



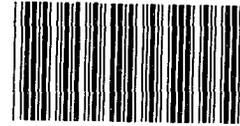
UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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HUMAN RESOURCES
DIVISION

May 4, 1979



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Mr. Leonard D. Schaeffer, Administrator
Health Care Financing Administration
Department of Health, Education, and Welfare
Washington, D.C. 20201

AGC00624

Dear Mr. Schaeffer:

On October 27, 1978, we reported to your office that during our survey of the recovery of Medicaid overpayments, we learned that New York had not returned the Federal share on about \$4.1 million in Medicaid overpayments recovered by the Special Prosecutor's office. In this instance, prompt corrective action was taken by HCFA and the State as indicated by your December 20, 1978, response to our letter.

Following our initial survey work in New York and Georgia, we decided in December 1978 to broaden our efforts into a detailed review and expand the scope of our work to include three additional States (California, Florida, and South Carolina). Although we have not completed our review in four of the five States, we have identified five more cash accounts in which recovered Medicaid funds are deposited and often held for several months or even years before the Federal Government receives credit for its share of the money even though HCFA reporting instructions indicate that all collections should be reported during the quarter received by the State. As shown below, the five additional accounts identified by us contained about \$11.2 million, most of which are Medicaid funds.

<u>States or jurisdiction</u>	<u>Date</u>	<u>Balance</u>
New York City - Account No. 1	12/31/78	\$ 3,123,103
New York City - Account No. 2	12/31/78	a/ 2,215,503
Georgia	3/31/79	822,537
South Carolina	2/28/79	1,463,658
Florida	3/31/79	b/ 3,531,102
Total		\$11,155,903

a/ Includes Medicaid, AFDC, assistance to blind and deaf and miscellaneous program funds.

b/ The Federal Government received credit for its share of some of these funds on the December 1978 Quarterly Expenditure Report--see page 11.

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Group III Report

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State and local Medicaid agency officials responsible for processing the return of the Federal share of these recovered funds, told us that the processing is delayed in many instances because at the time of recovery, the funds cannot be identified to a specific Medicaid recipient, service or payment period. This information, they say, is required to insure that the appropriate share of each recovered amount is returned to the Federal Government.

We learned, however, that States generally do not place or have not placed a high priority on researching and processing recovered Medicaid funds. Thus, they have not established routine procedures or formalized accounting systems and controls for researching and processing recovered Medicaid funds in an efficient, timely manner. These functions, instead, are usually performed only when employees complete their other work and are free to work the research and processing activities into their schedule.

Even where States have established procedures and formalized systems for processing refunds and have assigned employees to process recovered Medicaid overpayments, significant delays in returning the Federal share are still experienced. Furthermore, some States either have not invested funds in these accounts so as to maximize interest earnings, or when invested, they have not consistently shared with the Federal Government interest that has been earned.

STATUS OF FUNDS IN HOLDING ACCOUNTS

The status of the funds in these five holding accounts and the details concerning many of the processing delays and the failure to return the Federal share at all are discussed below.

New York

New York City had established and was operating two special cash holding accounts in which large sums of Medicaid funds recovered from providers and recipients have been deposited and often retained for extended periods of time. Although some of the funds in these two accounts were being invested in short-term securities and the Federal Government was being credited with a portion of the interest earned, we found that management of the funds was generally lax. The following comments concerning each of the two cash holding accounts are based on our very limited review and analysis

of fund activities and do not purport to deal with all the problems that these two accounts are experiencing.

Cash holding account number 1--
funds recovered from providers

DLG 01515

The City's Human Resources Administration began to intercept payments to certain providers in 1972 because their patient treatment profiles indicated certain improper or incorrect medical practices. These funds were then placed in a special holding account pending resolution of the questionable practices. To resolve the problems, certain selected provider diagnosis and treatment activities were subjected to peer review. Based on the results of these limited reviews, some providers agreed to repay negotiated amounts whereas other providers would not agree to repay anything. The funds withheld from the providers who would not agree that they were overpaid were retained in the special holding account and designated by the City as hold fund accounts. Apparently, there has been only limited efforts by the City and by the State to resolve the status of these accounts.

