DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

WASHINGTON, DC 20201

March 19, 2012

TO: Marilyn Tavenner
Acting Administrator
Centers for Medicare & Medicaid Services

FROM: /Gloria L. Jarmon/
Deputy Inspector General for Audit Services

SUBJECT: Review of the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program in Washington State (A-09-10-02013)

Attached, for your information, is an advance copy of our final report on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program in Washington State. We will issue this report to the Washington State Health Care Authority within 5 business days.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Brian P. Ritchie, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through email at Brian.Ritchie@oig.hhs.gov or Lori A. Ahlstrand, Regional Inspector General for Audit Services, Region IX, at (415) 437-8360 or through email at Lori.Ahlstrand@oig.hhs.gov. Please refer to report number A-09-10-02013.

Attachment

DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

OFFICE OF AUDIT SERVICES, REGION IX
90 - 7TH STREET, SUITE 3-650
SAN FRANCISCO, CA 94103

March 26, 2012

Report Number: A-09-10-02013

Mr. Doug Porter
Director
Health Care Authority
626 Eighth Avenue
Olympia, WA 98504-5502

Dear Mr. Porter:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program in Washington State*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://oig.hhs.gov.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Gerald Illies, Audit Manager, at (206) 615-2252 or through email at Gerald.Illies@oig.hhs.gov. Please refer to report number A-09-10-02013 in all correspondence.

Sincerely,

/Lori A. Ahlstrand/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Jackie Garner
Consortium Administrator
Consortium for Medicaid and Children's Health Operations
Centers for Medicare & Medicaid Services
233 North Michigan Avenue, Suite 600
Chicago, IL 60601

Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

REVIEW OF THE QUARTERLY MEDICAID STATEMENT OF EXPENDITURES FOR THE MEDICAL ASSISTANCE PROGRAM IN WASHINGTON STATE

Daniel R. Levinson
Inspector General

March 2012
A-09-10-02013

Office of Inspector General

http://oig.hhs.gov

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The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

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THIS REPORT IS AVAILABLE TO THE PUBLIC

at http://oig.hhs.gov

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

Pursuant to Title XIX of the Social Security Act, the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

In Washington State, the Health Care Authority (State agency) administers the Medicaid program. The State agency claims Medicaid expenditures on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (Form CMS-64). This form shows Medicaid expenditures for the quarter being reported and any prior-period adjustments. Pursuant to 42 CFR § 430.30(c)(2) and the CMS *State Medicaid Manual*, sections 2500 A.1. and 2500.2 A., the amounts reported on the Form CMS-64 and its attachments must represent actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled and is available at the time the claim is filed.

For the quarter ended September 30, 2009, the State agency claimed $1.62 billion ($1.02 billion Federal share) in Medicaid expenditures. We reviewed seven line items on the Form CMS-64 totaling $1.18 billion ($742 million Federal share), or approximately 73 percent of the claimed expenditures for the quarter. We limited our review of the expenditures claimed for the seven line items to reconciling the expenditures with the State agency's accounting records. We did not determine whether claimed expenditures complied with all Medicaid program requirements.

OBJECTIVE

Our objective was to determine whether the State agency claimed Federal reimbursement for its Medicaid expenditures in accordance with certain Federal requirements.

SUMMARY OF FINDINGS

For the quarter ended September 30, 2009, the State agency generally claimed Federal reimbursement for its Medicaid expenditures in accordance with certain Federal requirements. However, the State agency claimed:

- $10,049,333 in expenditures that were not actual expenditures (Federal share overstated by $5,179,949),

- $32,484 in expenditures for duplicate payments (Federal share overstated by $20,446), and

- $73,575,828 in expenditures that were incorrectly reported on the Form CMS-64 (Federal share understated by $10,620). Most of the claimed expenditures in this category did not have an effect on the Federal share.

In total, the State agency improperly claimed Federal reimbursement of $5,189,775.

The State agency did not properly claim these expenditures for Federal reimbursement because it did not have adequate internal controls to (1) ensure that the claimed amounts were based on actual Medicaid expenditures, (2) prevent or detect claims for duplicate payments, and (3) report expenditures correctly on the Form CMS-64.

RECOMMENDATIONS

We recommend that the State agency:

- refund $5,189,775 to the Federal Government and

- strengthen internal controls to (1) ensure that amounts claimed for Federal reimbursement are based on actual Medicaid expenditures, (2) prevent and detect claims for duplicate payments, and (3) correctly report Medicaid expenditures on the Form CMS-64.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency described actions that it had taken to address our recommendations. The State agency's comments are included in their entirety as the Appendix.

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INTRODUCTION

BACKGROUND

Medicaid Program

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

The Federal Government pays its share of a State's medical assistance costs under Medicaid based on the Federal medical assistance percentage (FMAP). The FMAP varies depending on the State's relative per capita income. By law, the FMAP cannot be lower than 50 percent. Although FMAPs are adjusted annually for economic changes in the States, Congress may increase FMAPs at any time.

