjustments (A-01-12-00001)	A-01-12-00001	7/20/2012

APPENDIX B: FEDERAL MEDICAL ASSISTANCE PERCENTAGES

Time Period	FMAP Rate
October 2008 through March 2009	73.23%
April 2009 through September 2009	74.21%
October 2009 through September 2010	75.69%
October 2010 through December 2010	76.21%
January 2011 through March 2011	73.39%
April 2011 through June 2011	71.50%
July 2011 through September 2011	66.52%
October 2011 through September 2012	66.96%
October 2012 through September 2013	67.16%

APPENDIX C: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed all Medicaid claims adjustment data for private and public provider claims that were adjusted from October 2008 through September 2013. We limited our review of internal controls to obtaining an understanding of the State agency's procedures for identifying claim adjustments and reporting the adjustments on the CMS-64.

We did not review the overall internal control structure of the State agency or the Medicaid program. We reviewed only the internal controls that pertained directly to our objective.

We conducted our fieldwork from February 2015 through July 2016.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- interviewed officials from the State agency to gain an understanding of its procedures and controls for the processing of claim adjustments;
- obtained from the State agency a database of 23,693,045 Medicaid claim adjustments that were adjusted from October 2008 through June 2013;
- reviewed a sample of 45 Medicaid claims and associated adjustments to confirm how the adjustments were reported on the CMS-64;
- calculated the correct Federal share for 418,726[3] public provider increasing claim adjustments using the FMAP rate applicable on the date of payment; and
- discussed the results of our review with State agency officials.

[3] From the 23,693,045 claim adjustments we reviewed, we excluded 20,736,493 private provider adjustments from our calculations because private provider claim adjustments were properly reported. We also excluded the following public provider claim adjustments because these adjustments (1) occurred in the same FMAP period as the original claim, (2) did not have a payment difference from the original claim (3) were decreasing claim adjustments, or (4) did not have a paid date for the associated original claim.

APPENDIX D: FEDERAL REQUIREMENTS

SOCIAL SECURITY ACT

The Federal Government must reimburse the State at the FMAP rate in effect at the time the State made the expenditure (the Social Security Act, § 1903(a)(1)).

CENTERS FOR MEDICARE & MEDICAID SERVICES' STATE MEDICAID MANUAL

Section 2500(D)(2), provides the following instruction to States: "When reporting expenditures for Federal reimbursement, apply the FMAP rate in effect at the time the expenditure was recorded in your accounting system. An expenditure occurs when a cash payment is made to a provider…. To establish the FMAP rate applicable to a given expenditure, determine when the expenditure was made."

Section 2500.1, provides instructions for preparation of the CMS-64, such as:

> Section B - Expenditures Reported For Period –
>
> Line 6 - Expenditures In This Quarter. Report such items as waiver expenditures or other current quarter expenditures.
>
> Enter the total computable amount and Federal share of decreasing adjustments for recoveries, collections, cancelled checks, and overpayment on Line 9.D. Do not net these adjustments in Line 6.
>
> Line 7 - Adjustments Increasing Claims For Prior Quarters. - Enter the total computable amount and Federal share of adjustments increasing claims for expenditures in prior periods.
>
> Expenditures reported on Line 7 include only increasing adjustments made to private or public providers in prior quarters which were not previously reported. Report cost settlement and other increasing adjustments to private providers made in the current quarter for an earlier period on Line 6 as a current expenditure.
>
> Line 10B - Enter all decreasing adjustments for prior periods.

Section 2500.2(E)(4) states: "Increasing adjustments related to private providers are considered current expenditures for the quarter in which the expenditure was made and are matched at the FMAP rate for that quarter. Increasing adjustments related to public providers are considered adjustments to prior-period claims and are matched using the FMAP rate in effect at the earlier of the time the expenditure was paid or recorded by any State agency."

APPENDIX E: STATE AGENCY COMMENTS

Michael R. Pence, Governor
State of Indiana

Indiana Family and Social Services Administration
402 W. WASHINGTON STREET, P.O. BOX 7083
INDIANAPOLIS, IN 46207-7083

October 7, 2016

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

RE: Report Number A-05-15-00022: *"Indiana Did Not Always Make Correct Medicaid Claim Adjustments."*

Dear Ms. Fulcher:

We are writing in respect to your letter dated September 9. 2016 in response to Indiana's comments on OIG's draft report of the above referenced audit. Indiana concurs with the recommendation of this finding.

The State will refund $1,915,375 to the Federal Government.

The State will review public provider claim expenses for the period October 2013 through December 2016 and make corrections to report claim adjustments in the period of the original claim payment.

After implementation of the State's new MMIS, scheduled in December 2016, system modifications will be made to report claim adjustments for public providers at the FMAP of the original claim payment.

If you require further information, please contact David Nelson at (317) 233-3045.

Sincerely,

/Joseph Moser/

Joseph Moser
Medicaid Director

cc: Mike Barton
David Nelson
Leslie Melton
Donna Rutherford