

Special Review Medicaid Fund Deficiency Request

A Report to the
Legislative Finance Committee

December 6, 2011

LFC Special Review: Medicaid Deficit Fund Balance

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SUMMARY

In FY10, the Human Services Department's Medicaid program overspent available funding, resulting in an \$88.4 million deficit fund balance on its financial statements. Since that time, the HSD has sought to reconcile the sources of the fund deficit with the assistance of an outside auditing firm, and has provided periodic status reports. The HSD indicated that \$103 million in reporting errors contributed to the deficiency. In September 2011, an appropriation of \$11.8 million was made during the 1st Special Session of the 50th Legislature to reduce Medicaid's cash deficiency.

Under Medicaid, the federal government reimburses states the federal portion of matching funds after states make expenditures. Thus, the program must temporarily use state funds to make payments, and run a deficit until federal reimbursements are deposited into the Medicaid account. Untimely requests for reimbursements can negatively impact the finances of state government, including reducing the amount of interest earned on short-term investments of cash in the general fund. In addition, state law prohibits, and provides penalties for the issuance of payments from the treasury if agency funds have insufficient balances (Section 8-6-7 NMSA 1978). As such, the Legislative Finance Committee has repeatedly expressed concern with the persistently large negative cash balances reported by the Medicaid program.

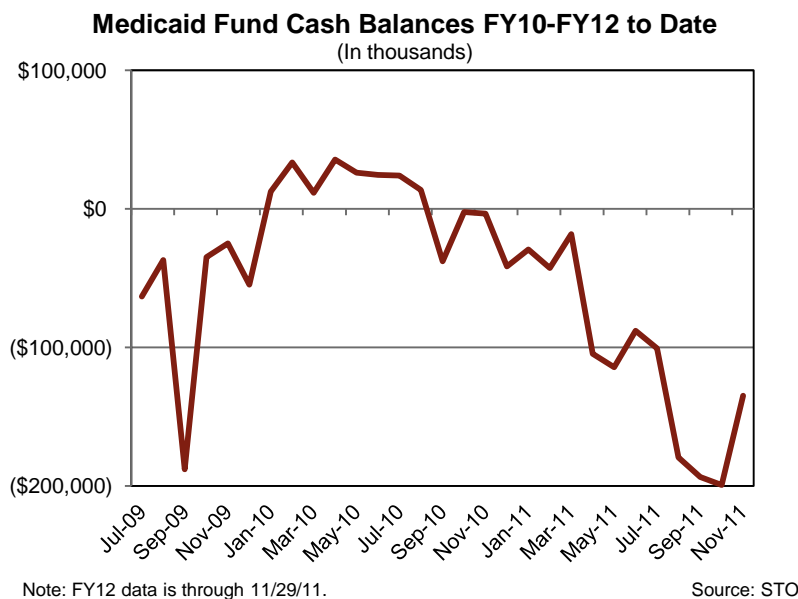
The specific amount needed for a deficiency appropriation, and reason for the negative fund balance remains unclear. However, contributing factors include a cumulative impact of poor internal controls, untimely and incorrect reimbursement requests, incorrect federal reporting, and lack of cooperation among HSD staff. These issues were documented by the HSD and their auditing consultants, Myers & Stauffer.

The audit firm's report details a multitude of over and under claiming of federal Medicaid funds; however the report identified a cumulative net negative impact of \$1.6 million in reporting errors. The HSD paid \$648 thousand for consulting services to reconcile Medicaid accounts to federal reimbursement reports. The audit firm's report does not fully explain the deficit fund balance that occurred specifically in FY10, but rather reports issues that may have and will continue to impact the Medicaid account as the program now matches fund requests to expenditures in a timely manner.

The HSD Medicaid account has run significant negative monthly balances. Further review of the HSD cash balance issues is necessary. For example, the FY10 financial audit shows a deficit fund balance of \$88.4 million. As of November 22, 2011 the year end FY10 cash balance in SHARE was a positive \$24.5 million. The HSD FY11 audit was in process during this special review, though the reported year-end FY11 balance was negative \$87.9 million. Reported cash balances appear to deteriorate further during FY12, however closer examination of expected

revenue shows otherwise. For example, the HSD reports a negative Medicaid cash balance of \$190.7 million in October 2011. However, the HSD has demonstrated that it received and has identified outstanding receivables generating sufficient revenue to result in a positive balance of over \$13 million. The \$11.8 million appropriated during the special session has already had a positive impact. However, some of these expected revenues, such as the \$40 million from SCP/DSH reimbursements not claimed, may not materialize, but this is unknown at this time. HSD has requested federal approval to claim this funding, but at the time of this review had not received a final decision. Further complicating the matter is the potential inability to collect historical overpayments from providers totaling an estimated \$46 million.