American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, enacted February 17, 2009, provided fiscal relief to States to protect and maintain State Medicaid programs in a period of economic downturn. For the recession adjustment period (October 1, 2008, through December 31, 2010), the Recovery Act provided an estimated $87 billion in additional Medicaid funding based on temporary increases in States' FMAPs.[1] Section 5000(a) of the Recovery Act provided for these increases to help avert cuts in health care payment rates, benefits, or services, and to prevent changes to income eligibility requirements that would reduce the number of individuals eligible for Medicaid. Sections 5001(a)–(c) of the Recovery Act provided that a State's increased FMAP during the recession adjustment period would be no less than its 2008 FMAP increased by 6.2 percentage points and that a State could receive an increase greater than 6.2 percentage points based on increases to its average unemployment rate.

Washington State's Medicaid Program

In Washington State, the Health Care Authority (State agency) administers the Medicaid program. The State agency uses the Medicaid Management Information System and the Social Service Payment System to process and pay Medicaid claims. For the quarter ended September 30, 2009, the FMAP for Washington State was 62.94 percent.[2]

[1] Section 201 of the Education Jobs and Medicaid Assistance Act (P.L. No. 111-226) extended the recession adjustment period for the increased FMAPs through June 30, 2011.

[2] This percentage included a temporary increase of 12 percentage points due to the Recovery Act.

Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program

The State agency claims Medicaid expenditures on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (Form CMS-64). The Form CMS-64 is the accounting statement that the State agency, pursuant to 42 CFR § 430.30(c)(1), must submit to CMS within 30 days after the end of each quarter. This form shows Medicaid expenditures for the quarter being reported and any prior-period adjustments. It also accounts for any overpayments, underpayments, and refunds received by the State agency.

Washington State's Medicaid expenditures are recorded in its accounting system, which is populated by the expenditures from two payment systems and other sources, such as journal vouchers and invoice entries. State agency personnel transfer the expenditures to a summary schedule and assign the expenditures to specific line items on the Form CMS-64.

Pursuant to 42 CFR § 430.30(c)(2) and the CMS *State Medicaid Manual* (Manual), sections 2500 A.1. and 2500.2 A., the amounts reported on the Form CMS-64 and its attachments must represent actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled and is available at the time the claim is filed.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the State agency claimed Federal reimbursement for its Medicaid expenditures in accordance with certain Federal requirements.

Scope

For the quarter ended September 30, 2009, the State agency claimed $1.62 billion ($1.02 billion Federal share) in Medicaid expenditures. We reviewed seven line items on the Form CMS-64 totaling $1.18 billion ($742 million Federal share), or approximately 73 percent of the claimed expenditures for the quarter.[3]

We did not perform a detailed review of the State agency's overall internal control structure. We reviewed only those internal controls that the State agency had in place to account for, document, and claim Medicaid expenditures for the seven selected line items on the Form CMS-64. We limited our review of the expenditures claimed for the seven line items to reconciling the expenditures with the State agency's accounting records. We did not determine whether claimed expenditures complied with all Medicaid program requirements.

We performed fieldwork at the State agency's offices in Olympia and Lacey, Washington.

[3] The seven line items were (1) Inpatient Hospital Services—Regular Payments, (2) Nursing Facility Services, (3) Prescribed Drugs, (4) Medicaid Health Insurance Payments: Managed Care Organizations, (5) Prepaid Inpatient Health Plan, (6) Home and Community-Based Services, and (7) Personal Care Services.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- interviewed CMS personnel responsible for reviewing the Form CMS-64;
- interviewed State agency officials to gain an understanding of State agency policies and procedures and systems used to account for, document, and claim Medicaid expenditures on the Form CMS-64;
- reconciled Medicaid expenditures claimed on the Form CMS-64, totaling $1.18 billion ($742 million Federal share), with the State agency's accounting records for seven line items that made up approximately 73 percent of the State agency's total claim; and
- discussed our results with the State agency.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

For the quarter ended September 30, 2009, the State agency generally claimed Federal reimbursement for its Medicaid expenditures in accordance with certain Federal requirements. However, the State agency claimed:

- $10,049,333 in expenditures that were not actual expenditures (Federal share overstated by $5,179,949),
- $32,484 in expenditures for duplicate payments (Federal share overstated by $20,446), and
- $73,575,828 in expenditures that were incorrectly reported on the Form CMS-64 (Federal share understated by $10,620). Most of the claimed expenditures in this category did not have an effect on the Federal share.

In total, the State agency improperly claimed Federal reimbursement of $5,189,775.

The State agency did not properly claim these expenditures for Federal reimbursement because it did not have adequate internal controls to (1) ensure that the claimed amounts were based on actual Medicaid expenditures, (2) prevent or detect claims for duplicate payments, and (3) report expenditures correctly on the Form CMS-64.

EXPENDITURES CLAIMED WERE NOT ACTUAL EXPENDITURES

Pursuant to sections 1903(a) and 1905(a) of the Act, Federal reimbursement is available only for expenditures that constitute payment for part or all of the cost of services furnished as medical assistance under the approved State plan. Pursuant to 42 CFR § 430.30(c)(2) and section 2500 A.1. of the Manual, amounts reported on the Form CMS-64 must be actual expenditures for which States are entitled to Federal reimbursement.

