TO: Wynethea Walker  
Acting Director, Audit Liaison Staff  
Centers for Medicare & Medicaid Services

FROM: Joseph E. Vengrin  
Deputy Inspector General for Audit Services

SUBJECT: Seven States’ Medicaid Claims for 21- to 64-Year-Old Residents of Private and County-Operated Institutions for Mental Diseases (A-02-04-01034)

Attached is a copy of our final report consolidating the results of our seven-State review of Medicaid claims for medical and ancillary services, including inpatient psychiatric services, made on behalf of 21- to 64-year-old residents of private and county-operated institutions for mental diseases (IMDs). We conducted these audits pursuant to our longstanding concern that States were not complying with the Centers for Medicare & Medicaid Services (CMS) general prohibition on Federal Medicaid funding for IMD residents under the age of 65. We suggest that you share this report with the Center for Medicaid and State Operations and any other component of CMS involved with Medicaid program integrity and provider issues.

A common objective of our audits was to determine if controls were in place to preclude States from claiming Federal Medicaid funds for medical and ancillary services, including inpatient psychiatric services, provided to 21- to 64-year-old residents of private and county-operated IMDs.

Federal regulations define an IMD as a hospital, nursing facility, or other institution with more than 16 beds that is primarily engaged in providing diagnosis, treatment, or care of persons with mental diseases. Section 1905(a) of the Social Security Act, implementing Federal regulations, and CMS guidance preclude Federal funding for services to IMD residents under age 65, except for inpatient psychiatric services provided to individuals under the age of 21 and, in some instances, under the age of 22.¹

We found that:

- California had no controls to prevent Federal funding from being claimed for inpatient psychiatric services; however, it did have adequate controls for other medical and ancillary services.

¹If an individual was receiving inpatient psychiatric services immediately before he or she reached age 21, services may continue to be provided until the earlier of (1) the date the individual no longer requires the services or (2) the date the individual reaches the age of 22.
New Jersey had ineffective controls to prevent Federal funding from being claimed for inpatient psychiatric services and no controls for other medical and ancillary services.

Virginia had no controls to prevent Federal funding from being claimed for medical and ancillary services, including inpatient psychiatric services.

Texas did not have controls to prevent Federal funding from being claimed for medical and ancillary services, except for inpatient psychiatric services.

Maryland did not have controls to prevent Federal funding from being claimed for inpatient psychiatric services.

New York had controls to prevent Federal funding from being claimed for inpatient psychiatric and alcoholism services, but not for other medical and ancillary services.

Florida had controls that were generally adequate; however, we did identify some Federal funds that were improperly claimed.

The seven States improperly claimed a total of $6,149,988 in Federal Medicaid funds during various audit periods.

This report does not contain any recommendations because the recommendations in our June 2004 report relating to reinforcing guidance and developing and implementing controls would also apply to medical and ancillary claims for the excluded age group. Our prior report noted that controls in the seven States reviewed (the same seven States included in our current audit) were generally not adequate to prevent Federal Medicaid claims for 21- to 64-year-old IMD residents who were temporarily released to acute care hospitals for inpatient medical treatment. Our prior report recommended that CMS:

- reinforce to States that Federal Medicaid funds may not be claimed for 21- to 64-year-old IMD residents, including those temporarily released to acute care hospitals for medical treatment;

- instruct States to develop and implement controls, where cost effective, to prevent Federal Medicaid claims for 21- to 64-year-old IMD residents who are temporarily released to acute care hospitals for inpatient medical treatment; and

- advise States not included in our review of our audit findings and encourage them to review their controls to prevent improper claims.

CMS concurred with those recommendations.

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2 “Seven States’ Medicaid Claims for 21- to 64-Year-Old Residents of Institutions for Mental Diseases Who Were Temporarily Released to Acute Care Hospitals” (A-02-03-01002, June 9, 2004).
If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through e-mail at george.reeb@oig.hhs.gov. Please refer to report number A-02-04-01034 in all correspondence.

