

DMA ADMINISTRATIVE LETTER NO. 20-01, NC Debt Setoff

DATE: FEBRUARY 2, 2001

**Subject: NC Debt Setoff (Tax Intercept) Criteria for
Medicaid Claims in the Enterprise Program
Integrity Control System (EPICS)**

**Distribution: County Directors of Social Services
Program Integrity Supervisors and Staff
Medicaid Eligibility Supervisors and
Caseworkers**

I. BACKGROUND

The purpose of this letter is to explain the procedures for North Carolina Debt Setoff Collection through the Enterprise Program Integrity Control System (EPICS). North Carolina General Statute 105A established a policy that allows the Department of Health and Human Services (DHHS) to identify debtors who owe money to the Medicaid, Work First and/or Food Stamp programs as the result of Intentional Program Violations (IPV) or Inadvertent Household Errors (IHE). This Statute allows DHHS agencies to collect the debt by intercepting income tax refunds through the North Carolina Department of Revenue (DOR).

General Statute 105A-3 requires programs within State agencies to register with DOR before they can participate in the NC Debt Setoff Collection Act. DOR then assigns an "Agency Code" to each program type on the date they register. Therefore, each program has priority for tax intercept based on the date each program registered with DOR. If a debtor who meets the criteria to have his taxes intercepted has claims in multiple DHHS programs that are submitted to DOR at the same time, the intercept of the tax refund is applied in the following order for each program type:

- Child Support – Non-EPICS
- Medicaid – TPR (non-EPICS)
- Food Stamps - EPICS
- Work First/AFDC - EPICS
- Medicaid/NC Health Choice - EPICS

Note: The Division of Medical Assistance applied for a second agency code for Medicaid since debtors are submitted to DOR separately for EPICS and TPR. Since 80% of Medicaid's tax intercepts have been for TPR Medicaid in the past, EPICS Medicaid was assigned the newest DOR agency code.

The focus of this policy issuance is directed at the NC Debt Setoff process for Medicaid and NC Health Choice claims in EPICS.

II. NC DEBT SETOFF PROCESS IN EPICS

A. EPICS automated the previously manual NC Debt Setoff process for Medicaid/NC Health Choice, Food Stamps and Work First/AFDC debtors. The debt setoff process consists of three phases from the time of selection of eligible debtors until a tax refund is intercepted and the payment applied in EPICS.

1. Eligibility for NC Debt Setoff is evaluated separately for each program type: Medicaid/NCHC, Food Stamps and Work First/AFDC.
2. The entire process takes approximately seven weeks from start to finish.
3. A new cycle starts each week as all claims in EPICS are evaluated to determine if they meet the criteria for the debtor to be selected for tax intercept.

B. The three phases of the NC Debt Setoff process are:

- Phase I – Selection of Eligible Claim Debtors and Submission of Files to DOR
- Phase II – Tax Intercept and Notice to Debtor
- Phase III – Application of Payments in EPICS and Refunds to Debtors

III. PHASE I - SELECTION OF ELIGIBLE CLAIM DEBTORS AND SUBMISSION OF FILES TO DOR

A. Selection of Eligible Debtors

1. To be eligible to be selected for NC Debt Setoff for Medicaid/NC Health Choice (NCHC), a debtor's claim(s) must meet the following criteria. Each Medicaid/NCHC claim is evaluated separately to determine if it meets the criteria for selection.
 - a. The debtor must have a SSN (non-duplicated) in EPICS/CNDS.

Note: In the event a debtor is found to have the same SSN as a different person in CNDS, then the debtor will be rejected from the NC Debt Setoff selection process.

