

**Memorandum**

Date SEP 12 1995

From June Gibbs Brown
Inspector General *June G Brown*

Subject Follow-up Audit of the Health Care Financing Administration's Resolution of Two
Office of Inspector General Audits Related to Inpatient Alcoholism Claims Made by
New York State (A-02-94-01026)

To

Bruce C. Vladeck
Administrator
Health Care Financing Administration

Attached are two copies of our final audit report entitled, "Follow-up Audit of the Health Care Financing Administration's Resolution of Two Office of Inspector General Audits Related to Inpatient Alcoholism Claims Made by New York State." This report provides you with the results of our follow-up audit of the Region II Health Care Financing Administration's (HCFA) resolution activities in clearing audit recommendations identified in two Office of Inspector General (OIG) reports concerning free-standing inpatient alcoholism providers. The purpose of our follow-up audit was to determine the extent of resolution activities undertaken and assess whether the resolution activities were appropriate, effective, and timely.

The first OIG report entitled, "Review of Medical Assistance Payments Made By The New York State Department of Social Services To Five Free-Standing Inpatient Alcoholism Providers After A Federally-Sponsored Demonstration Project In Which They Participated Had Ended" was performed under Common Identification Number (CIN) A-02-91-01030, and covered the period December 1, 1985 to October 31, 1990. The second OIG report entitled, "Review of Medical Assistance Payments Made By The New York State Department of Social Services To Eight Free-Standing Alcoholism Providers" was performed under CIN A-02-91-01033, and covered the period April 1, 1987 to October 31, 1990. Because of the similarity of the issues and recommendations, New York State (NYS) and HCFA coupled the two audit reports together for resolution purposes.

In the two prior reports, we recommended that NYS: (1) refund \$3,886,647 of improper payments identified during the two audit periods, (2) cease claiming Federal financial participation (FFP), (3) develop edits or controls to prevent future improper claiming, and (4) identify and return unallowable amounts claimed subsequent to our October 31, 1990 audit cut-off date.

Our follow-up review disclosed that HCFA in Region II properly closed recommendation number one by sustaining and recovering \$3,886,647, identified in the original audits, from NYS. With respect to recommendations number two and three, HCFA properly cleared the recommendations but had not closed them because they were working with NYS on a State Plan Amendment. However, we determined that HCFA improperly closed recommendation number four after receiving a voluntary refund of \$654,982 from NYS for periods subsequent to our October 31, 1990 audit cut-off date. Our review found that contrary to its resolution procedures, HCFA did not perform validation work on the reasonableness of this amount. As part of our follow-up review, we performed computer programming applications similar to those run during our original two audits which tested the accuracy of New York's \$654,982 refund amount. Based on this work, we identified an additional refund amount of \$5,692,079 which is due the Federal Government. However, we determined that the State had voluntarily changed its shares funding ratios as of May 8, 1993 so that no FFP would be claimed after this date. Our actual test period extended to March 31, 1994, however, we found no claims for FFP subsequent to May 8, 1993.

Based on our follow-up review, we recommend that HCFA: (1) utilize the information we have developed to take all necessary action to recover the additional \$5,692,079 (Federal share) not returned by NYS through its voluntary refund computations, (2) strengthen its resolution procedures to ensure that proper testing is done to validate the reasonableness of future refund amounts computed by NYS, and (3) obtain relevant electronic data processing training for its resolution staff and/or make appropriate provisions to obtain the necessary expertise to resolve recommendations involving computer programming and systems' issues. In a May 16, 1995 response, officials of HCFA Region II generally concurred with the findings and recommendations contained in our follow-up audit report.

We would appreciate your views and the status of any further action taken or contemplated on our recommendations within the next 60 days. If you have any questions, please call me or have your staff contact George M. Reeb, Assistant Inspector General for Health Care Financing Audits, at (410) 966-7104. Copies of this report are being sent to other interested top Department officials.

To facilitate identification, please refer to Common Identification Number A-02-94-01026 in all correspondence relating to this report.