Attachment
SEVEN STATES’ MEDICAID CLAIMS FOR 21- TO 64-YEAR-OLD RESIDENTS OF PRIVATE AND COUNTY-OPERATED INSTITUTIONS FOR MENTAL DISEASES
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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

This report summarizes the results of our seven-State review of Medicaid claims for medical and ancillary services, including inpatient psychiatric services, made on behalf of 21- to 64-year-old residents of private and county-operated institutions for mental diseases (IMDs). We conducted audits in California, Florida, Maryland, New Jersey, New York, Texas, and Virginia.

Section 1905(a) of the Social Security Act (the Act), implementing Federal regulations, and guidance from the Centers for Medicare & Medicaid Services (CMS) preclude Federal funding for services to IMD residents under age 65, except for inpatient psychiatric services provided to individuals under the age of 21 and, in some instances, under the age of 22.\(^1\) This report refers to these individuals as “the excluded age group.”

OBJECTIVE

A common objective of our audits was to determine if controls were in place to preclude States from claiming Federal Medicaid funds for medical and ancillary services, including inpatient psychiatric services, provided to 21- to 64-year-old residents of private and county-operated IMDs.

SUMMARY OF FINDINGS

We found that:

- California had no controls to prevent Federal funding from being claimed for inpatient psychiatric services; however, it did have adequate controls for other medical and ancillary services.

- New Jersey had ineffective controls to prevent Federal funding from being claimed for inpatient psychiatric services and no controls for other medical and ancillary services.

- Virginia had no controls to prevent Federal funding from being claimed for medical and ancillary services, including inpatient psychiatric services.

- Texas did not have controls to prevent Federal funding from being claimed for medical and ancillary services, except for inpatient psychiatric services.

- Maryland did not have controls to prevent Federal funding from being claimed for inpatient psychiatric services.

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\(^1\)If an individual was receiving inpatient psychiatric services immediately before he or she reached age 21, services may continue to be provided until the earlier of (1) the date the individual no longer requires the services or (2) the date the individual reaches the age of 22.
• New York had controls to prevent Federal funding from being claimed for inpatient psychiatric and alcoholism services, but not for other medical and ancillary services.

• Florida had controls that were generally adequate; however, we did identify some Federal funds that were improperly claimed.

These seven States improperly claimed a total of $6,149,988 in Federal Medicaid funds during various audit periods. Of this amount, $5,091,580 was for inpatient psychiatric services and $1,058,408 was for other medical and ancillary services.

RECOMMENDATIONS

This report does not contain any recommendations because the recommendations in our June 2004 report relating to reinforcing guidance and developing and implementing controls would also apply to medical and ancillary claims for the excluded age group. Our prior report noted that controls in the seven States reviewed (the same seven States included in our current audit) were generally not adequate to prevent Federal Medicaid claims for 21- to 64-year-old IMD residents who were temporarily released to acute care hospitals for inpatient medical treatment. Our prior report recommended that CMS:

• reinforce to States that Federal Medicaid funds may not be claimed for 21- to 64-year-old IMD residents, including those temporarily released to acute care hospitals for medical treatment;

• instruct States to develop and implement controls, where cost effective, to prevent Federal Medicaid claims for 21- to 64-year-old IMD residents who are temporarily released to acute care hospitals for inpatient medical treatment; and

• advise States not included in our review of our audit findings and encourage them to review their controls to prevent improper claims.

CMS concurred with those recommendations.

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2 “Seven States’ Medicaid Claims for 21- to 64-Year-Old Residents of Institutions for Mental Diseases Who Were Temporarily Released to Acute Care Hospitals” (A-02-03-01002, June 9, 2004).
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INTRODUCTION

BACKGROUND

Section 1905(i) of the Act and 42 CFR § 435.1009 define an IMD as a hospital, nursing facility, or other institution with more than 16 beds that is primarily engaged in providing diagnosis, treatment, or care of persons with mental diseases. Psychiatric hospitals (including private and county-operated psychiatric hospitals) with more than 16 beds are IMDs.

Regulations (42 CFR §§ 435.1008 and 441.13) preclude Federal Medicaid funding for services to IMD residents under the age of 65, except for inpatient psychiatric services provided to individuals under the age of 21 and, in some instances, under the age of 22.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

A common objective of our audits was to determine if controls were in place to preclude States from claiming Federal Medicaid funds for medical and ancillary services, including inpatient psychiatric services, provided to 21- to 64-year-old residents of private and county-operated IMDs.