- b. The claim must be in Collection Status (CO).
- c. The claim type must be Intentional Program Violations (IPV) or Inadvertent Household Errors (IHE).
- d. The claim must be delinquent. A claim is delinquent when the following conditions are met:
 - 1) The claim Establishment Date, located on the Claim Detail Screen, must be greater than 60 days old. This calculation is made at the time the NC Debt Setoff Selection process runs using the 'current date' for comparison.
 - 2) No cash payments have been made on the claim in more than 60 days.
 - a) EPICS will look to see if any cash payments have been made for the past 60 days.
 - b) EPICS will look to see if any adjustments, ADJ, have been made of offset any payments.
 - c) If the adjustment is equal to the payment, then the payment will not be counted in determining delinquency since no payment is being credited to the claim.
 - d) If the payment is greater than the adjustment, the amount of the adjusted payment will be counted as a payment in determining delinquency since a payment is being credited to the claim.
- e. The total current claim balance for the debtor's eligible claim(s) must be at least \$50.
 - 1) If a debtor has one Medicaid or NCHC claim, the claim balance must be at least \$50; or
 - 2) If a debtor has two or more Medicaid and/or NCHC claims that meet all of the criteria for selection, then the total current balance for all eligible claims are combined into one amount and the total combined amount must be \$50 or greater.

2. The criteria listed above are evaluated for each program type and for each claim separately. This means the debtor may have multiple claims within a program type, such as Medicaid/NCHC, but some of the claims may not meet the criteria for intercept. The debtor may also have claims for more than one program type (i.e., Medicaid and Food Stamps) but only claims for one program type may meet the criteria for intercept. It is possible for a debtor to be submitted for intercept for all three program types at the same time.
3. Claims are re-evaluated every week to determine whether the claim continues to meet all of the criteria for the debtor to be selected for submission to DOR for intercept.
4. Debtors are submitted to DOR based on the debtor's Social Security Number (SSN) that exists in EPICS.

Important Note: If a debtor does not have a valid SSN in EPICS/CNDS, the debtor cannot be submitted for tax intercept. In addition, if an invalid SSN is in EPICS/CNDS, it is possible that a tax refund will be incorrectly intercepted.

B. NC Debt Setoff Indicator in EPICS

1. The NC Debt Setoff indicator, located on the Debtor Detail Screen, shows whether a debtor has been selected for submission to DOR for a possible intercept (Y) and whether the tax refund was actually intercepted by DOR (D). The indicator will have one of the following values:

“ “	Blank
Y	Selected for NC Debt Setoff (system generated)
D	30-Day Notice to Debtor Mailed (system generated)
H	Fair Hearing in Progress (County entered)
L	Litigation in Progress (County entered)
S	State Controller Waived (County entered by State Instruction)
X	Permanently Excluded (State Office Use Only)

2. Blank Indicator - The indicator must be blank for the claim to be evaluated for selection for tax intercept. If the field is blank:
 - a. The debtor has not been identified as being exempt from a potential NC Debt Setoff for this particular claim; or
 - b. The debtor has not been selected for NC Debt Setoff for this particular claim.

3. 'Y' Indicator - If the NC Debt Setoff flag is set to 'Y', the debtor has been selected for NC Debt Setoff for this particular claim and the debtor's SSN has been forwarded to DOR for possible interception of the debtor's tax refund if one exists.
 - a. Each week, EPICS automatically resets all values of 'Y' to a blank space to allow re-selection of the claim and re-submission of an updated file to DOR.
 - b. This permits the most current claim balance to be submitted to DOR for intercept for each program type. As long as the debtor's claim(s) remains eligible for submission to DOR, the debtor's SSN will continue to be matched against DOR's tax refund file.

4. 'D' Indicator - If the NC Debt Setoff indicator is set to 'D', taxes were intercepted from DOR and the debtor has been sent [the 30-Day Notice to Debtor \(DSS-8653\)](#). Refer to VII.C. and [Attachment #2](#), below, for the NC Debt Setoff 30 Day Notice Report (FRD431) that lists all debtors that were intercepted and mailed the Notice to Debtor.
 - a. At this point, the payment has not yet been applied to the EPICS claim and/or a refunded made to the debtor.
 - b. The indicator is set to 'D' until the time period in which the debtor can request an appeal expires and the payment is applied to EPICS and/or the intercept refunded to the debtor.
 - c. EPICS will reset the indicator to a space once the payment and/or refund is applied to the claim. This allows the claim to be evaluated for future NC Debt Setoff if the claim is not paid in full.

5. The following codes indicate a debtor is exempt from NC Debt Setoff: (These codes are used for reasons other than a DOR hearing and are used prior to selection of debtors for NC Debt Setoff.)
 - H = Hearing in progress (fair hearing)
 - L = Litigation in progress
 - S = DHHS Controller waived (county will be notified by the State)
 - X = Permanently excluded (State Office use only)

Important Note: If a debtor is exempt from tax intercept due to a bankruptcy ruling, enter code "L" to exempt the debtor's claim(s) from the selection process.