Attachments

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**FOLLOW-UP AUDIT OF THE
HEALTH CARE FINANCING ADMINISTRATION'S
RESOLUTION OF TWO
OFFICE OF INSPECTOR GENERAL AUDITS
RELATED TO INPATIENT ALCOHOLISM CLAIMS
MADE BY NEW YORK STATE**



**JUNE GIBBS BROWN
Inspector General**

**SEPTEMBER 1995
A-02-94-01026**

**Memorandum**

Date SEP 12 1995
From June Gibbs Brown
Inspector General *June Gibbs Brown*
Subject Follow-up Audit of the Health Care Financing Administration's Resolution of Two
Office of Inspector General Audits Related to Inpatient Alcoholism Claims Made by
To New York State (A-02-94-01026)

Bruce C. Vladeck
Administrator
Health Care Financing Administration

This report provides you with the results of our follow-up audit of the resolution activities of the Health Care Financing Administration (HCFA) in Region II in clearing audit recommendations contained in two separate audit reports issued by the Office of Inspector General (OIG), Office of Audit Services (OAS). Because of the similarity of the issues and recommendations, New York State (NYS) and HCFA coupled the audit reports together for resolution purposes. The two audit reports concerned the improper claiming of Federal financial participation (FFP) by NYS for inpatient alcoholism services provided at 13 free-standing inpatient alcoholism providers.

The first OIG report entitled, "Review of Medical Assistance Payments Made By The New York State Department of Social Services To Five Free-Standing Inpatient Alcoholism Providers After A Federally-Sponsored Demonstration Project In Which They Participated Had Ended" was performed under Common Identification Number (CIN) A-02-91-01030, and covered the period December 1, 1985 to October 31, 1990. The second OIG report entitled, "Review of Medical Assistance Payments Made By The New York State Department of Social Services To Eight Free-Standing Alcoholism Providers" was performed under CIN A-02-91-01033, and covered the period April 1, 1987 to October 31, 1990.

The two original audit reports contained four recommendations each which required resolution by HCFA. The first recommendation was that NYS should refund \$3,886,647 of improper payments identified during the two audit periods to the Federal Government. The second recommendation directed NYS to cease claiming FFP for inpatient services provided in free-standing alcoholism facilities. Recommendation three instructed the State to develop edits or controls within their Medicaid Management Information System (MMIS) to prevent the improper claiming of FFP in the future. Finally, the fourth recommendation directed NYS to

identify and return the unallowable FFP claims to Medicaid made for periods subsequent to our October 31, 1990 audit cut-off.

Our follow-up review disclosed that HCFA properly closed recommendation number one by sustaining and recovering \$3,886,647, identified in the original audits, from NYS. With respect to recommendations number two and three, HCFA properly cleared the recommendations but had not closed them because they were working with NYS on a State Plan Amendment. Finally, HCFA improperly closed recommendation number four after receiving a voluntary refund of \$654,982 from NYS. Our review disclosed that contrary to its resolution procedures, HCFA did not perform validation work on the reasonableness of this amount. As part of our follow-up review, we performed computer programming applications similar to those run during our original two audits which tested the accuracy of New York's \$654,982 refund amount. Based on this work, we identified an additional refund amount of \$5,692,079 which is due the Federal Government. We recommend that HCFA: (1) utilize the information we have developed to take all necessary action to recover the additional \$5,692,079 (Federal share) not returned by NYS through its voluntary refund computations, (2) strengthen its resolution procedures to ensure that proper testing is done to validate the reasonableness of future refund amounts computed by NYS, and (3) obtain relevant electronic data processing (EDP) training for its resolution staff and/or make appropriate provisions to obtain the necessary expertise to resolve recommendations involving computer programming and systems' issues. In a May 16, 1995 response, officials of HCFA Region II generally concurred with the findings and recommendations contained in our follow-up audit report.

Background

This follow-up audit pertains to two audit reports issued by the OAS. The first audit report is entitled Review of Medical Assistance Payments Made By The New York State Department Of Social Services To Five Free-Standing Inpatient Alcoholism Providers After A Federally-Sponsored Demonstration Project In Which They Participated Had Ended. This report was issued on December 20, 1991 under Common Identification Number (CIN) A-02-91-01030. The second audit report is entitled Review of Medical Assistance Payments Made By The New York State Department of Social Services To Eight Free-Standing Inpatient Alcoholism Providers. This report was issued on April 9, 1992 under CIN A-02-91-01033. The audit cut-off date for both reports was October 31, 1990.