Scope and Methodology

This report summarizes the results of 10 audits in 7 States: California, Florida, Maryland, New Jersey, New York, Texas, and Virginia. The audit periods for these audits varied. (See appendix.)

We did not review the overall internal control structure of the States or their Medicaid programs; our internal control reviews were limited to obtaining an understanding of the States’ controls to prevent Federal Medicaid claims for medical and ancillary services, including inpatient psychiatric services, provided to IMD residents in the excluded age group. For each of the seven States, we also determined the amount of any improperly claimed Federal funds.

We conducted our review in accordance with generally accepted government auditing standards. However, because this report does not contain any recommendations, we did not issue a draft to CMS for comment.

FINDINGS AND RECOMMENDATIONS

FEDERAL STATUTES, REGULATIONS, AND GUIDANCE

Statutory and Regulatory Requirements

Pursuant to section 1905(a) of the Act, “medical assistance” includes inpatient hospital services and nursing facility services for IMD residents 65 years of age or older but excludes care or
services for IMD residents who are under 65, except “inpatient psychiatric hospital services for individuals under the age of 21.”

Federal regulations prohibit Federal Medicaid funding for “any individual who is under age 65 and is in an institution for mental diseases, except an individual who is under age 22 and receiving inpatient psychiatric services under subpart D of this part” (42 CFR § 441.13).

**Centers for Medicare & Medicaid Services Guidance**

The CMS guidance to States specifies that Federal Medicaid funds are not available for IMD residents under the age of 65 unless the payments are for inpatient psychiatric services for individuals under the age of 21 and, in certain instances, under the age of 22. Specifically, CMS issued Transmittal 65 of the State Medicaid Manual in March 1994 and Transmittal 69 of the State Medicaid Manual in May 1996. Section 4390 of the State Medicaid Manual provides in subsection A.2:

The IMD exclusion is in 1905(a) of the Act in paragraph (B) following the list of Medicaid services. This paragraph states that FFP [Federal financial participation] is not available for any medical assistance under title XIX for services provided to any individual who is under age 65 and who is a patient in an IMD unless the payment is for inpatient psychiatric services for individuals under age 21. This exclusion was designed to assure that States, rather than the Federal government, continue to have principal responsibility for funding inpatient psychiatric services. Under this broad exclusion, no Medicaid payment can be made for services provided either in or outside the facility for IMD patients in this age group.

**ASSESSMENT OF STATE CONTROLS**

Controls in the seven States reviewed had varying levels of effectiveness in preventing Federal Medicaid claims for medical and ancillary services, including inpatient psychiatric services, provided to IMD residents in the excluded age group. Specifically:

- California had no controls to prevent Federal funding from being claimed for inpatient psychiatric services; however, it did have adequate controls for other medical and ancillary services.
- New Jersey had ineffective controls to prevent Federal funding from being claimed for inpatient psychiatric services and no controls for other medical and ancillary services.
- Virginia had no controls to prevent Federal funding from being claimed for medical and ancillary services, including inpatient psychiatric services.
- Texas did not have controls to prevent Federal funding from being claimed for medical and ancillary services, except for inpatient psychiatric services.
• Maryland did not have controls to prevent Federal funding from being claimed for inpatient psychiatric services.

• New York had controls to prevent Federal funding from being claimed for inpatient psychiatric and alcoholism services, but not for other medical and ancillary services.

• Florida had controls that were generally adequate; however, we did identify some Federal funds that were improperly claimed.

California relied upon the county mental health authorization processes, rather than specific computer edits, to prevent Federal Medicaid funds from being claimed for non-inpatient psychiatric medical and ancillary services provided to residents of private psychiatric hospitals who were in the excluded age group. New York had established edits within its Medicaid Management Information System (MMIS), a computerized payment and information reporting system used to process and pay Medicaid claims, that prevented Federal Medicaid funds from being claimed for inpatient psychiatric and alcoholism services provided to residents of private psychiatric hospitals who were in the excluded age group. In Florida, the main control was the revocation of the Medicaid billing numbers of private IMDs.

As shown in the table below, the seven States improperly claimed a total of $6,149,988 in Federal Medicaid funds.