C. Submission of Files of Eligible Debtors to DOR

1. Each weekend, EPICS creates 3 files (one for each program type) by assigned Agency Code with eligible debtors, their SSNs, and their current claim balances and submits the files to DOR.
2. DOR picks up the 3 files on Tuesday and processes against their Tax Refund File.
3. DOR returns the 3 files to EPICS detailing individual offset amounts by SSN for each debtor whose taxes were successfully intercepted. This information is also sent to the Controllers Office in a written report with the amounts intercepted. At this point the intercepted money has not been sent to DHHS.
4. DOR sends a bi-monthly electronic funds transfer to the DHHS Controllers Office with the intercepted taxes.
5. Once the funds are transferred to DHHS, the DHHS Controllers Office has approximately one week to reconcile the amounts on the intercept reports with the amount of the funds transfer and coordinate any adjustments on the files. Once the totals are reconciled they will notify EPICS that the DSS-8653, Notice to Debtor, can be sent to the debtors.
6. Within 10 days of the electronic funds transfer, EPICS must produce and mail the Notice to Debtor (DSS-8653). Refer to IV., below.
7. EPICS automatically applies payment to the debtor's claim(s) 35 days after the 30-Day Notice to Debtor is dated unless the debtor has requested an appeal and the investigator has keyed the appeal indicator into EPICS.
8. EPICS will apply the payment earlier than the 35th day if the debtor waives the appeal and agrees to the intercept and the investigator keys the appeal waiver code into EPICS.

IV. 30 DAY NOTICE TO DEBTOR (DSS-8653)

A. 30 Day Notice to Debtor

1. Mailing Notice to DOR Address
 - a. Once the tax intercept has occurred, DOR will forward a file to EPICS for each program type with the individual debtor information for each successful intercept and the dollar amount that was intercepted for each debtor.

- b. The DHHS Controllers Office will be responsible for validating the intercepted amounts reported on the files against the funds that are electronically transferred by DOR to DHHS with the intercepted funds. Once this process is completed, DHHS will notify EPICS to send the [Notice to Debtor \(DSS-8653\) \(Attachment #1\)](#).
- c. The Notice to Debtor must be mailed to the debtor within 10 days of receipt of the electronic funds transfer from DOR. If the State fails to send the Notice to Debtor within 10 days, the entire tax intercept amount, the collection fee and interest must be returned to the debtor.
- d. The Notice to Debtor is mailed to the DOR mailing address since this is the address the debtor provided DOR for receipt of their tax refund. This address is reflected on the NC Debt Setoff 30-Day Notice Report.
 - 1) If the notice is returned to the county by the postal service, forward the notice to the mailing address shown in the county's file, if different.
 - 2) If the notice cannot be successfully delivered by the postal service, file the returned notice in the case record.
 - 3) The intercept will be processed since the notice was sent to the best available address known to DOR and the agency.
 - 4) DOR notifies the debtor that their tax refund has been intercepted, in whole or in part, using the same address.
- e. EPICS will provide a [NC Debt Setoff 30-Day Notice Report \(Attachment #2\)](#) that lists;
 - 1) All debtors that were intercepted,
 - 2) The notice balance,
 - 3) The amount intercepted for each program type, and
 - 4) The DOR address used for the Notice to Debtor.
 - 5) Refer to C., below, for more details about this report.

2. Content of Notice to Debtor

- a. The [Notice to Debtor \(Attachment #1\)](#) explains the agency's basis for the claim to the debtor's NC tax refund and the intent to apply the refund against the Medicaid/NC Health Choice, Food Stamp, and/or Work First/AFDC debt(s) owed to the county department of social services.
 - 1) The Notice informs the debtor of his right to contest the tax intercept by filing a written Petition for a hearing with the Office of Administrative Hearings (OAH) within 30 calendar days from the date of the Notice to Debtor.
 - a) General Statute 105A-8 specifies that the debtor cannot contest the action if the debt has been previously litigated in a court proceeding.
 - b) Refer to V., below, for the specific criteria for debtors appealing the intercept.
 - 2) The Notice specifies that failure to request a hearing by the 30th day results in setoff of the claim(s) with the intercepted tax refund.
- b. The Notice includes the debtor's Social Security Number as it exists in EPICS/CNDS, the debtor's name and the mailing address provided by DOR.