The original audit reports noted that the NYS Department of Social Services (DSS) improperly claimed FFP for inpatient alcoholism services provided at

13 free-standing inpatient alcoholism facilities. The claims were ineligible for FFP because free-standing inpatient alcoholism facilities were not covered under the Federal Medicaid program.

Scope of Audit

Our follow-up audit was performed in accordance with generally accepted government auditing standards to the extent applicable in the circumstances. The audit was also performed in accordance with Chapter 20-19 of the Office of Audit Services' Audit Policies and Procedures Manual which provides guidance for performing follow-up reviews.

The objective of our review was to determine whether HCFA monitored corrective actions and cleared the reports' recommendations in an appropriate and timely manner. In this regard, the Office of Management and Budget Circular A-50 establishes procedures to ensure that audit findings are resolved in a timely and efficient manner. Audit follow-up officials are responsible for ensuring that (1) systems of audit follow-up, resolution, and corrective action are documented and in place, (2) timely responses are made to all audit reports, (3) disagreements are resolved, (4) corrective actions are actually taken, and (5) that semiannual reports to the agency head are submitted on the status of all unresolved audit reports over 6 months old. In addition, Chapter 1-105 of the HHS Grants Administration Manual sets forth Department policy for the resolution of audit findings.

Our audit effort included determining the extent of resolution activity undertaken and assessing whether the resolution action was appropriate and timely. We also performed various computer programming applications at the MMIS fiscal agent to test the reasonableness of the voluntary refund computed by NYS. Our programming applications covered the period November 1, 1990 to March 31, 1994. In performing the audit, we held discussions and obtained documentation from Federal resolution officials and conducted a limited review of HCFA's internal controls and procedures covering the resolution of audit findings.

Our audit field work was conducted at HCFA Region II, at NYS DSS, at the MMIS fiscal agent, and at the Albany, New York OAS Field Office during the period June 1, 1994 through February 16, 1995.

RESULTS OF AUDIT

Our follow-up review noted that in closing the first recommendation, refund \$3,886,647 of improper payments identified during the two audit periods, HCFA

sustained the recommendation and properly recovered our calculated disallowance amount of \$3,886,647. The HCFA's resolution activities related to our first recommendation were timely and appropriate.

We also determined that HCFA has properly classified recommendations two, cease claiming Federal financial participation (FFP), and three, develop edits or controls to prevent future improper claiming, from our original reports as cleared but not yet closed. We believe that the cleared status is appropriate because HCFA and NYS have been working on a State Plan Amendment which would impact on both of these recommendations. However, this Amendment had not been approved by HCFA as of February 16, 1995. Below is a brief history of the State Plan Amendment correspondence between HCFA and NYS.

The HCFA received State Plan Amendment 91-18, entitled Rehabilitative Services Provided in Freestanding Alcoholism Residential Treatment Facilities, from NYS on April 1, 1991. On June 10, 1991, HCFA wrote to the Commissioner of NYS DSS requesting clarification of certain issues related to the Amendment and indicated that HCFA's processing of the State Plan submittal will cease until a reply is received. On March 23, 1993, or over 21 months later, the Commissioner of NYS DSS provided a draft response to HCFA's June 10, 1991 request. On June 2, 1993, the Acting Commissioner of NYS DSS provided what he termed a final response to the June 10, 1991 request. In correspondence dated July 29, 1993, the NYS DSS State Plan Coordinator wrote to HCFA and stated that the State's June 2, 1993 letter should now be considered a draft rather than a final response. On September 1, 1993, HCFA wrote to the Commissioner of NYS DSS and indicated that before HCFA can proceed with further action on the Amendment, certain concerns must be addressed by the State. On September 15, 1993, the NYS DSS State Plan Coordinator provided what was termed an interim response which indicated that when a final response is completed by DSS, it will be forwarded to HCFA. As of February 16, 1995, a final response had not been sent to HCFA and the proposed State Plan Amendment remains unapproved.