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<thead>
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<th>State</th>
<th>Inpatient Psychiatric</th>
<th>Other Medical and Ancillary</th>
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<td>$0</td>
<td>$3,083,389</td>
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<td>170,770</td>
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<td>Virginia</td>
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<td>127,678</td>
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<td>555,341</td>
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<tr>
<td>Florida</td>
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<tr>
<td>Total</td>
<td>$5,091,580</td>
<td>$1,058,408</td>
<td>$6,149,988</td>
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</table>

The appendix to this report provides a brief summary of the results of the audits conducted in these seven States. The reports are available on the Internet at [http://oig.hhs.gov](http://oig.hhs.gov).

³Medical and ancillary claims for residents of private IMDs were not included in the scope of the audit.
RECOMMENDATIONS

This report does not contain any recommendations because the recommendations in our June 2004 report relating to reinforcing guidance and developing and implementing controls would also apply to medical and ancillary services, including inpatient psychiatric services, for the excluded age group. Our prior report noted that controls in the seven States reviewed (the same seven States included in our current audit) were generally not adequate to prevent Federal Medicaid claims for 21- to 64-year-old IMD residents who were temporarily released to acute care hospitals for inpatient medical treatment. Our prior report recommended that CMS:

- reinforce to States that Federal Medicaid funds may not be claimed for 21- to 64-year-old IMD residents, including those temporarily released to acute care hospitals for medical treatment;

- instruct States to develop and implement controls, where cost effective, to prevent Federal Medicaid claims for 21- to 64-year-old IMD residents who are temporarily released to acute care hospitals for inpatient medical treatment; and

- advise States not included in our review of our audit findings and encourage them to review their controls to prevent improper claims.

CMS concurred with those recommendations.
APPENDIX
SUMMARY OF RESULTS IN SEVEN STATES

CALIFORNIA

In our December 24, 2002, report (A-09-02-00061), we noted that from July 1, 1997, through January 31, 2001, California had no controls to prevent Federal funds from being claimed for inpatient psychiatric services. Our review identified improper Federal payments totaling $3,083,389 for inpatient psychiatric services provided to residents in the excluded age group at 26 private psychiatric hospitals that were IMDs. Of this amount, $3,032,961 related to Medicare/Medicaid crossover claims, and the remainder related to Medicaid-only claims.

We recommended that the State (1) refund $3,083,389, (2) establish controls to prevent such claims, (3) identify and return improper Federal funds claimed subsequent to our January 31, 2001, cutoff date, and (4) identify and return improper Federal funds claimed for the period July 1, 1987, through June 30, 1997. State officials generally agreed with our recommendations.

In our December 17, 2002, report (A-09-02-00079), we noted that from July 1, 1997, through January 31, 2001, California had generally effective controls that prevented Federal funds from being claimed for medical and ancillary services rendered to residents of private psychiatric hospitals who were in the excluded age group. Our report noted that the State claimed only a minor amount of improper Federal funds, and it contained no recommendations.

NEW JERSEY

Our March 7, 2003, report (A-02-02-01017) noted weaknesses in New Jersey’s controls. Although it was State policy not to claim Federal Medicaid funds for crossover (Medicare to Medicaid) inpatient psychiatric services provided to residents of private and county-operated IMDs who were in the excluded age group, we found that from December 1, 1991, through May 20, 2002, New Jersey improperly claimed $896,072 in Federal Medicaid funds for these services.

We recommended that New Jersey (1) refund $896,072, (2) identify and return Federal funds improperly claimed after May 20, 2002, and (3) periodically review the crossover edit in its computer system to ensure that it is functioning as intended. State officials agreed with all of our recommendations.

In our February 24, 2004, report (A-02-03-01017), we noted that from July 1, 1997, through June 30, 2001, New Jersey did not have controls in place to prevent Federal funds from being claimed for medical and ancillary services provided to residents of private and county-operated psychiatric hospitals who were in the excluded age group. Our report estimated that New Jersey improperly claimed $170,770 in Federal funds for these services. The report recommended that New Jersey (1) refund $170,770, (2) establish controls to prevent Federal funds from being...
claimed for medical and ancillary services, and (3) identify and refund any improper funds claimed subsequent to June 30, 2001. State officials concurred with our findings and recommendations.