Note: This information, including the DOR address, as well as the programs that received the intercepts, are provided on the FRD431 - [NC Debt Setoff 30-Day Notice Report. \(Attachment #2.\)](#)

- c. The Notice reports the current balance owed for the outstanding claim(s) that meets the requirements for NC Debt Setoff for Food Stamps, AFDC/Work First, and/or Medicaid/NC Health Choice that is successfully intercepted. The totals shown are not the amount that is intercepted, but the amount of the eligible claim balance(s) owed to each program that was intercepted.
 - 1) The amount owed is shown for each program type, as well as, the combined total amount owed if the debtor has eligible claims for more than one program type that is successfully intercepted.

Example: The debtor has eligible delinquent claims for Work First of \$200 and Medicaid of \$3,000. The tax refund that is intercepted is \$500. The Notice will show the \$200 amount for Work First and the \$3,000 amount for Medicaid since the

tax refund was large enough to intercept an amount for both programs.

- 2) Only claim balances for the program type that is successfully intercepted is printed on the Notice to Debtor and the FRD431 – NC Debt Setoff 30-Day Notice Report.

Example: The debtor has eligible delinquent claims for Food Stamps of \$200 and Medicaid of \$600. The tax refund that is intercepted is \$100. The Notice will not show the \$600 amount for Medicaid since the tax refund was not large enough to intercept an amount for the Medicaid claim.

- 3) Claims that do not meet the requirements for debt setoff are not included in the totals; therefore, the debtor's actual debt for the program type may be more than is reflected on this notice.

- d. The debtor is informed to contact the Program Integrity Section at the county department of social services listed on the notice if he has questions concerning the intended action.

3. Multiple Notices

- a. It is possible for a debtor to receive multiple copies of the Notice to Debtor if he has eligible claims in different counties that are successfully intercepted.
- b. Each Notice will provide the debtor with the county name, address and telephone number for the county with ownership for the claim(s) shown on the notice.
- c. The 'balance eligible for intercept' for each program shown on the Notice is the cumulated balance(s) for the eligible claims for that county only. It is possible for the cumulated balance shown for each program type to be less than \$50 when there are multiple claims in different counties for the same program type.

Example: The debtor has eligible Medicaid claims of \$30 in County A and \$35 in County B that were successfully intercepted. Although the amounts shown on the notice for each county is less than \$50, the combined total of the two claims is greater than \$50.

- d. The NC Debt Setoff 30-Day Notice Report shows if the debtor has eligible claims that were successfully intercepted in multiple

counties. Refer to VII, below, for detailed information about this report.

B. NC Debt Setoff Indicator

The NC Debt Setoff Indicator, located on the Debtor Detail Screen, is automatically set to 'Y' when the debtor identified with the claim is selected and submitted to DOR for a possible intercept. The indicator is reset to blanks if the intercept is not successful or the claim no longer meets the criteria for selection.

If the tax refund is successfully intercepted for the claim, the indicator is automatically reset to 'D' when the Notice to Debtor is mailed. The indicator is reset to a blank once the payment is applied to the claim and/or the intercepted funds are refunded to the debtor. Refer to III. B., above, for the valid codes for this field.

C. 30 Day Notice Report (FRD431)

The [NC Debt Setoff 30-Day Notice Report \(FRD431\) \(Attachment #2\)](#) lists the debtors whose taxes were successfully intercepted and were mailed the 30-Day Notice to Debtor. The report is produced for each Investigator within the county. The report is also a useful tool for answering questions from a debtor.