The providers who agreed that they were overpaid signed stipulation agreements detailing their repayment plans. While some of the plans provided for lump-sum repayments, others called for installment repayments to the program whereby the City would intercept specified amounts from monthly payments to the provider. These repayments, which also were deposited in the special holding account, were designated as restitution funds to distinguish them from the hold funds.

Over the years, since the special holding account was established, the City has occasionally transferred (once or twice a year), restitution account funds from the special holding account and credited the Federal Government with its share of the transferred amounts. Even on these occasions, however, all of the funds in the restitution accounts were not transferred. In fact, our review and limited analysis of selected individual provider subsidiary repayment and special holding account control records showed that some funds were retained in restitution accounts for several years before they were transferred and the Federal Government credited with its share.

One provider, for example, returned \$67,000 to the City on May 26, 1976, the date he signed the stipulation agreement, but it was not until February 1978 that the City transferred this \$67,000 from the special holding account and credited the Federal Government with its share. In another case, the Federal Government never did receive its share of \$6,000 returned by a provider in installment amounts between November 1974 and November 1975 because the provider subsequently declared bankruptcy and the City, which was still holding the \$6,000 in March 1977, was required by the court to turn over the money to the Trustee in Bankruptcy.

Also, our review of 35 restitution accounts that were still open on March 30, 1979, showed that \$153,878 collected on these accounts was still in the special holding account even though at least \$142,171 of this amount was received or recouped by the City before July 1, 1978. In fact, five of the providers with total obligations of \$95,990 had sufficient money in the holding account at July 1 to satisfy their entire obligations.

In addition to the \$153,878 already in their accounts, the same 35 providers still owed \$244,513 on their restitution accounts and in most cases there had been very little collection or recoupment activities in recent months. For example, there had been no activity during the 12 months preceding March 31, 1979, in accounts which represented \$197,240 of this \$244,513 obligation.

Furthermore, State Medicaid agency auditors reported in September 1977 that their review of certain aspects of the special holding account revealed that the total funds received as shown on providers' subsidiary ledger records exceeded by \$330,017 the actual balance in the account as shown by the control records. This problem had not been resolved as of March 31, 1979. The City, however, has retained the services of Ernst and Ernst to help resolve the discrepancy, but this effort is not expected to be completed until the fall of 1979. However, City officials believe that the discrepancy is a misposting problem on subsidiary records of providers who are repaying funds under stipulation agreements and also repaying advances made totally from City funds rather than a problem of missing funds. The City has a separate bank account in which repaid advances are deposited.

Cash holding account number 2--
funds recovered from recipients

New York City also maintains a special cash holding account in which funds recovered from recipients of various federally assisted programs, including Medicaid, are deposited. Between July 1976 and December 1978, the average closing monthly balance in this account was \$2,715,217, of which an average of \$1,155,401, or 43 percent, were Medicaid funds.

One major source of Medicaid funds recovered and deposited in the account is nursing home patients who receive funds from estate settlements, insurance proceeds, etc., and whose incidental allowance accounts exceed the maximum allowable amount. The other major source of funds is from Medicaid hospital patients who recover funds from third parties, usually due to third party negligence, to pay all or part of their hospital expenses.

Although the City apparently maintains adequate control over the funds deposited in this special holding account and has established routine procedures and implemented a formal system for returning the Federal share, the return process generally takes from 6 to 9 months to complete. The following typical example illustrates the City/State system for returning the Federal share of Medicaid funds recovered from recipients and processed through this special holding account:

<u>Type of activity</u>	<u>Dates of availability</u>
Funds received by the City Human Resources Administration (HRA) and deposited in the holding account	May 1978
HRA transferred the funds to the City Finance Administrator and advised the State Medicaid agency that the funds had been recovered	7/25/78
State Medicaid agency billed HRA for the Federal and State share of the funds	9/26/78

