

**REPORT
HIGHLIGHTS**
PERFORMANCE AUDIT

Our Conclusion

The Arizona Health Care Cost Containment System (AHCCCS), which operates the State’s Medicaid program, shares responsibility for determining applicant eligibility with the Department of Economic Security (DES). AHCCCS and DES accurately determined eligibility for almost all Medicaid applicants. However, we calculated that 5.92 percent of the eligibility determinations are at risk for processing errors, and 1.11 percent of eligibility determinations are at risk for being incorrect. Therefore, we estimated that AHCCCS is paying between approximately \$3.5 and \$4.8 million in monthly capitation payments for enrolled but ineligible members. AHCCCS should implement a corrective action plan to address the errors that occur in calculating and verifying income and resources. AHCCCS should also increase its electronic verification of applicants’ citizenship.



2012

Medicaid applicants must be approved through eligibility determination process

Majority of AHCCCS program operates under managed care model—Medicaid is a federal healthcare program for certain low-income individuals and families that is jointly funded by federal and state governments. AHCCCS is Arizona’s state program that provides these benefits to eligible persons primarily through a managed care system. Under this system, AHCCCS contracts with health plans, which coordinate and pay for the medical services AHCCCS members receive from healthcare providers. To cover the costs of coordinating and paying for members’ healthcare, the contracted health plans receive monthly capitation payments for each enrolled member.

Eligibility requirements are established by federal regulations and state law and require documentation of U.S. citizenship or qualified alien status, state residency, and income at or below the prescribed federal poverty level threshold. In Arizona, AHCCCS and DES share responsibility for determining eligibility for Medicaid applicants. As of July 1, 2011, DES performed approximately 82 percent of the eligibility determinations and AHCCCS performed about 11 percent of them. About 7 percent of AHCCCS members are automatically eligible for Medicaid services, such as children born to women who are on Medicaid.

AHCCCS and DES determine eligibility for the Medicaid program—To receive Medicaid services, all applicants must satisfy various Medicaid eligibility requirements and be approved through an eligibility determination process.

Number of Eligibility Determinations and Percentage Approved as Eligible December 1, 2011 through December 31, 2011

Agency	Determinations Performed	Percentage Approved
DES	261,854	55.7%
AHCCCS	13,815	58.7
Total	275,669	55.8

AHCCCS should take some additional actions to strengthen eligibility determination process

5.92 percent of eligibility determination cases are at risk for processing errors—Although AHCCCS and DES appropriately determined the eligibility of approximately 94 percent of applicants, 5.92 percent of eligibility determination cases are at risk for processing errors based on our review of a representative sample of 279 eligibility determinations.¹ We found that 16 of the 279 eligibility

determinations had processing errors, including 9 that did not have verification or documentation of income. For example, in one determination, the caseworker relied on the applicant’s statement of income instead of documentation from the employer. Subsequent documentation showed that the applicant understated monthly income by approximately \$380. In another case, the applicant’s monthly

¹ The 5.92 percent is a weighted error rate we calculated. See the report’s Appendix B, pages b-iii through b-iv.

income was understated by about \$650.

For 7 of the 16 determinations with errors, caseworkers miscalculated the amount of income or resources. Eligibility is based on monthly income, and errors may occur when the caseworker converts weekly or biweekly income into monthly income. For example, in one determination, the caseworker incorrectly entered a monthly income in the computer system that was approximately \$1,065 less than should have been entered.

Processing errors create potential for incorrect eligibility determinations—For 13 of the 16 determinations with errors, the processing errors did not result in an incorrect Medicaid eligibility determination. However, in three cases, the processing errors were of sufficient magnitude to result in incorrect eligibility determinations. In these instances, the caseworkers did not properly verify or correctly calculate the income amount used to make the eligibility determination. As a result, AHCCCS inappropriately paid \$2,359 in capitation payments for these three members over a 7-month period.

Although the number of incorrect eligibility determinations was a small part of the sample cases, they become more important when projected over all Medicaid eligibility determinations AHCCCS and DES performed. Based on the incorrect eligibility determinations identified in the sample, we calculated an incorrect eligibility determination rate of 1.11 percent for the acute care and long-term care programs tested. This means that of the approximately \$414 million in monthly capitation payments that AHCCCS makes for its members in the programs tested, we estimated that AHCCCS is paying its health plans approximately \$3.5 to \$4.8 million monthly for enrolled but ineligible members.

Most error types consistent with federal review—Every 3 years, the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, conducts a Payment Error Rate Measurement (PERM) review to evaluate the accuracy of Medicaid eligibility determinations. The types of errors we identified were similar to the eligibility determination errors identified by the federal fiscal year 2008 PERM review. This PERM review found that Arizona's error rate was 2.2 percent, which was below the national eligibility

error rate of 6.7 percent for the 17 states reviewed that year. AHCCCS received another PERM review in federal fiscal year 2011, and the results are expected in November 2012.

Monies cannot be recovered, but AHCCCS should implement corrective action plan—AHCCCS should develop a corrective action plan that will help it and DES to correct the kinds of processing errors this audit identified as well as to minimize their frequency going forward. Minimizing errors is important because AHCCCS cannot recover the approximately \$3.5 to \$4.8 million in monthly capitation payments made to health plans and providers for ineligible members after AHCCCS and DES officially determined that those members were eligible for Medicaid services unless the information used to make the determinations is proven to be fraudulent. The corrective action plan should include additional caseworker training in areas that are error-prone, and AHCCCS should also assess whether its income and resource policies need clarification.

AHCCCS and DES should make greater use of electronic matching to verify citizenship requirements—Although caseworkers consistently verified social security numbers using electronic matching, they did not consistently use electronic matching to verify income or citizenship. DES has two electronic income verification systems it can use to make such verifications and in June 2011, it enhanced its use of one of these systems for income verification. However, both AHCCCS and DES should make greater use of electronic matching to verify citizenship. In addition, the 2010 Federal Patient Protection and Affordable Care Act requires states to expand their use of electronic verification by 2014, including interfaces with the Social Security Administration for citizenship verification and the Department of Homeland Security for immigration status.

Recommendations:

AHCCCS should:

- Develop a corrective action plan to minimize eligibility determination errors.
- Ensure that it and DES make greater use of electronic means to verify citizenship.