The State agency erroneously claimed $10,049,333 ($5,179,949 Federal share) for expenditures that were not actual expenditures when it corrected errors that occurred on prior Forms CMS-64.

EXPENDITURES CLAIMED WERE FOR DUPLICATE PAYMENTS

Section 1903(d)(2)(A) of the Act requires that quarterly Federal payments to the States be adjusted to reduce prior overpayments or increase prior underpayments. Section 2500.6 A. of the Manual states: "Overpayments are not considered payments made in accordance with your approved State plan and, therefore, are not allowable for [Federal reimbursement]. An overpayment is any amount in excess of the amount that should have been paid and is refunded as required under § 1903 of the Act." A duplicate payment is considered an overpayment.

The State agency made duplicate payments to providers of home and community-based services and personal care services. The State agency claimed $32,484 in expenditures on the Form CMS-64 for those payments—an overstatement of $32,484 ($20,446 Federal share).

EXPENDITURES WERE INCORRECTLY REPORTED

Section 2500.2 A. of the Manual instructs State agencies to report on the Form CMS-64 medical assistance payments by type of service. Section 2500.2 A. also instructs State agencies to report, on the Form CMS-64.9p, payments made in a prior period but not included on the expenditure report for that period and payments made as adjustments to amounts claimed in prior periods. When preparing the Form CMS-64, the State agency incorrectly reported expenditures related to inpatient hospital services, Medicaid managed care, and prior periods. As a result, the State agency misstated expenditures by $73,575,828 and understated the Federal share by $10,620. Only the claimed expenditures related to inpatient hospital services had an effect on the Federal share.

- The State agency understated inpatient hospital services expenditures by $88,499 because it incorrectly reported disproportionate share hospital (DSH) payment adjustments on the line for inpatient hospital services—regular payments. Because of this error, the State agency did not claim Federal reimbursement of $55,701 (62.94 percent of $88,499) for inpatient hospital services and incorrectly claimed Federal reimbursement of $45,081 (50.94 percent of $88,499) for DSH payments.[4] As a result, the State agency understated the Federal share by $10,620.

[4] Pursuant to section 5001(e)(1) of the Recovery Act, the increased FMAP did not apply to DSH payments.

- The State agency incorrectly reported $52,389 of Medicaid managed care expenditures on the line for Medicare Part A premiums. However, there was no effect on the Federal share because the expenditures for Medicare Part A premiums and Medicaid managed care are reimbursed at the same FMAP.

- The State agency incorrectly reported $73,434,940 as current Medicaid expenditures for expenditures that were incurred in prior periods. As a result, the State agency understated its prior period adjustments on the Form CMS-64. However, there was no effect on the Federal share because the State agency claimed the expenditures using the correct FMAP.

RECOMMENDATIONS

We recommend that the State agency:

- refund $5,189,775 to the Federal Government and

- strengthen internal controls to (1) ensure that amounts claimed for Federal reimbursement are based on actual Medicaid expenditures, (2) prevent and detect claims for duplicate payments, and (3) correctly report Medicaid expenditures on the Form CMS-64.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency described actions that it had taken to address our recommendations. The State agency's comments are included in their entirety as the Appendix.

APPENDIX

APPENDIX: HEALTH CARE AUTHORITY COMMENTS

STATE OF WASHINGTON
HEALTH CARE AUTHORITY
626 8th Avenue, SE • P.O. Box 45502 • Olympia, Washington 98504-5502

OIG Recommendations:

- **Refund $5,189,775 to Federal Government**
  - A journal voucher adjustment processed in September 2009 returned the federal funds,
  - Funds returned to the federal government was reported on the CMS64 Q2 & Q3 FFY 2010 reports
  - A $22K ADSA SSPSP overpayment was returned through normal state overpayment process and the Medicaid Overpayment Management System (MOMS).

- **Strengthen internal controls to**:
  1) Ensure that amounts claimed for Federal reimbursement are based on actual Medicaid expenditures,
  2) Prevent and detect claims for duplicate payments
  3) Correctly report Medicaid expenditures on the Form CMS-64.

  The State has taken to following steps to strengthen and enhance the internal controls on the CMS- 64.
  - The State established within the HealthCare Authority a Federal Accounting and Reporting Unit responsible for all Medicaid accounting and reporting; staff ensure the compilation, analysis, and preparation of the CMS 64 are based on actual Medicaid expenditures
  - The State developed an internal review process for the detection and prevention for duplicate payments in the compilation, preparation, and analysis of the CMS 64
  - The State established a comprehensive quarterly and annually grant reconciliation processes/procedures to ensure the correct reporting of Medicaid expenditures on the CMS64
  - The State established staff training focused on the preparation of the CMS64 to include critical examination of Medicaid transactions affecting the CMS 64
  - The State established lines of communication and quarterly meeting between all agencies/programs/parties involved in Medicaid transactions affecting the CMS 64
  - Health Care Authority's Federal Accounting and Reporting Unit staff have developed new processes for streamlining and enhancing the accuracy and efficiency of the CMS 64