HRA prepared payment voucher authorizing the Finance Administrator to transfer the Federal and State shares to the State

10/30/78

City Finance Administrator submitted funds to the State agency

11/27/78

State Medicaid agency reported the recoveries on the quarterly expenditure report (0A-41)

12/31/78

Some of the funds in the special holding account are invested in short-term interest bearing securities and the interest earned is divided among the various programs based on the average funds in the account. However, there is no interest received on funds after they are transferred from the account to the City Finance Administrator which, as indicated above, is about 2 months after they are received. Thus, the Federal Government receives no financial benefit from the funds during about 4 to 7 months of the 6 to 9 months required for processing the return of the Federal share.

Thus, the basic problems identified with this fund involve (1) poor cash management and (2) failure to credit the Federal Government with collections during the quarter received as indicated by the HEW instructions.

Georgia

Georgia deposits and holds Medicaid program cash refunds in a special bank holding account preparatory to returning them to the Medicaid benefits payment account and refunding the Federal share.

Because the Medicaid department ^{DLG 01516} requires considerable time to research funds for processing and refund of the Federal share, Federal Medicaid programs funds are continually unavailable for use. This problem is further magnified because some refunds have remained in the holding account for an extended period of time because the State lost control over these refunds and failed to process them out of the holding account.

We selected a random sample of 215 refunds received by the State between July 1, 1977, and June 30, 1978, and analyzed these refunds to determine whether, and how timely, the Federal share was refunded. We found that the Federal share had been refunded on 201 of the sample cases as of December 31, 1978. One half of these refunds were reported on the expenditure report for the quarter in which they were collected, but at least a one quarter delay occurred before the other refunds were reported. Also, the Federal share had not been refunded on 14 sample cases. As of December 31, 1978, these refunds had been in the holding account an average of more than 16 months.

Some refunds have remained in the holding account for extended periods because the State lost control over them and failed to process them out of the holding account. We informed State Medicaid program officials of our inability to reconcile the holding account bank balance with State records of individual refunds received and deposited in the holding account.

Since we completed audit work in Georgia, program officials have improved controls over funds deposited in the holding account, and have begun a special review to reconcile the bank balance with State records. State officials initially identified \$311,284 in the holding account which could not be reconciled with individual refund receipts. By researching State records and contacting providers, they have determined which refunds account for \$131,606 of the original unreconciled amount.

State officials determined that \$6,460 of the \$131,606 were not Medicaid program refunds, and thus were inappropriately deposited in the holding account. The remaining \$125,146 are Medicaid program refunds. Program officials told us that, although they did not age these receipts, all the refund checks were dated in 1976 or 1977, and thus represent 1976 and 1977 refunds.

As of April 19, 1979, \$179,678 of the original unreconciled amount of \$311,284 remained unreconciled. Program officials were hopeful that some more refunds would be reconciled with individual refund receipt records, but they were not optimistic that the total remaining balance could ever be reconciled.

Because of the normal refund processing timelag, combined with the fact that some refunds remained in the holding account for extended periods, the average month end holding account balance since July 1, 1977, has been about \$945,000. Assuming a Federal cost sharing rate of 65.82 percent (the lowest Federal rate since July 1, 1965) an average of \$622,000 in Federal funds have been continually tied up in the holding account. Although the State periodically invested some holding account funds in interest bearing certificates, historically it has not shared the earned interest with the Federal Government.

South Carolina

Medicaid funds recovered by the State Medicaid agency in South Carolina (Department of Social Services) are deposited directly into the State treasurer's account along with State funds from many sources. All funds in the State treasurer's account are controlled by the State treasurer who is responsible for paying State bills and for managing the funds in the account. According to State Medicaid agency officials, idle funds in this account are invested in short-term interest bearing securities, etc., but none of the interest earned on the invested State treasurer account funds is credited to the Medicaid program. Thus, the Federal Government does not receive any financial benefits from idle Medicaid funds in this account. 7/16/01077