Currently, the Department of Finance and Administration Financial Control Division and the State Treasurer’s Office are working with a number of agencies that report regular large negative fund balances, but have not had an opportunity to fully engage the HSD in this process yet. Additional time will give these agencies an opportunity to review and monitor the deficit fund balance, reconcile cash activity to SHARE, and review the FY11 audit when it is complete in order to provide more clarity on the exact amount the HSD will need to resolve this problem with a deficiency appropriation.



Recommendation

The Legislature should defer making a deficiency appropriation until all pending issues have been resolved and new information is available, including from the FY11 year-end audit. If the federal government denies the HSD request, Medicaid will need funding to offset the negative impact from not receiving this expected revenue. As the Legislature develops an FY13 budget, care should be taken to ensure general fund reserves are kept at a sufficient level to deal with the HSD’s Medicaid deficit fund balance.



New Mexico Human Services Department

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December 6, 2011

David Abbey, Director
Legislative Finance Committee
325 Don Gaspar, Suite 101
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Dear Mr. Abbey:

As you know, for some time now the Human Services Department has been working to determine the sources of a negative cash balance in the Medicaid account. This work resulted in a deficiency appropriation request on October 31 to satisfy a significant portion of long-standing balances that had not been identified or brought forward in the last administration. For the last three weeks we have been working with your staff on our financial controls and this deficiency request. We appreciate their efforts in this short amount of time, and we understand their recommendation regarding a deficiency appropriation, as outlined in their report, "Special Review: Medicaid Fund Deficiency Request."

However, while we understand their hesitancy to recommend an appropriation at this time, please know that ultimately this issue will have to be resolved with an appropriation. Obviously, this is not a request we make lightly, nor is it the way we would have chosen to begin our administration. As you continue to examine this issue, the history and specific points about the report bear mentioning.

Medicaid has carried significant negative cash balances since at least FY09. In 2009, the department found that its federal Medicaid expenditure reports (CMS 64) and the SHARE accounting system did not reconcile. They were different by about \$100 million – either under-reported expenditures to the federal government (thus, not getting reimbursed) or overdrawing federal funds to pay current expenditures (thus, obscuring the cash problem).

In 2010, this problem was reported to LFC, and HSD contracted with Myers and Stauffer, a national accounting firm with expertise in Medicaid systems, to sift through the federal reporting and accounting transactions over the last 5 years. In October, Myers and Stauffer finished their work – ultimately finding pluses and minus that were almost a wash to the state, if the federal government pays for some old claims. The Myers and Stauffer report further demonstrates to us that the negative cash problem is an accumulation over the years, possibly extending beyond the implementation of the statewide accounting system, known as SHARE, in 2007. This is not, as stated in the report, due to overspending in FY10.

HSD reconciled its federal grants with the Centers for Medicare and Medicaid Services (CMS) for FY10 and FY11, which had effectively obscured the long-standing cash balance in the account. This reconciliation paid back the federal government, leaving the negative balance in the account with the State Treasurer. This is now entirely a state issue, and the negative balance is not impacting the day-to-day operations of the Medicaid program. It does, as you know, impact the State Treasurer's ability to invest overnight deposits.

Finally, and most importantly, I believe, we've taking steps to prevent this from occurring again. HSD has adopted new reconciliation processes for federal reports, SHARE and monthly cash balances. This includes a stronger internal control structure over cash transactions, including disbursements of cash and receipt of cash. We complete daily, weekly, monthly and quarterly reconciliations, which are subject to multiple levels of review, including management.

We are prudently reorganizing our Administrative Services Division to better focus on grant reconciliation. This is an ongoing process and we are still hiring some key new positions to bring added attention. We continue to work on and improve cross division collaboration. We have implemented better federal reporting tools, to which our federal partners have been very receptive.

Of course, this situation is not static. We may receive the additional federal funding that we have requested and we will continue to refine our analysis of old receivable balances that are impacting our cash account. As we move towards the legislative session, we are happy to work with you and the Department of Finance and Administration to further validate the deficiency appropriation necessary to address this issue.

Sincerely,



Sidonie Squier
Cabinet Secretary