D. NC Debt Setoff Pending Intercepts Screen

1. The ["NC Debt Setoff Pending Intercepts" screen \(Attachment #5\)](#) is accessed based on the SSN entered for the debtor.
 - a. Debtors appear on this screen when their taxes have been successfully intercepted.
 - b. The screen is accessed from the Collections Menu.
2. Debtors appear on this screen from the point the Notice to Debtor is mailed to the debtor until the time the payment is applied to the eligible claim(s) and/or the intercepted funds are refunded to the debtor. After the money has been applied as a payment to a claim or as a refund to the debtor, the claims will no longer appear on this screen, as the NC Debt Setoff cycle will be considered complete.
3. The screen has three purposes:
 - a. The screen is used to determine if a debtor has had his NC Income Tax Refund intercepted as a result of the NC Debt Setoff process.

- b. The screen is used to enter or update the NC Debt Setoff Appeal Indicator code when:
 - 1) An appeal has been requested by the debtor,
 - 2) An appeal decision has been reached by OAH, and
 - 3) The right to an appeal is waived by the debtor.
 - c. This screen will allow the user to flow to the following screens for the NC Debt Setoff process:
 - 1) Claim Detail
 - 2) Claim Debtor Detail
 - 3) Payment History by Referral
 - 4) Payment History by Individual
4. In addition to Name, Individual ID, DOB, Race and Sex, the screen displays the following information:
- a. PGM - The program(s) for which there has been an intercept. The programs are shown as: FS = Food Stamps, MED = Medicaid/NCHC, and WF = Work First/AFDC.
 - b. REFERRAL - The Referrals that were eligible to be selected for NC Debt Setoff at the time claims were selected and submitted to DOR. These are the claims that may have some or all of the intercepted money paid towards the outstanding current claim balance once the appeal process is over.
 - c. EST DATE - The Establishment Date for each claim is shown. The claims are shown in date order from the oldest forward for each program type.
 - d. CNTY – The current owner county for the claim.
 - e. CURRENT BALANCE - The current balance for the claim now. The balance may be different than the amount at the time the claim was selected for tax intercept.
 - f. AMOUNT INTERCPTD - The amount of money that was intercepted as a result of the NC Debt Setoff process for each program type (FS, MA and WF).
 - g. INTERCEPT DATE – The date the money was intercepted by DOR.

- h. NOTICE DATE – The date the Notice to Debtor was mailed to the debtor. This date is also printed at the top of the actual notice.
- 5. The screen displays a row for each intercept that has occurred for each program type based on the SSN entered for the debtor.
 - a. A debtor can possibly have up to three intercepts appearing on this screen if he had eligible claims submitted for intercept for Medicaid/NCHC, Food Stamps and Work First/AFDC.
 - b. The screen will also display a row for each eligible claim that was part of the intercept for each program type.
- 6. The Investigator enters the NC Debt Setoff Appeal Indicator code on this screen when an appeal is requested through OAH or the debtor waives his right to an appeal.

Important Note: It is critical that the appeal indicator codes be entered into EPICS in a timely manner as these codes directly impact the application of payments to claims in EPICS and refunds to debtors from the intercepted tax refunds.

- a. The valid appeal indicator codes are:
 - W = Waived Right to Appeal
 - R = Request for an Appeal
 - N = Appeal Denied – In Favor of County
 - Y = Appeal in Favor of Debtor
- b. To enter or update the Appeal Indicator (APL IND) on the screen, key an 'S' in the select column for the referral/claims(s) that is being appealed/waived for the program type.
 - 1) Enter one of the codes listed above beside the referral and press F9 to update the screen.
 - 2) The screen automatically updates the Appeal Indicator for all claims for that program type that are related to that particular NC Debt Setoff.
 - 3) The appeal indicator for claims for other program types are not updated unless an appeal/waiver code is added for that program's claim(s).

V. APPEAL REQUESTS

A. Appeal Requirements

1. The debtor has 30 calendar days from the date of the Notice to Debtor to request a hearing to contest the tax intercept.
2. The debtor must request a hearing by filing a written Petition with the Office of Administrative Hearings and meet all of the following requirements.
 - a. The request for a hearing must be mailed with postage prepaid and properly addressed or delivered by the 30th day after the date on the Notice.
 - b. The debtor must mail or deliver the original and one copy of the Petition requesting the hearing to the Office of Administrative hearings at the following address:

