DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

REGION V
OFFICE OF
INSPECTOR GENERAL

June 30, 2004

Report Number: A-05-03-00067

Ms. Helene Nelson
Secretary
Wisconsin Department of Health and Family Services
1 W. Wilson Street, Room 650
Madison, Wisconsin 53702

Dear Ms. Nelson:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Audit of Medicaid Family Care Administrative Costs Claimed for the Period October 1, 1999 through December 31, 2002." A copy of this report will be forwarded to the action official noted below for review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please refer to report number A-05-03-00067 in all correspondence.

Sincerely,

Paul Swanson

Paul Swanson
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Ms. Cheryl Harris
Associate Regional Administrator
Division of Medicaid and Children's Health
Centers for Medicare & Medicaid Services
Department of Health and Human Services
233 North Michigan Avenue, Suite 600
Chicago, Illinois 60601-5519

Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

AUDIT OF MEDICAID FAMILY CARE ADMINISTRATIVE COSTS CLAIMED FOR THE PERIOD OCTOBER 1, 1999 THROUGH DECEMBER 31, 2002

WISCONSIN DEPARTMENT OF HEALTH AND FAMILY SERVICES MADISON, WISCONSIN

JUNE 2004
CIN A-05-03-00067

Office of Inspector General

http://oig.hhs.gov

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

As part of the 2003 Office of Inspector General audit work plan, the Centers for Medicare & Medicaid Services (CMS) requested an audit focused on costs claimed by the Wisconsin Department of Health and Family Services (State agency) for the Medicaid Family Care waiver program. CMS officials were particularly concerned with determining the amount of administrative costs claimed for the program, ensuring costs were properly allocated, and determining whether costs claimed for county agencies were adequately supported and reasonable.

OBJECTIVES

Our objectives were to determine whether administrative costs claimed by the State agency for the Family Care program during the period October 1, 1999 through December 31, 2002 were:

- identified and separately reported;
- properly allocated; and
- reasonable and allowable.

We also evaluated whether county care management organizations' per capita funding for administration was reasonable in comparison to administrative costs incurred.

SUMMARY OF FINDINGS

Although the State agency generally exercised adequate control over administrative costs claimed amounting to $18,329,376 ($10,229,517 Federal share) and monitored the operations of county agencies, the State agency needs to improve (1) segregating and reporting of administrative costs for the Medicaid waiver programs, (2) updating of county cost allocation rates for information and assistance costs, and (3) screening for unreasonable and unallowable county expenditures. The State agency also should make financial adjustments for unallocable and unallowable costs amounting to $129,663 (Federal share).

With respect to our final objective concerning funding of care management organizations in excess of costs, we determined that the excess funding provided during our audit period was reasonable. In calendar year 2002, five care management organizations received over $134 million in funding from the Family Care capitation payments. The total funding in excess of operating costs amounted to $3.7 million or 2.78 percent of capitation revenues, while administrative costs averaged 5.83 percent of capitation revenues. Since these percentages are lower than the 7 to 9 percent allowance included in the capitation rate, we believe that the excess funding was reasonable. Through calendar year 2002, the excess funding was used largely to meet cash reserve and solvency requirements. Because most counties met the reserve and

solvency requirements by the end of calendar year 2002, the appropriateness of continued funding in excess of costs may warrant reconsideration in the future.

Segregating and Separately Reporting Family Care Administrative Costs

The State agency did not segregate and separately report administrative costs totaling $18,329,376 ($10,229,517 Federal share) for the Family Care waiver program as required by Section 2500 of the State Medicaid Manual. State agency officials did not provide a reason for not reporting administrative costs by waiver program. Because administrative costs were not segregated and separately reported, State and Federal officials could not readily determine total costs for the Family Care waiver program. We compiled the costs incurred in project accounts associated with the Family Care waiver program, as presented in Appendices A and B.

Overallocation of Information and Assistance Costs

The State agency did not update the annual allocation rates for information and assistance costs of county resource centers, as required by the cost allocation plan submitted to the U. S. Department of Health and Human Services. Due to an oversight caused by staff turnover, the rates were not updated, and $100,381 (Federal share) in information and assistance costs were overallocated to county resource centers.