Based on the uncertainty of the State Plan Amendment, we believe that HCFA has properly classified recommendation number two from our original reports as cleared but not closed.

With respect to recommendation number three, HCFA requested that its Region II Medicaid Payment and Systems Branch (MPSB) provide assistance in resolving the MMIS edit recommendations contained in our reports. However, officials from MPSB indicated that no work on the edit recommendations would be performed pending resolution of the State Plan Amendment. Accordingly, NYS had not established any edits within its MMIS to prevent the improper claiming of

FFP from occurring in the future. However, we determined that the State had voluntarily changed its shares funding ratios as of May 8, 1993 so that no FFP would be claimed after this date. Until the State Plan Amendment is processed and an assessment made regarding the need for a permanent edit, HCFA has properly classified recommendation number three from our original reports as cleared but not closed.

In our opinion, HCFA should encourage NYS to finalize its position on the Amendment so HCFA can render a decision and take action to close recommendation numbers two and three.

With respect to recommendation number four, identify and return unallowable amounts claimed subsequent to our October 31, 1990 audit cut-off date, HCFA improperly closed this recommendation after receiving New York's voluntary refund of \$654,982. Based on our review of HCFA's files and discussions with the resolution staff, we determined that HCFA did not perform validation work to establish the reasonableness and accuracy of the \$654,982 refund amount computed by the State. In discussing the matter with HCFA Regional officials, we were informed that the absence of EDP expertise on the HCFA resolution staff hampers their efforts in resolving technical computer programming and systems' issues. However, we noted that HCFA's resolution procedures require them to take all actions necessary to fully resolve the recommendations in our reports. Those procedures require them to either perform the resolution activities themselves or obtain assistance from others who have the necessary expertise. An effective resolution system must include validation work to establish the reasonableness and accuracy of refunds computed by NYS.

As part of our audit, we met with NYS officials to obtain documentation on the voluntary refund amount. However, we were informed that the documentation had not been retained and State officials could not explain how the refund was computed or the period it covered. In order to try and establish the reasonableness of the voluntary refund, we performed various computer programming applications at the MMIS fiscal agent that were similar to those run during our original audits. These applications indicated that NYS improperly claimed an additional \$6,347,061 FFP for the period November 1, 1990 to May 8, 1993, when NYS voluntarily changed its shares funding ratio so that FFP was no longer claimed. Our actual test period extended to March 31, 1994, however, we found no claims for FFP subsequent to May 8, 1993. Of the \$6,347,061 amount, \$5,508,157 relates to the 13 free-standing inpatient alcoholism facilities included in our original two reports and \$838,904 relates to 3 additional facilities for which NYS began to claim FFP subsequent to our original audit periods.

In summary, our audit disclosed that the voluntary refund of \$654,982 FFP computed by NYS and accepted by HCFA was materially understated. Based on our follow-up audit, HCFA needs to recover an additional \$5,692,079 (\$6,347,061 less \$654,982) from NYS. Appendix A of our report shows the improper FFP amounts claimed by all 16 (13 plus 3) free-standing inpatient alcoholism facilities.

Recommendations

Based on our follow-up review, we recommend that HCFA:

1. Utilize the information we have developed to take all necessary action to recover the additional \$5,692,079 (Federal share) not returned by NYS through its voluntary refund computations.
2. Strengthen its resolution procedures to ensure that proper testing is done to validate the reasonableness of future refund amounts computed by NYS.
3. Obtain relevant EDP training for its resolution staff and/or make appropriate provisions to obtain the necessary expertise to resolve recommendations involving computer programming and systems' issues.

HCFA's Comments

In their comments dated May 16, 1995, officials of the Region II HCFA generally concurred with the findings and recommendations contained within our report. Regarding recommendation number one, officials indicated that the \$654,982 computed by NYS was for the period November 1, 1990 to December 31, 1991 whereas our \$6,347,061 was to March 31, 1994 and included three additional providers. The HCFA officials indicated that they will work with NYS to recover any additional amounts due the Medicaid program.