Mailing Address: Office of Administrative Hearings 6714 Mail Service Center Raleigh, NC 27699-6714 (919) 733-2698	Physical Address: Office of Administrative Hearings 424 North Blount Street Raleigh, North Carolina (919) 733-2698
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- c. The debtor must also mail or deliver a copy of the Petition to the agency named as the Respondent on the petition, which is the County Department of Social Services listed on the Notice to Debtor.
 - d. If the debtor does not request a hearing by the 30th day, the debtor has waived the opportunity to contest the action and the intercepted amount of the tax refund will be applied to the claim that is owed to county department of social services on the 35th day.
3. If the debtor waives his right to a hearing, enter the NC Tax Appeal Indicator code of 'W' on the "NC Debt Setoff Pending Intercepts" screen. EPICS will process the payment immediately.

Note: The debtor may wish to waive his right to the appeal if he agrees with the intercept and his current outstanding balance is less than the intercepted amount since EPICS will immediately process the payment and refund due to the debtor. This can occur if a payment was made to reduce or pay off the claim after it was submitted to DOR for the intercept.

B. Debtor Calls DSS to Request a Hearing

1. If the debtor wants to contest the tax intercept, the debtor must request the hearing through the Office of Administrative Hearings (OAH) by filing a Petition for the hearing.
2. Inform the debtor that he must contact OAH at the address or telephone number shown above or shown on the Notice to Debtor that he received. OAH will provide the debtor with information regarding the specific requirements to request the hearing.
3. The debtor is required to file an original and one copy of the petition with OAH and a copy must be served on the opposing party, which is the county department of social services.
4. See [Attachments #6 and #7](#) for a copy of the "Petition for a Contested Case Hearing" and the OAH instructions for completing the form.
5. Additional information regarding the Office of Administrative Hearings is available at: <http://www.oah.state.nc.us/hearings>

C. Debtor Files Petition For A Hearing

1. If the debtor files a Petition for a hearing, enter the NC Tax Appeal Indicator code of 'R' on the "NC Debt Setoff Pending Intercepts" screen by the 35th day from the date of the Notice to Debtor. Refer to IV.D., above, for details about the screen.

Important Note: If the appeal indicator is not keyed into EPICS by the 35th day, the intercepted amount will be applied as a payment against the eligible claim(s).

- a. When the value of 'R' is present in this field, a payment/refund cannot occur as the debtor is still in the 'Request Appeal' stage of the appeal.
 - b. The code will remain unchanged until the Investigator updates the code when the hearing decision is reached.
 - c. If the appeal is in favor of the debtor, it is important to update the Appeal Indicator code immediately as interest is accruing for every day the money is held until the intercepted funds are refunded to the debtor.
2. The valid Appeal Indicator codes for the NC Debt Setoff Pending Intercepts screen are as follows:

W	Waived Right to Hearing	EPICS will process payment(s) immediately after the county keys the "W" code.
R	Request for an Appeal by Debtor	EPICS will not process payment(s) regardless of the time elapsed since the 30-Day Notice to Debtor was mailed once the county keys the "R" code.
N	Appeal Denied - In Favor of the State/County	EPICS will process payment(s) immediately after the county keys the "N" code.
Y	Appeal in Favor of Debtor	EPICS will not process payment. The DHHS Controllers Office will immediately issue a refund to the debtor for the amount intercepted by DOR (plus any interest accrued and possible collections fee). Note: The county must delete the "Y" code once the Controllers Office issues the refund to the debtor.

D. Hearing Decision Reached

1. Once a hearing decision is reached by OAH, immediately update the Appeal Indicator code with 'Y' or 'N' on the NC Debt Setoff Pending Intercepts screen depending upon the hearing decision. Use the appropriate code as listed in B., above.
2. If the hearing decision is in favor of the county (code 'N'), EPICS will process the payment/refund immediately and the appeal indicator will automatically be reset to 'space.' This will allow any claims with an outstanding balance to be evaluated for future NC Debt Setoff selections.
3. If the hearing decision is in favor of the debtor (code "Y"), the DHHS Controllers Office will immediately issue a manual refund to the debtor, plus any interest accrued and possible collections fee.
 - a. Since no payment is credited through EPICS, the "Y" value will remain on the on the NC Debt Setoff Pending Intercepts screen until the Investigator removes it.
 - b. Any debtor that has a "Y" in the Appeal Indicator will not be eligible for DOR selection until the Investigator changes the "Y" to a space. The debtor will appear on the ["Claims Exempt From NC Debt Setoff Report" \(FRD429\) \(Attachment #4\)](#) until the "Y" is deleted.