The State Medicaid agency maintains accounting records on Medicaid funds deposited in the State treasurer's account and notifies the State treasurer when to transfer these funds into the Medicaid account from which providers are paid. This notification is made after the State Medicaid agency has fully researched the recovered funds and acquired all the information necessary to match the recovered amount with the appropriate provider, recipient, service, and payment period which are used, among other things, to determine the Federal share of the recovered amount. However, the State agency's research and processing activities have not been very timely. For example, \$348,523 of the \$1,463,658 Medicaid funds in the State treasurer's account as of February 28, 1979, were recovered from providers and deposited in the account before July 1, 1978, and should have been reported to the Federal Government on or before June 30, 1978. Additionally, \$102,316 of the remaining funds had been in the account more than 3 months.

Starting in July 1978 the State Medicaid agency began developing information which shows the age of Medicaid funds in the State treasurer's account. This information, officials believe, will help the State to be more timely in its research activities and return of the Federal share of recovered Medicaid overpayments.

Florida

Florida deposits and holds Medicaid program refunds in a holding account until the refunds are researched to determine the providers and recipients to which the refunds relate, and the applicable Medicaid service accounts to be credited. After this is completed, refunds are processed out of the holding account, and the Federal share of the refunds are subsequently reported to HCFA as an adjustment to the expenses claimed on the OA-41 Quarterly Expenditure Report.

Refunds used to be deposited and held in commercial bank accounts pending their processing and return to the Medicaid Trust Fund Account of the State treasury. In May 1978, however, the State began to deposit most refunds directly into the Medicaid Trust Fund Account of the State treasury. These refunds are accounted for in an unprocessed account code until the refunds are researched and processed into the appropriate Medicaid service account codes.

Because considerable time is required to research and process refunds, large balances of funds continually remain in the holding status, and lengthy delays occur before the Federal Government receives credit for its share of refunds received. Although this delay has been significant historically, the delay became even more acute during 1978 because the Systems Development Corporation (SDC)--the fiscal agent employed by the State in January 1978--had no computer program for processing refunds.

In addition to the significant tie-up of Federal funds due to delays in processing refunds through the holding account, the State has also failed to give the Federal Government credit for its share of some refunds that were processed through the holding account because the State failed to include several refund transmittals on the Quarterly Expenditure Reports.

Beginning with the quarter ending June 30, 1976, the balance of funds in the holding account has increased as follows:

<u>Quarter ended</u>	<u>Holding account balance</u>		
	<u>State treasury Medicaid trust fund account</u>	<u>All other holding accts.</u>	<u>Total</u>
June 30, 1976	-	\$1,193,704	\$1,193,704
Sept. 30, 1976	-	617,894	617,894
Dec. 31, 1976	-	919,179	919,179
Mar. 31, 1977	-	754,430	754,430
June 30, 1977	-	592,223	592,223
Sept. 30, 1977	-	561,020	561,020
Dec. 31, 1977	-	880,631	880,631
Mar. 31, 1978	-	922,143	922,143
June 30, 1978	\$ 800,161	192,704	992,865
Sept. 30, 1978	1,536,042	217,482	1,753,524
Dec. 31, 1978	2,237,943	180,046	2,417,989
Mar. 31, 1979	3,510,483	20,619	3,531,102

The average balance of holding account funds for the seven quarters ended December 31, 1977--the period before SDC became the fiscal agent--was \$788,440. Assuming a Federal cost sharing rate of 56.55 (the lowest rate since July 1, 1971), an average of \$445,863 in Federal funds was tied up in the holding account during this period.

The average balance of holding account funds for the four quarters of 1978 was \$1,521,630. Assuming the Federal rate of 56.55 percent, the average Federal funds tied up in the holding account during 1978 was \$860,482.

State officials said that no interest has been earned on funds held in commercial bank accounts. Funds held in the Medicaid Trust Fund Account of the State treasury are managed by the State treasurer. These funds have been used to defray the State's portion of Medicaid program costs, even though a portion of the refunds should have been credited to the Federal Government.