Unreasonable County Expenditures

Overpayments to several county resource centers amounting to $32,951 were reduced, in part, by an adjustment of $3,669 in the average hourly rate for one county resource center's information and assistance costs. We attribute these unreasonable charges to a data entry error at the State level for one county and undetected overfunding of costs at several other county resource centers. Several overpayments resulted from confusion generated from unclear instructions. The overpayments were not detected by the limited monitoring by the State agency, which relied on independent audits of county governments. The audits did not always follow the audit guidelines issued by the State agency and did not detect the findings, resulting in a net overpayment to counties of $29,282 (Federal share).

RECOMMENDATIONS

We recommend that the State agency:

- segregate and separately report Medicaid waiver program administrative costs claimed, as required by the State Medicaid Manual;

- properly update allocation rates for county information and assistance costs on an annual basis for periods after calendar year 2002;

- advise county resource centers to update hourly cost rates at least annually, clarify cost reporting instructions, increase monitoring of county cost reporting, and ensure that independent auditors follow the Family Care Audit Guides; and

- make the appropriate financial adjustment for overclaimed Family Care costs amounting to $129,663 (Federal share).

STATE COMMENTS

The State agency generally concurred with the findings and recommendations, except for separate reporting of administrative costs related to Medicaid waivers. State agency officials believed that separate reporting of administrative costs by waiver program would require significant systems development expenditures and increased workload. With respect to procedural recommendations, the State agency stated that it has already taken corrective action or will implement changes within the next year. The State agency also agreed to make a financial adjustment of $129,663. The State agency's comments are presented in their entirety in Appendix D.

OFFICE OF INSPECTOR GENERAL RESPONSE

The separate reporting of waiver administrative costs is required by Section 2500 of the State Medicaid Manual. This is required to help ensure program accountability.

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INTRODUCTION

BACKGROUND

Medicaid Section 1915 Waivers

Medicaid is a jointly funded Federal and State entitlement program, established in 1965 under Title XIX of the Social Security Act, to assist States in providing adequate medical care to eligible needy persons. Each State administers its Medicaid program in accordance with an approved State plan, which meets certain Federal requirements. During the period October 1, 1999 through December 31, 2002, the State agency claimed administrative costs of more than $587 million ($328 million Federal share) for the Medicaid program and the approved Medicaid waivers.

Section 1915 of the Act allows the Centers for Medicare & Medicaid Services (CMS), within the Department of Health and Human Services (HHS), to waive certain Federal requirements. Under Section 1915 (b), CMS approves "freedom of choice" waivers, which give States authority to require Medicaid beneficiaries to enroll in managed care plans or use a centralized service broker; limit the number of service providers; and use managed care cost savings to provide additional services. The waivers are to provide services to existing Medicaid beneficiaries and cannot be used to expand eligibility. Under Section 1915 (c), CMS approves "home and community-based service" waivers, which give States authority to use Medicaid funds for home and community-based services as an alternative to the institutional services provided under the State plan. These waivers provide for services to beneficiaries who otherwise would require hospital or nursing facility care. During the period October 1, 1999 through December 31, 2002, administrative costs claimed by the State agency for the Section 1915 (b) and (c) waiver programs totaled over $32 million ($17 million Federal share).

In accordance with these waiver options, the State agency received State plan approval to establish the Family Care waiver program for eligible Wisconsin Medicaid beneficiaries. The Family Care program is Wisconsin's largest Section 1915 Medicaid waiver program, with costs claimed of $18,329,376 ($10,229,517 Federal share) of the total $32 million in Section 1915 administrative costs.

CMS Request for Audit

As part of the 2003 Office of Inspector General audit work plan, the CMS requested an audit focused on costs claimed by the State agency for the Medicaid Family Care waiver program. CMS officials were particularly concerned with the amount of administrative costs claimed for the waiver program and with reasonableness, allocability, and allowability of the costs claimed.

Family Care Waiver Program

The Family Care waiver program is a voluntary, managed care program providing alternative types of long-term care to county residents. The State agency contracts with local Aging and Disability Resource Centers to provide various administrative activities and with Care

Management Organizations to provide or arrange services offered in Family Care benefit packages. The local resource centers primarily provide information and assistance services and administer functional screens to county residents. The functional screening evaluates an individual's ability to perform the activities of daily living, suitability for certain types of long-term care and eligibility for the Family Care waiver program. The care management organizations develop provider networks to provide services to enrollees who live in their own homes, nursing facilities, or other group living situations.