With respect to recommendation number two, HCFA officials concurred that supporting documentation must be reviewed to determine the reasonableness of refunds computed by NYS. However, they stated that at the time of New York's voluntary refund, the responsibility for audit closures was transferred from their New York City office to their Albany office and that Albany staff had not been fully briefed and trained in all audit closure protocols.

Finally, regarding recommendation number three, HCFA officials stated that on some occasions they have requested their own systems staff in New York City or the OIG to provide the necessary computer programming expertise. The HCFA

officials indicated that the OIG has staff stationed at the MMIS fiscal agent in Albany, New York, and as such, requests that we provide their Albany staff with the necessary training or briefings so that they can perform the needed computer programming and systems applications. The HCFA Region II's comments are provided in their entirety in Appendix B of this report.

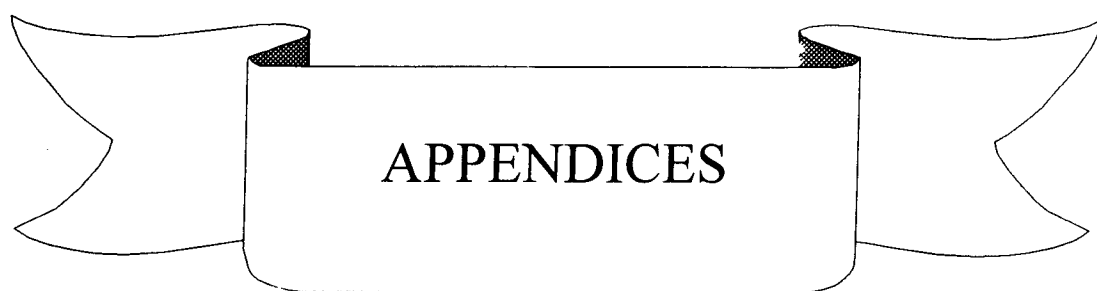
OIG Response

We are pleased to note that HCFA Region II officials generally concur with the findings and recommendations contained within our report.

With respect to HCFA's comments that New York's voluntary refund amount of \$654,982 was to December 31, 1991 and that our computations extended to March 31, 1994 and included three additional providers, we would like to point out that our computer programming applications found that by December 31, 1991, NYS had already improperly claimed \$2,320,828 of the \$6,347,061 we identified. The three additional providers accounted for only \$233,054 of the \$2,320,828 leaving a balance of \$2,087,774 improperly claimed by NYS as of December 31, 1991 for the 13 original providers. Clearly, we believe that HCFA should have determined the reasonableness of New York's voluntary refund computations. If they had done so, they would have determined that the amount returned was materially understated. Furthermore, HCFA should not have closed the recommendation since New York continued to improperly claim FFP well beyond December 31, 1991.

Based on the above, we continue to recommend that HCFA utilize the information we developed to recover the additional \$5,692,079 (Federal share) not returned by NYS through its voluntary refund computations and that it tighten and strengthen those resolution procedures we identified by our follow-up audit.

With respect to their comments on training needs, we believe that HCFA officials must first assess which resolution staff members have the appropriate educational background, interest, aptitude, and knowledge of computer systems. Then, HCFA officials should arrange for those staff members to obtain sufficient outside training to ensure that they become proficient in computer programming languages such as Easytrieve and Job Control Language programming. With this requisite educational background, supplemental training on the specifics of the MMIS could then be provided by State officials, their fiscal agent, and members of the OIG.