Because of SDC's inability to process refunds through its Medicaid Management Information System (MMIS), the only refunds that were processed and reported during the first three quarters of 1978 were refunds that could be processed by the State, independent of SDC input. These included refunds received during 1977 that had not already been processed, refunds received early in 1978 that could be and were processed using pre-SDC State procedures, and small amounts of recipient refunds (voluntary liens and claim and recipient fraud funds) that are processed independent of SDC. Because

of these refunds, the amount of credit reported to HCFA for the first two quarters of 1978 did not decline significantly. However, as shown in the following table, the credits reported to HCFA dropped radically during the third quarter of 1978.

<u>Quarter ended</u>	<u>OA-41 expenditure adjustments</u>
Sept. 1976	\$276,844
Dec. 1976	488,113
Mar. 1977	559,596
June 1977	428,874
Sept. 1977	641,592
Dec. 1977	496,545
Mar. 1978	673,340
June 1978	504,509
Sept. 1978	13,609

DLG 01878

We notified Florida Health and Rehabilitative Service (HRS) officials of our pending review in December 1978, and began site work in early January 1979. While conducting site work in Florida, State officials prepared and submitted to HCFA the Quarterly Expenditure Report for the quarter ended December 31, 1978. On this report, State officials estimated and gave the Federal Government credit for its share of most refunds awaiting processing. (Florida had not done so on the September 1978 Quarterly Report.)

Florida gave the Federal Government credit for a total of \$1,746,395 adjustments on the December 1978 report. A relatively small portion of this adjustment relates to refunds processed independently of SDC. About \$1.5 million of the total, however, represents the State's estimate of the Federal share of the balance of unprocessed refunds. Therefore, the Federal Government effectively received credit for refunds on hand at December 31, 1978, even though the funds remain in the holding account. State officials now tell us they may have overestimated the credit due the Federal Government and they plan to adjust this on the March 1979 expenditure report. However, since the State collected over \$1 million during the first quarter of 1979, some of the funds in the account at March 1979 may still be owed to the Federal Government.

In addition to the lost use of Federal funds due to processing timelags and other problems, we also found that Florida failed to give the Federal Government credit for

its share of \$483,277 in refunds received since July 1, 1976, which had been processed through the holding accounts and returned to the applicable Medicaid service accounts. This happened because the State failed to include several refund transmittals on the Quarterly Expenditure Reports. The Federal share of these refunds amounted to \$279,634. When we brought this matter to the attention of State officials, they told us that the \$279,634 would be included in the adjustments reported on the March 1979 report.

CONCLUSIONS AND RECOMMENDATIONS

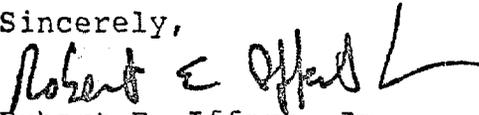
Although we made no attempt to identify all the delays and weaknesses associated with processing recovered Medicaid overpayments and returning the Federal share of the recovered funds, the problem is obviously significant as evidenced by the results of our limited analysis of the flow of the recovered funds through these five accounts. In view of the fact that each State participating in the Medicaid program is responsible for processing recovered Medicaid overpayments and returning the Federal share during the quarter collected, the amount of recovered funds for which the Federal Government may not be receiving its fair share in a timely manner or at all could be large. We, therefore, are bringing this matter to your attention rather than waiting until the conclusion of our review and issuance of our final report.

We regard to the issues discussed in this letter, we specifically recommend that HCFA:

- Require New York, Georgia, South Carolina, Florida, and all other States which maintain Medicaid cash holding accounts to credit the Federal Government (to the extent that it has not already received credit) with the Federal share of funds in these accounts, including any interest earned, on the next Quarterly Expenditure Report.
- Insure that Florida gives the Federal Government credit on the March 1979 Report for the \$279,634, already transferred from the holding account, and take necessary actions to disallow this amount if credit is not given.

We would appreciate your advising us of any actions taken or planned regarding the items discussed in this report.

Sincerely,


Robert E. Iffert, Jr.
Assistant Director