The Family Care waiver program was phased in through pilot projects in 9 of 72 Wisconsin counties beginning in early 1998 through January 2001. During our audit period, all nine counties operated resource centers, but only five counties operated care management organizations. The State agency initially claimed Family Care administrative costs under Medicaid during the last quarter of calendar year (CY) 1999. For CYs 2000 and 2001, the State agency operated its Family Care pilot projects with funds from the Medicaid program and other Section 1915 waiver programs. Effective January 1, 2002, CMS approved Section 1915 waivers specifically for Wisconsin's Family Care program.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine whether administrative costs claimed by the State agency for the Family Care program during the period October 1, 1999 through December 31, 2002 were:

- identified and separately reported;
- properly allocated; and
- reasonable and allowable.

We also evaluated whether county care management organizations' per capita funding for administration was reasonable in comparison to administrative costs incurred.

Scope

During the period October 1, 1999 through December 31, 2002, we limited our review to the Family Care waiver program and its costs claimed for State and county resource center administration amounting to $18,329,376 ($10,229,517 Federal share). Our review did not include the administrative costs of the county care management organizations that were funded by per capita rates set by the State agency for managing the care of eligible beneficiaries. The rates included 7 to 9 percent allowances for administration. Although we considered whether the administrative allowance was reasonable compared to costs incurred by the care management organizations, we did not evaluate the rate-setting mechanism.

We did not assess the internal control systems of the State agency or county resource centers. Instead, we relied upon the independent single audits performed by the Legislative Audit Bureau

(State) and various certified public accounting firms (counties), which examined overall management controls applicable to Federal programs.

At the time of our audit fieldwork, the HHS Division of Cost Allocation (DCA) was reviewing the State agency's proposed cost allocation methodologies for Family Care. Therefore, the results of our audit are subject to modifications that may result from the recommendations of DCA.

Methodology

We reviewed State and county Family Care administrative costs claimed for reimbursement and evaluated the process used by the State agency to reimburse county Family Care pilot projects. Specifically, we:

- segregated the costs incurred for the Family Care waiver program;
- reconciled costs claimed on the CMS-64s to the segregated costs incurred;
- reviewed the findings reported by The Lewin Group, the State's independent program review organization;
- reviewed the State Single Audit reports and working papers for applicability to the scope of our review;
- reviewed the county Single Audit reports and working papers for compliance with the Family Care audit guides issued by the State agency;
- evaluated the extent of State agency oversight of counties by reviewing the contract terms, expenditure reporting requirements, site visit and monitoring methods used, and discussing the program operations with State agency officials;
- evaluated a sample of State agency administrative costs claimed;
- determined that administrative costs for the State agency's Office of Strategic Finance, Division of Supportive Living, and Division of Children and Family Services were not allocated for Federal reimbursement under the Family Care program; and
- examined, in detail, the costs claimed by the Fond du Lac County Resource Center.

We performed our review at the offices of the State agency in Madison, Wisconsin. In addition, we reviewed the working papers of the Wisconsin Legislative Audit Bureau for the State and independent audit firms for Fond du Lac, Kenosha, La Crosse, Marathon, Milwaukee, and Portage Counties. We also examined the operations and process for claiming administrative costs at the Fond du Lac County Aging and Disability Resource Center. Audit fieldwork was performed between April 2003 and February 2004.

Our review was conducted in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

Although the State agency generally exercised adequate control over administrative costs claimed amounting to $18,329,376 ($10,229,517 Federal share) and monitored the operations of county agencies, the State agency needs to improve (1) segregating and reporting of

administrative costs for the Medicaid waiver programs, (2) updating of county cost allocation rates for information and assistance costs, and (3) screening for unreasonable and unallowable county expenditures. The State agency also should make financial adjustments for unallocable and unallowable costs amounting to $129,663 (Federal share).

With respect to our final objective concerning funding of care management organizations in excess of costs, we determined that the excess funding provided during our audit period was reasonable. In calendar year 2002, five care management organizations received over $134 million in funding from the Family Care capitation payments. The total funding in excess of operating costs amounted to $3.7 million or 2.78 percent of capitation revenues, while administrative costs averaged 5.83 percent of capitation revenues. Since these percentages are lower than the 7 to 9 percent allowance included in the capitation rate, we believe that the excess funding was reasonable. Through calendar year 2002, the excess funding was used largely to meet cash reserve and solvency requirements. Because most counties met the reserve and solvency requirements by the end of calendar year 2002, the appropriateness of continued funding in excess of administrative costs may warrant reconsideration in the future.

