

Date: August 5, 2011

MEMORANDUM

To: LFC Members

Through: David Abbey, Director

From: Greg Geisler, Principal Analyst

SUBJECT: Medicaid Cash Shortfall Reconciliation

Introduction

The Human Services Department (HSD) in June reported to the Federal Center for Medicare and Medicaid Services (CMS) the preliminary results of their analysis (assisted by contractor Myers and Stauffer, LC) of discrepancies in reported Medicaid expenditures versus submitted reimbursement requests. HSD is seeking reimbursement of \$40.8 million of under-billed expenditures from CMS and has repaid the federal government approximately \$50 million due to over-draws against Medicaid.

Background

Large negative cash balances in the Medicaid account have been an LFC concern for a number of years. For example, HSD had a negative balance of \$151 million in June 2007. Over the years, HSD implemented changes in billing procedures to address this issue and typically runs a negative cash balance in the Medicaid fund of approximately \$20 million. However, the negative balance grew up to \$486 million in January 2009 and still was negative \$234 million by April 2009. HSD began researching the issue internally and initial analysis revealed accounting and medical claims reconciliation issues that led to both under-reporting and over-reporting of Medicaid expenditures.

HSD reported to the LFC in May 2010 that they were working on the issue but needed outside technical support which they obtained by hiring Myers and Stauffer, LC in April 2010 to analyze HSD Medicaid claims and procedures dating back to 2008. In September 2010, HSD reported to the LFC that they were recording a liability of approximately \$103 million on their financial statements to recognize the discrepancy in reporting of expenditures and reimbursement requests. The HSD FY10 financial statement audit conducted by Moss Adams, LLP, and released in January 2011, showed liabilities of approximately \$100 million due to reporting issues were recorded on HSD's balance sheet and federal revenue was reduced by \$100 million on the income statement. Net assets of the department as of 6/30/10 were \$85.6 million negative, reflecting a negative fund balance due to the \$100 million liability. The audit showed \$48 million as being un-reconciled by HSD; Myers and Staffer has spent the first part of 2011 going back to reconcile additional data from 2006 to 2008.

Underlying Issues and Financial Impact

Based on HSD, Myers and Stauffer and Moss Adams reports, the core issue is that HSD failed to properly reconcile data from the Medicaid information system (Omnicaid) and the new SHARE accounting system (implemented in FY07) in a timely manner to ensure the federal reports on actual expenditures (the quarterly CMS-64) were correct or that corrections were submitted in a timely manner. These reconciliation failures had two major consequences. First, there were under-reported expenditures to the federal government on the CMS-64 form. Two areas where expenditures were underreported were sole community hospital expenditures and disproportionate share hospital payments. Failure to receive eligible reimbursements in a timely manner contributed to a cash shortfall which HSD covered by drawing current year Medicaid funds. CMS allows two years for CMS-64 forms to be corrected, but states that miss that initial window must appeal for a waiver, a situation which New Mexico now faces for the \$40.8 million dollars.

Another consequence of failure to properly reconcile data and report properly on the CMS-64 form was that HSD over-billed CMS in certain areas including the personal care option (PCO) and certain provider payments. HSD recovered these overpayments from providers but did not report this to CMS in a timely manner, which led to a build-up of \$50 million liability. This liability was addressed by repaying the federal government approximately \$50 million during the past year (via CMS reducing current year grant of awards). A breakout of the latest information on the \$103 million discrepancy that HSD initially reported in 2010:

Item	Amount in Sept. 2010 Report to LFC	FY10 Audit by Moss Adams	HSD per Myers and Stauffer Report	Current Status
Deferred Medicaid revenue from Federal Government		\$40.8	\$40.8	HSD will seek waiver of 2-year billing limits to get reimbursement for this amount.
Due to Federal Government		\$10.7	\$50.8	Cumulative over-payments from federal government to HSD that have now been repaid.
Due from Federal Government		\$3.2	\$3.2	Underpayments from federal government that have now been reimbursed.
Un-reconciled differences	\$103.0	\$48.5	\$8.2	Still under review.
Grand Total	\$103.0	\$103.0	\$103.0	

Of the initial \$103 million un-reconciled amount the department has received reimbursement for approximately \$3.2 million and has requested a waiver on the two-year limit on requesting

reimbursements for \$40.8 million by submitting revised CMS-64 reports. Failure to receive this waiver would mean the department will likely need a deficiency appropriation for \$40.8 million. Approximately \$50.8 million in over-billings have already been repaid via a reduction by CMS in recent grants of award. For the \$8.2 million that remains to be reconciled, it is not clear at this time the amount of the eventual state liability. At this point the total known shortfall then is approximately \$92 million. HSD is likely to request a deficiency appropriation for during the upcoming legislative session for between \$92 and \$100 million.

Corrective Actions

HSD created an internal task force to research these issues and develop reconciliation quality control procedures; a desktop tool has been implemented to assist in reconciliation of Omnicaid, SHARE, and CMS-64 data monthly and quarterly. In addition to internal workgroups, Myers and Stauffer, LC has presented a detailed analysis of financial claims from July 2006 (implementation date of SHARE) to September 2010 which includes suggestions for improvements in internal policies and procedures. In the July 2011 report Myers and Stauffer notes that detailed policies and procedures for CMS-64 creation and submittal (including work flows) have been completed, and regular meetings among senior staff from the HSD medical assistance division and administrative services division (ASD) are convened on CMS-64 reporting reconciliation issues.

In terms of the provider over-payment issue which led to excessive federal draws, Moss Adams noted in the FY10 financial statement audit that the state was not meeting the 60 day deadline for submitting corrections to address overpayments and there was a lack of consistency in how the overpayments were being reported that led to errors. As a result, the overpayments that should have been reported on the CMS-64 for FY10 were under-reported by \$36 million. HSD responded that they would modify their processes to correctly report over-payments, including verifications that totals reported by the ASD group on the CMS-64 tie to source documents held by the medical assistance division.

HSD will no longer draw from current grant awards to cover expenses reported in prior quarters, a practice that Myers and Stauffer noted did not appear consistent with federal policies. This change will exacerbate the HSD's negative cash balance in the Medicaid account, which at the end of July was \$99.5 million.

Next Steps

LFC staff will monitor the resolution of HSD's request to CMS for the \$40.8 million reimbursement and the \$8.2 million currently not reconciled. LFC staff is seeking additional information on the budget impact of the \$50.8 million reduction in HSD's available Medicaid funds and the size of the potential shortfall given overall Medicaid projected spending trends. Resolution of these matters will influence the size of any potential set aside for a deficiency appropriation or contingent appropriation during the 2012 legislative session. LFC staff will continue to monitor HSD's efforts to ensure accurate and timely reporting of Medicaid data to CMS including any additional reports from Myers and Stauffer and the upcoming FY11 financial statement audit.