APPENDICES

FOLLOW-UP OF TWO INPATIENT ALCOHOLISM AUDITS

For the Period November 1, 1990

Through March 31, 1994

Common Identification No. A-02-94-01026

SUMMARY OF THE UNALLOWABLE
FEDERAL SHARE AMOUNTS

<u>PROVIDER NAME</u>	<u>FFP AMOUNT QUESTIONED</u>
Alcoholism Services of Erie County	\$ 644,292
Syracuse Brick House	328,729
Health Association of Rochester and Monroe County	453,737
Nassau County Dept. of Drug and Alcohol Addiction	113,601
St. Joseph's Rehabilitation Center	465,555
Albany Citizen's Council On Alcoholism	0
Redirections	473,648
S.V.C. Services	199,026
Veritas Villa	220,000
Eight Twenty River Street	169,277
Crouse-Irving Company	1,087,524
St. Peter's Addiction Recovery Center	961,853
Can Am Youth Services	<u>390,915</u>
Subtotal - Original 13 Providers	<u>5,508,157</u>
St. Regis Mohawk Health Service	2,064
Salamanca District Hospital Authority	714,652
Berkshire Farm Center	<u>122,188</u>
Subtotal - Three New Providers	<u>838,904</u>
Total FFP Questioned For The Period 11/1/90 To 5/8/93 (See Note below)	\$ 6,347,061
Less: Voluntary Adjustment Processed By NYS DSS	< <u>654,982</u> >
Total FFP To Be Recovered	\$ <u>5,692,079</u>

AUDIT NOTE:

The first 13 providers were included in our original audits. NYS began claiming FFP for the last 3 providers subsequent to our October 31, 1990 original audit cut-off date. Our computer analysis and above calculations covered the period November 1, 1990 to March 31, 1994. However, as our analysis indicated that NYS ceased claiming FFP for all 16 providers by May 8, 1993, we used this date for reporting purposes.



DEPARTMENT OF HEALTH & HUMAN SERVICES

APPENDIX B
(Page 1 of 2)

Health Care
Financing Administration
Region II

Memorandum

Date

MAY 16 1995

DMD:MFMB:4

HHS/OIG
OFFICE OF AUDIT
NEW YORK REGIONAL OFFICE

MAY 16 1995

From Associate Regional Administrator
Division of Medicaid

To Regional Inspector General
for Audit Services

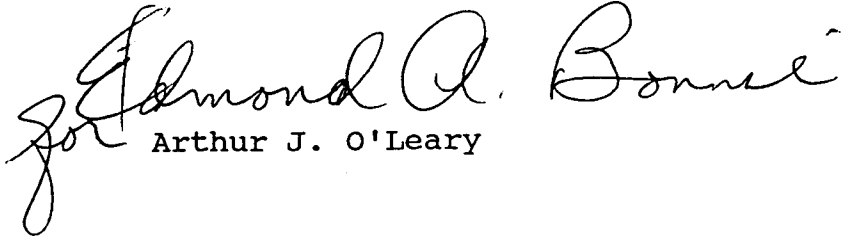
Subject Comments on Draft Audit Report Entitled "Follow-Up Audit of the Health Care Financing Administration's Resolution of Two Office of Inspector General Audits Related to Inpatient Alcoholism Claims Made by New York State" (CIN A-02-94-01026)

HCFA has reviewed the subject report and has the following comments:

1. The voluntary refund computation by New York totaled \$654,982 for the period from 11/01/90 through 12/31/91. The amount identified by the OIG to be recovered totaled \$6,347,061. The OIG's scope extended beyond 12/31/91 to 3/31/94 and included three additional providers not included in the original audits or the State's voluntary refund. HCFA will work with the State to reconcile the difference and recover any additional amounts due the Medicaid program.
2. HCFA concurs that supporting documentation must be reviewed to determine the reasonableness of any voluntary refund. The necessary validation step was not taken in this instance because the credit was received at an unusual time. It was received at about the same time that the audit closure responsibility for all New York audits was transferred from the New York City office to the Albany office, and the Albany office had not yet been fully briefed/trained in all audit closure protocols.
3. As you know, on some occasions HCFA has requested its own systems staff in New York City or the OIG, itself, to provide this kind of technical expertise in the past. The OIG has staff stationed at the fiscal agent in Albany, and some of HCFA's accountants in Albany possess some systems expertise. Therefore, HCFA requests that OIG provide the necessary briefing/training so that its outstationed accountants can perform prospectively the kind of computer programming and systems applications that OIG's outstationed auditors have performed previously.

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If you have questions, your staff may contact Harry Ellowitz of my staff at (518) 486-5197.


for Arthur J. O'Leary