SEGREGATING AND SEPARATELY REPORTING FAMILY CARE ADMINISTRATIVE COSTS

The State agency did not segregate and separately report administrative costs totaling $18,329,376 ($10,229,517 Federal share) for the Family Care waiver program as required by Section 2500 of the State Medicaid Manual. While the State accounting system had project accounts to segregate costs, account titles were sometimes incorrect, and the accounts applicable to Family Care were not always readily discernable. Because administrative costs were not segregated and separately reported, State and Federal officials could not readily determine total costs for the Family Care waiver program. We compiled the costs incurred in project accounts associated with the Family Care waiver program, as presented in Appendices A and B.

The State Medicaid Manual (SMM) requires State agencies to separately report their administrative costs for waiver programs on Medicaid quarterly expenditure report forms. Chapter 2, Item 3. of section 2500.2.B., "Waiver Reporting," requires State agencies to report State and local administration expenditures related to waivers on Forms HCFA-64.10 and HCFA-64.10p. More specifically, sub-section 2500.5.A instructs State agencies to provide separate forms for each waiver's expenditures. The State agency did not comply with this requirement.

State agency officials did not provide a reason for not separately reporting administrative costs by waiver program but indicated that they had no plans to start reporting these costs separately. Separate reporting of waiver administrative costs is essential for State and Federal officials to identify, monitor and control waiver expenditures and to clarify the projects claimed for Federal reimbursement under a particular waiver.

Recommendation

We recommend that the State agency segregate and separately report Medicaid waiver program administrative costs.

State Comments

The State agency disagreed. It believed that separate reporting of administrative costs by waiver program would require significant systems development expenditures and increased workload. It stated that this position was recently conveyed to CMS.

Office of Inspector General Response

Section 2500 of the State Medicaid Manual requires separate reporting of waiver administrative costs. This is required to help ensure program accountability.

OVERALLOCATION OF INFORMATION AND ASSISTANCE COSTS

The State agency did not use current rates to allocate county information and assistance costs, as recommended by DCA and as included in the cost allocation plan amendments that the State submitted to DCA for approval. The rates were not updated and $100,381 (Federal share) was overclaimed due to an oversight caused by staff turnover.

Initially, the State agency submitted a cost allocation plan that proposed allocating costs based on the proportion of Medicaid elderly and disabled beneficiaries in a county to the total elderly and disabled beneficiaries in that county. The State proposed using data from one year to allocate costs in the subsequent year, however, DCA recommended the allocation percentages be recalculated "at the end of each year…based on actual data" and that "final calendar year payments will be adjusted according to the actual percentage for that year." Although not yet approved by DCA, the State amended its cost allocation plan accordingly. We believe that the State agency should follow both the DCA recommendation and its amended cost allocation proposal.

The State agency did not update the Medicaid allocation rates for the current year as recommended by DCA and as proposed in the State's cost allocation plan amendments. By applying Medicaid allocation percentages from the prior year, the State agency overallocated costs to Medicaid and overpaid the county resource centers $100,381 in Federal funds, as follows**:**

CY 2000	$109,845
CY 2001	(717)
CY 2002	(8,747)
	$100,381

The large overpayment for CY 2000 resulted because the average rate used from CY 1999 (14.2 percent) was almost double the applicable rate for CY 2000 (7.7 percent).

State agency officials attributed the overpayment to an oversight caused by staff turnover.

Recommendations

We recommend that the State agency:

- annually update the Medicaid information and assistance allocation rates for periods after CY 2002 and

- make the appropriate financial adjustment of $100,381 for Federal overpayments to the county resource centers.

State Comments

State agency officials concurred with the recommendation, indicating that they now have a process in place for adjusting the rates at year-end. They also stated that they will make the financial adjustment of $100,381 for information and assistance costs.

UNREASONABLE COUNTY EXPENDITURES

Net Federal overpayments for level of care and eligibility screening ($30,513) and information and assistance ($2,438) at several county resource centers were reduced by an adjustment of $3,669 to increase the average hourly rate for information and assistance costs at one county resource center. We attribute these unreasonable charges to a data entry error at the State level reduced by unadjusted labor rates for one county and undetected overfunding at other county resource centers. Several overpayments resulted from confusion generated from unclear instructions. The overpayments were not detected by the limited monitoring by the State agency, which relied on independent audits of county governments. The audits did not always follow the audit guidelines issued by the State agency and did not detect the findings, resulting in a net overpayment to counties of $29,282 (Federal share).