VIRGINIA

In our October 30, 2001, report (A-03-00-00212), we noted that Virginia did not have controls to preclude Federal claims for IMD residents in the excluded age group. For the period July 1, 1997, through December 31, 2000, we identified $1,382,079 in improper Federal claims. Of this amount, $879,917 related to crossover claims paid directly to private IMDs for inpatient psychiatric services. The remainder of the improper claims related to other types of services. We recommended that Virginia refund $1,382,079 (including $879,917 related to inpatient psychiatric services) and establish controls to prevent unallowable Federal claims. State officials generally agreed.

Our August 29, 2003, report (A-03-02-00206) noted that Virginia had not established controls to prevent Federal funds from being claimed for medical and ancillary services provided to residents of private IMDs who were in the excluded age group. We identified $127,678 in unallowable Federal claims during the period July 1, 1997, through June 30, 2001. Our report recommended that Virginia refund $127,678 and establish controls to prevent unallowable Federal claims. State officials had no dispute with our findings; however, they requested that the findings be waived because they had no way to identify the affected IMD recipients.

TEXAS

Our January 9, 2003, report (A-06-02-00026) noted that Texas did not have controls to prevent improper Federal claims for medical and ancillary services. For the period September 1, 1997, through August 31, 2000, the State improperly claimed $555,341 in Federal funds for medical and ancillary services provided to residents of private IMDs who were in the excluded age group.

We recommended that the State (1) refund $555,341, (2) identify and return improper Federal funds claimed subsequent to our August 31, 2000, cutoff date, (3) cease claiming Federal funds for medical and ancillary services provided to residents of private IMDs who were in the excluded age group, and (4) develop controls or edits in the MMIS to detect and prevent such claims. State officials generally agreed with our recommendations.

MARYLAND

In our March 25, 2003, report (A-03-00-00214), we noted that Maryland did not have controls to prevent Federal funding from being claimed for inpatient psychiatric services. For the period...
January 1, 1997, to December 31, 2000, we identified improper Federal payments totaling $2,093,729. Of this amount, $231,170 related to inpatient psychiatric services provided to residents of private IMDs. The remainder of the improper claims related to other types of services.

We recommended that Maryland refund $2,093,729 (including $231,170 related to inpatient psychiatric services) and, among other things, establish controls to prevent unallowable Federal claims. Maryland officials generally disagreed with our findings and recommendations on improperly claimed Federal funds.

NEW YORK

In our May 31, 2002, report (A-02-01-01006), we noted that although controls existed to prevent Federal funding from being claimed for inpatient psychiatric and alcoholism services, the State did not have controls to prevent Federal funding from being claimed for other types of medical and ancillary services provided to residents of private psychiatric hospitals who were in the excluded age group. We estimated that the State improperly claimed $112,925 in Federal funds. Of this amount, $75,183 was for medical and ancillary services, $36,710 was for inpatient claims, and the remaining $1,032 was for an improper inpatient psychiatric hospital claim.

We recommended that New York (1) refund $112,925, (2) establish controls to prevent such claims, and (3) identify and return improper Federal funds claimed subsequent to our September 30, 2000, cutoff date. New York officials did not concur with $15,508 of the $112,925 that our audit questioned but did concur with the remaining portion.

FLORIDA

Our September 30, 2002, report (A-04-02-02009) noted that for the period July 1, 1997, through June 30, 2001, Florida had generally adequate controls to prevent Federal claims for IMD residents in the excluded age group. Nevertheless, we found that the State improperly claimed $92,726 in Federal funds.

Florida officials disagreed with our recommendation to refund the $92,726 because the claims in question were for Supplemental Security Income recipients. In response, our report stated that because these individuals were residents of IMDs who were in the excluded age group, Federal Medicaid funding on their behalf was prohibited.
This report was prepared under the direction of Timothy J. Horgan, Regional Inspector General for Audit Services. Other principal Office of Inspector General staff who contributed include:

John Berbach, *Audit Manager*
Kevin Smith, *Senior Auditor*
Victoria Inzerillo, *Auditor*

For information or copies of this report, please contact the Office of Inspector General’s Public Affairs office at (202) 619-1343.