VI. APPLICATION OF PAYMENTS IN EPICS

A. Scheduling for Applying Payments

The apply payment process will run every business night searching for any intercepts that are eligible to be applied to claim balances. This will occur when the appeal process has completed. This process will occur after the 35th day if no appeal is requested, when the code to waive the appeal rights is entered into EPICS, or when the hearing decision code is entered into EPICS.

B. How Payments Are Applied

1. EPICS receives 3 files from DOR, one for each program type: Medicaid/NC Health Choice, Food Stamps and Work First/AFDC. Once the appeal process has been fulfilled, EPICS applies the payment across all eligible claims that were initially selected for submission to DOR for each program type that has an intercept.
 - a. DOR intercepts money for one program type at a time for any given debtor's SSN based on the program's priority number.
 - b. If the tax refund available to be intercepted from DOR is larger than the debt owned for the eligible claims for a single program type, then EPICS can potentially receive an intercept for all three program types for any given debtor.

Example: Amount available for intercept is \$1,000. The debtor has eligible claims submitted to DOR for FS for \$400, WF for \$200 and MA for \$700. The first intercept is for FS. Since there is \$600 still available for intercept, the next intercept is for WF. Since \$400 remains to be intercepted, the next intercept is for MA. If the claim balances remain the same at the time the payments are applied in EPICS, the FS and WF claims will each be paid in full. The current balance for the MA claim will be reduced to \$300.

- c. If the amount intercepted from DOR is for eligible claims for one program type only, then no portion of the amount can be applied to any additional claims for that program or to the claims for any other program type.

Example: If an amount is intercepted for the Medicaid program and a portion of the refund must be refunded to the debtor, this excess amount cannot be applied to any additional Medicaid claims that were not eligible to be submitted for tax intercept. In addition, it

cannot be applied to any Food Stamp or Work First claims. The excess amount must be refunded to the debtor.

2. The intercepted amount can be applied to one or more claims within a program type, provided the claims were originally selected for NC Debt Setoff.
 - a. When the payment for the intercepted amount is applied, the payment will be applied to the oldest claim first based on the Establishment Date of the claim.
 - b. The balance of the intercepted amount will be applied to the remaining claims based on the Establishment Date for each claim.
 - c. If there are two or more claims with the same Establishment Date, the payment will be randomly applied to one or more of the claims.
3. If the claim is paid in full by the intercepted funds, the claim/referral is closed in EPICS.
4. If the claim is not paid in full, the outstanding balance is reduced by the payment amount.
5. The method of payment for all NC Debt Setoff payments is recorded as an "N" and is seen on the Payment History by referral and Payment History by Individual ID screens.

C. NC Debt Setoff Indicators and the Appeal Indicators

1. After the intercepted amount has been applied, refunded or both, all of the claims that were included in that particular intercept will have their NC Debt Setoff Indicator, located on the Debtor Detail screen, set from 'D' back to a blank space by EPICS.
2. The Appeal Indicator, located on the NC Debt Setoff Pending Intercepts screen, will be reset to a blank space by EPICS once the intercepted amount has been applied, refunded to the debtor or both, except when the Appeal Indicator is set to 'Y'. The Investigator must reset the 'Y' indicator after the refund is made to the debtor. (Refer to V. C., above.)
3. The claim is reset to a blank space to allow the unpaid claims with an outstanding balance to be evaluated for future DOR selection.