Unreasonable Costs – Fond du Lac County. Level of care and eligibility screening costs for Fond du Lac County were overstated by $26,844 as a result of a recording error, which was reduced by the County's understatement of costs. The State agency required counties to report their level of care and eligibility screening costs in an account, which was automatically allocated between Federal and local subsidiary accounts. The split was 50 percent to each account. The State agency reimbursed the county resource centers for the Federal share of their costs based on the resulting account balances.

State Agency Overcharge. For Fond du Lac County, the State agency incorrectly recorded $60,715 as the Federal share of level of care and eligibility screening costs and $60,711 as the local share, when detailed reports prepared by the County supported a Federal share of only $30,202. This overpayment was caused by human error and not detected by Family Care

program personnel. Staff inadvertently entered an amount directly into the Federal account instead of the account to be automatically allocated. Cost allocation personnel attempted to correct the problem by inflating the Federal share amount and entering the amount into the account to be allocated. As a result of the error, the County was overpaid $30,513.

Offsetting County Understatement. According to instructions for the Functional Screen Hourly Cost Report, resource centers were allowed to update their average hourly cost rates on an annual basis or when a change of more than 5 percent occurs. County resource centers were reimbursed based on the number of hours spent administering level of care and eligibility screenings multiplied by an average hourly cost rate. Fond du Lac County officials, unaware that they could request an annual cost rate revision, had not updated their hourly cost rate since April 2001. The County was underpaid $3,669 for level of care and eligibility screening costs in CY 2002.

The net result for Fond du Lac County was a Federal overpayment of $26,844 ($30,513 less $3,669).

Unreasonable Information and Assistance Costs. Although the State agency established accounts to capture county information and assistance costs and split costs between Federal and local reimbursement, six resource centers were incorrectly paid the net amount of $2,438 in Federal funds. Because of unclear instructions and limited State agency monitoring, reporting errors and overpayments occurred and were not detected.

The State agency implemented a statewide computer allocation system for counties to report Family Care expenses and receive reimbursement from the State. Although the Federal reimbursement was limited to the Federal share set forth in the Family Care contracts with the resource centers, the State agency officials indicated that they did not intend to deny reimbursement to counties that incurred costs higher than the contract amount. The difference between the Federal share of information and assistance costs at resource centers in six counties and the Federal reimbursement allowed by the State was an overpayment of $2,438. Details by county and calendar year follow.

County Resource Center:	CY 2000	CY 2001	CY 2002	Total
Fond du Lac	$(3,741)	$ 0	$14,591	$10,850
Marathon	0	(3,892)	(2,934)	(6,826)
Portage	(8,278)	(1,497)	(6,462)	(16,237)
Richland	0	(2,381)	(270)	(2,651)
Trempeleau	0	3,633	12,827	16,460
Milwaukee	0	842	0	842
Total	$(12,019)	$(3,295)	$17,752	$2,438

Although the resource center contracts contained general requirements for reporting expenses through the statewide cost allocation system, we believe that the instructions were not specific

enough and the counties did not understand the system. For example, section IV.H.1.b. of the CY 2002 contract stated that, "Resource centers will need to report on at least two CARS lines. One will be for expenses related to information and assistance services and the other line will be for all Resource Center expenditures." These instructions do not specify account numbers to be charged. The reporting instructions in State agency contracts with county resource centers and on its website need clarification with reference to the applicable account numbers.

We also attribute these undetected errors in reported costs to inadequate monitoring by Family Care staff and, in part, to its reliance on independent audits which did not include all of the audit steps required by the State agency. The State agency relied on single audits of the county Family Care agencies to supplement its own monitoring procedures but did not ensure that the auditors followed the State's suggested audit steps. Based on our review of independent auditor reports and audit working papers for CY 2001 audits at six county resource centers and four county care management organizations, we found that auditors did not always follow all of the audit guidelines provided by the State agency. More specifically, we determined that the auditor for one of the counties with significant overpayments did not perform three of seven audit steps to cover those issues and cost areas that the State agency believed were important. Consequently, the audits provided limited assurance that the counties were complying with the Family Care accounting and reporting requirements. The State agency was not aware that reporting errors had resulted in overpayments and did not seek explanations from counties that did not report total costs or had unusual fluctuations in the Federal share of costs from year to year.

Recommendations

We recommend that the State agency:

- recover the overclaim of the Federal share of county resource centers costs and make a financial adjustment of $29,282 on the Quarterly Statement of Expenditures;

- advise county resource centers to consider annual updates of their hourly cost rates for level of care and eligibility screening;

- clarify cost reporting instructions for resource centers;

- increase monitoring of county cost reporting; and

- ensure that independent auditors follow the Family Care Audit Guides.

State Comments

The State agency concurred and indicated that it would make a financial adjustment. The State agency also stated that it will modify contracts with resource centers in order to address annual updates to hourly cost rates and to clarify cost reporting instructions. In addition, the State agency indicated that it has increased its monitoring of county expenditures, has met with independent auditors, and has revised the Family Care Audit Guide.

APPENDICES

APPENDIX A

SCHEDULE OF TOTAL ADMINISTRATIVE COSTS CLAIMED FOR THE MEDICAID FAMILY CARE WAIVER PROGRAM BY FEDERAL FISCAL YEAR AND STATE PROJECT NUMBER

CMS 64.10 Report Line	State Project Title	State Project Number	Total Costs Claimed Federal Fiscal Year 2000	2001	2002	Quarter Ended December 2002	Total
Costs Claimed at 75% Federal Financial Participation (FFP):							
4A	Family Care (FC) Report and Data Base	812				7,233	7,233
4B	FC Report and Data Base	813		401,932	693,424	185,270	1,280,626
4B	FC Enrollment & Capitation Support – Medicaid Management Information System (MMIS)	815	479,880	146,689	142,434	5,861	774,864
4B	FC Medicaid Evaluation & Decision Support – MMIS	817	1,820,300			4,546	1,824,846
6	External Quality Review Organization	080				371,728	371,728
	Subtotal Family Care Costs Claimed at 75% FFP		2,300,180	548,621	835,858	574,638	4,259,297
Costs Claimed at 50% FFP:							
19	External Quality Review Organization	080			46,669	(46,669)	0
19	Contract/Program Administration FC	081			14,234	760	14,994
19	FC Administrative Costs	082		45,943	71,396	15,448	132,787
19	IT FC Core Team	083	177,851	1,027,808	1,061,183	197,689	2,464,531
19	IT FC Program & Technical Support	084	45,071	670,588	514,720	70,051	1,300,430
19	IT FC MA/Client Assistance Reemployment and Economic Support (CARES)	085		665,000			665,000
19	IT FC Advanced Planning Document Planning	086		310,143	138,432	(304)	448,271
19	Functional Screening Process	088		166,955	483,846		650,801
19	FC Quality Assurance	089	394,228	589,775	659,228	78,106	1,721,337
19	FC Training	094		52,080	87,397	4,410	143,887
19	FC Consumer Support	095		13,644	(668)		12,976
19	FC Evaluation	096		14,082	53,615	90,354	158,051
19	FC External Advocacy	097		496,536	100,000		596,536
19	FC Functional Screen	193			280,972	118,157	399,129
19	FC Care Management Organization	390	386,201	658,653			1,044,854
19	FC County Resource Center Functional Screening	425			819,900	454,852	1,274,752
19	FC County Resource Center I&A Program	426	201,486	386,670	646,484	77,334	1,311,974
19	Care Management Organization Capacity Building	775		812,197	(4,218)		807,979
19	FC Prevention	776		596,894	(596,894)		0
19	FC Enrollment Counselor	778			136,542	42,906	179,448
19	FC Report and Data Base	812	35,339	37	96,840		132,216
19	FC Enrollment and Capitation Support	814	30,329	69,968	103,339	16,571	220,207
19	FC Medical Evaluation and Decision Support	816			90,580		90,580
19	FC Medical Assistance Eligibility/CARES	818		7,655	12,494		20,149
19	FC Medical Assistance Eligibility/CARES	819			(24)		(24)
19	Division of Supportive Living – Pathways	924		15,000	49,610	15,355	79,965
19	Long-Term Care Technology Learning Center Contract with Bureau of Information Systems	951		199,249			199,249
	Subtotal Family Care Costs Claimed at 50% FFP		1,270,505	6,798,877	4,865,677	1,135,020	14,070,079
	Total Family Care Costs Claimed		$3,570,685	$7,347,498	$5,701,535	$1,709,658	$18,329,376

APPENDIX B

SCHEDULE OF FEDERAL SHARE OF ADMINISTRATIVE COSTS CLAIMED FOR THE MEDICAID FAMILY CARE WAIVER PROGRAM BY FEDERAL FISCAL YEAR AND STATE PROJECT NUMBER