D. Refunds to Debtors

1. The DHHS Controllers Office will mail NC Debt Setoff refunds to the debtor. The refund checks will be written twice weekly, on Tuesday and Friday. All refunds will appear on the "Refund Report for TOP and DOR Over Collections" (FRD105).
2. If the tax intercept amount exceeds the total amount owed by the debtor for the program type at the time the payment is applied to the eligible claim(s), the remainder of the intercepted amount must be refunded to the debtor. This will not occur unless a payment is made on the claim after it is submitted to DOR for intercept.
3. If the status of the debtor's claim(s) changes after the claim is selected for intercept and submitted to DOR, the payment will still be applied to the selected claims if there is an outstanding balance.
 - a. If the intercepted amount is greater than the amount of the debt at the time the payment is applied to the claim(s), the over-collected amount, as well as accrued interest, will be refunded to the debtor.
 - b. The collection fee will not be refunded to the debtor.
4. There are exceptions that may come about between the time the debtor was intercepted by DOR and the time the application of payment actually occurs. These exceptions will appear on the Exception Log Report received by the State for further investigation. They include:
 - a. The debtor has been deleted.
 - b. The claim changes to Closed Status, "CL" (i.e. Balance gets paid off).
 - c. The claim changes to some other status (i.e. Transfer Status, "TR").

VII. REPORTS FOR NC DEBT SETOFF

A. Claim Debtors Exempt From NC Debt Setoff Report (FRD429)

1. The ["Claim Debtors Exempt From NC Debt Setoff Report" \(Attachment #4\)](#), provides a list of all claims for a debtor that are currently exempt from the NC Debt Setoff process.
 - a. The report contains the Name, Program, SSN, Individual ID, Referral ID, Case ID, NC Debt Setoff Indicator and the NC Tax Appeal Indicator.

- b. The report is produced by Investigator ID in each county.
2. The Selection Criteria for this report follows:
 - a. All debtors that have the NC Debt Setoff Indicator code H, L, S or X.
 - b. All debtors that have the NC Debt Setoff Tax Appeal Indicator set to R or Y.
3. This report is sorted by Individual Name and Program Type.
4. The report is produced every time the DOR Select Process runs (weekly) and will be mailed to the counties. It is also available for viewing in XPTR.

B. Claims Selected For NC Debt Setoff Report (FRD213)

1. The [FRD213 – “Claims Selected for NC Debt Setoff Report” \(Attachment #3\)](#), lists all debtors that have been selected, not intercepted, for NC Debt Setoff.
2. The report lists the debtors that were selected and submitted to DOR for a possible tax intercept. This report does not record whether the debtor had a NC tax refund intercepted. Note: Debtors that have a tax intercept are listed on the [FRD431 – “NC Debt Setoff 30-Day Notice Report.”](#)
 - a. If a debtor has claims for more than one program type that are eligible for NC Debt Setoff, they will appear on this report for each different program type.
 - b. The report contains the Name, Program, SSN, Individual ID, Referral ID, Case ID, Claim Balance, Claim Category and Claim Status.
 - c. The report is produced by Investigator ID in each county.
3. The Selection Criteria for this report are listed in III.A., above.
4. The report is sorted by Individual Name and Program Type.
5. The report is produced every time the DOR Select Process runs (weekly) and will not be mailed to the counties.
6. This report is available for viewing in XPTR.

C. The NC Debt Setoff 30-Day Notice Report (FRD431)

1. The [NC Debt Setoff 30-Day Notice Report \(Attachment #2\)](#) lists the names of the debtors whose tax refunds were intercepted and mailed the Notice to Debtor.
2. The selection criteria for this report follows:
 - a. This report will only be produced after approval from the DHHS Controllers Office that the incoming DOR files correspond with their DOR electronic file Transfer Control Report.
 - b. If a debtor has been intercepted for multiple programs, (Medicaid, Food Stamps and/or Work First) they will appear on this report. The debtor will received one 30-Day Notice to Debtor when all eligible claims are in the same county and the intercept is on the same date.
 - c. If a debtor is intercepted for one program, but the claims that create the intercept exist in different counties, then the debtor's intercept will appear under "both" County/Investigator sections of the report. When this occurs, the "MULTI COUNTY" Column will contain a 'Y'. If this situation does not arise, the column will be blank.
3. This report is sorted by Individual Name and Program Type.
4. This report is produced every time the DOR 30-Day Notice Process runs (bi-weekly) and will not be mailed to the counties.
5. It is available for viewing in XPTR.

If you have any questions about this policy, please contact your county's Medicaid Program Representative or the Quality Assurance Section's Recipient Investigations Unit for assistance.

Paul R. Perruzzi
Director

[This material was researched and prepared by Pattie Woolard and Debbie Chamblee, Quality Assurance Section.]