CMS 64.10 Report Line	State Project Title	State Project Number	Federal Share of Costs Claimed: Federal Fiscal Year 2000	2001	2002	Quarter Ended December 2002	Total
Federal Share of Costs Claimed at 75% Federal Financial Participation (FFP):							
4A	Family Care (FC) Report and Data Base	812				5,424	5,424
4B	FC Report and Data Base	813		301,449	520,068	138,953	960,470
4B	FC Enrollment & Capitation Support – Medicaid Management Information System (MMIS)	815	359,910	110,017	106,826	4,396	581,149
4B	FC Medicaid Evaluation & Decision Support - MMIS	817	1,365,225			3,410	1,368,635
6	External Quality Review Organization	080				278,796	278,796
	Subtotal of Family Care Costs Claimed at 75% FFP		1,725,135	411,466	626,894	430,979	3,194,474
Federal Share of Costs Claimed at 50% FFP:							
19	External Quality Review Organization	080			23,335	(23,335)	0
19	Contract/Program Administration FC	081			7,117	380	7,497
19	FC Administrative Costs	082		22,971	35,698	7,724	66,393
19	IT FC Core Team	083	88,925	513,904	530,591	98,844	1,232,264
19	IT FC Program & Technical Support	084	22,536	335,294	257,360	35,026	650,216
19	IT FC MA/Client Assistance Reemployment and Economic Support (CARES)	085		332,500			332,500
19	IT FC Advanced Planning Document Planning	086		155,072	69,216	(152)	224,136
19	Functional Screening Process	088		83,477	241,923		325,400
19	FC Quality Assurance	089	197,114	294,887	329,614	39,053	860,668
19	FC Training	094		26,040	43,699	2,205	71,944
19	FC Consumer Support	095		6,822	(334)		6,488
19	FC Evaluation	096		7,041	26,808	45,177	79,026
19	FC External Advocacy	097		248,269	50,000		298,269
19	FC Functional Screen	193			140,486	59,079	199,565
19	FC Care Management Organization	390	193,101	329,326			522,427
19	FC County Resource Center Functional Screening	425			409,950	227,426	637,376
19	FC County Resource Center I&A Program	426	100,743	193,335	323,242	38,667	655,987
19	Care Management Organization Capacity Building	775		406,099	(2,109)		403,990
19	FC Prevention	776		298,447	(298,447)		0
19	FC Enrollment Counselor	778			68,271	21,453	89,724
19	FC Report and Data Base	812	17,670	18	48,420		66,108
19	FC Enrollment and Capitation Support	814	15,165	34,984	51,670	8,285	110,104
19	FC Medical Evaluation and Decision Support	816			45,290		45,290
19	FC Medical Assistance Eligibility/CARES	818		3,828	6,247		10,075
19	FC Medical Assistance Eligibility/CARES	819			(12)		(12)
19	Division of Supportive Living – Pathways	924		7,500	24,805	7,678	39,983
19	Long-Term Care Technology Learning Center Contract with Bureau of Information Systems	951		99,625			99,625
	Subtotal Federal Share Family Care Costs Claimed at 50% FFP		635,254	3,399,439	2,432,840	567,510	7,035,043
	Total Federal Share of Family Care Costs Claimed		$2,360,389	$3,810,905	$3,059,734	$998,489	$10,229,517

APPENDIX C

SCHEDULE OF ADMINISTRATIVE COSTS CLAIMED FOR THE MEDICAID FAMILY CARE WAIVER PROGRAM AND THE AUDITORS' RELATED RECOMMENDATIONS FOR THE PERIOD OCTOBER 1, 1999 THROUGH DECEMBER 31, 2002

	Total Costs Claimed	Federal Share Claimed
Total Claimed	$18,329,376	$10,229,517
OIG Auditors' Recommendations:		
Overallocation of Information and Assistance Costs	(200,762)	(100,381)
Unreasonable County Expenditures	(58,564)	(29,282)
Total Recommended Adjustments	(259,326)	(129,663)
Recommended for Acceptance	$18,070,050	$10,099,854

State of Wisconsin
Department of Health and Family Services

Jim Doyle, Governor
Helene Nelson, Secretary

April 29, 2004

Paul Swanson
Department of Health and Human Services
Office of Audit Services
233 North Michigan Avenue
Chicago, IL 60601

Re: Audit Report Number A-05-03-00067

Dear Mr. Swanson:

Thank you for your letter of April 2, 2004, in which you request a response to the "Audit of Medicaid Family Care Administrative Costs Claimed for the Period October 1, 1999 through September 30, 2002".

In general, the Wisconsin Department of Health and Family Services (DHFS) agrees with both the finding and suggestions presented in the OIG audit report on administrative cost claiming in the Family Care program. DHFS believes it is in compliance with Federal regulations for administrative claiming for the Family Care program and that adequate controls exist to prevent over claiming in the future. Efforts have been made to correct or to address in the near future the few findings presented in the report. While we largely agree with the report provided by OIG, DHFS has two areas of concern 1) OIG's examination of Family Care's rate setting methodology and 2) requirements and recommendations that administrative expenses be split between waivers.

Rate Setting/Excess revenues

The Family Care program establishes capitation rates in an actuarially sound manner as required by CMS regulations. Capitation rates must also be approved by CMS annually to certify they have been produced in accordance with regulations. Actuarially sound rates in a managed care program are generally established to provide a breakeven financial status over a 3 to 5 year period. Thus in any given period a managed care organization may or may not have a large amount of revenues in excess of costs. DHFS feels it is inappropriate for an individual year's financial results to be reviewed to determine the appropriateness of excess revenues. OIG's implication that the excess revenues in 2002 are appropriate only due to the need to establish a risk reserve is inconsistent with managed care principals and established rate-setting methodologies.

Administrative expense separation

All states are facing increased budget pressures affecting the administration of their Medicaid programs. Wisconsin, like other states, is actively seeking ways to redefine and streamline operations from an enterprise-wide perspective - merging and leveraging systems and processes to support fee-for-service, waiver, and managed care programs with singular functionality. At the same time, however, there appears to be an increase in federal requirements for more separated, detailed federal reporting and documentation. The requirement for detailed, quarterly, reporting of state administrative costs is especially of concern.

Medicaid administrative costs are not directly linked to recipients or their basis of eligibility. All Medicaid administrative costs are now reported in aggregate for the entire program, which makes sense given the extensive overlap of tasks and processes between various programs and waivers. While it is conceptually possible to break out these costs to sub-program levels using enrollment or some other formula calculation, the results are not really meaningful for state or the federal monitoring. Calculated results will never reconcile with state accounting records, and the exercise appears to be a significant workload increase, without a corresponding return on investment.

As related in your "Summary of Findings", the Wisconsin Department of Health and Family Services generally exercises adequate control over its administrative costs. It has also historically demonstrated very modest administrative costs levels on a national basis. The sharing of administrative functions across various programs has led to this efficiency, and costs are accurately accounted for at the Medicaid program level.

Recommendations

In accordance with the recommendation the following steps have been taken:

1) *"Segregate and separately report Medicaid waiver program administrative costs claimed, as required by the State Medicaid Manual"*
   As stated in our January 9, 2004 letter to the Center for Medicaid and State Operations in CMS, Wisconsin projects that significant systems development costs would be necessary to meet new reporting requirements, and would request 90/10 FFP match for any system improvements necessary to meet the new requirements.

2) *"Properly update allocation rates for county information and assistance costs ..."*
   A process has been established to implement the year end rate adjustment. This process was used to adjust the CY2003 information and assistance costs and will be written into all future contracts with the Resource Centers.

3) *"Advise county resource centers to update hourly cost rates at least annually"*
   This requirement will be added to all future contracts.

4) *"Clarify cost reporting instructions"*
Instructions will be modified in the near future and included as an attachment to the resource center contract. The department is also exploring changes to the reporting system which will simplify the county's reporting process. We hope to have these changes in place for the CY05 contracting process

5) *"Increase monitoring of county cost reporting"*
Processes have been put in place on both the front and back end of the claiming process and will be used for the CY2003 reconciliation and on a go-forward basis. These include:
A) Checking that entries are entered into the correct funding profile
B) Tracking approved functional screen matching on a monthly basis
C) Verifying functional screen amounts claimed match approved amounts on an annual basis
D) Annually comparing previous claiming trends to current year claims to look for irregularities
E) Flagging claiming significantly higher or lower than the approved contract amounts

6) *"ensure that independent auditors follow the Family Care Audit Guide"*
Department staff has met with each of the county auditors to express the importance of following the audit guide. In addition, the Audit Guide has been revised to more clearly express the actions that should be taken by the auditor.

7) *"Make the appropriate financial adjustment ..."*
An adjustment of $129,665 will be processed in early May 2004. Once the adjustment is completed documentation will be provided to OIG.

If you have any questions about these steps, please contract Judith Frye at (608) 266-5156.

Sincerely,

FOR HN

Helene Nelson
Secretary