

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**TENNESSEE INCORRECTLY REPORTED
COSTS FOR INDIVIDUALS WITH
INTELLECTUAL AND DEVELOPMENTAL
DISABILITIES**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



**Lori S. Pilcher
Regional Inspector General**

**April 2013
A-04-12-08016**

Office of Inspector General

<https://oig.hhs.gov>

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EXECUTIVE SUMMARY

Tennessee calculated its payment rates for State-operated intermediate care facilities for individuals with intellectual and developmental disabilities in accordance with Federal requirements. However, Tennessee incorrectly reported expenditures to the Federal Government.

WHY WE DID THIS REVIEW

Tennessee's payment rates for State-operated intermediate care facilities for beneficiaries with intellectual and developmental disabilities (ICF-IDD) from July 1, 2009, through June 30, 2011 (State fiscal years (SFY) 2010 and 2011), were 178 to 285 percent higher than the average payment rates for privately operated facilities. In addition, Tennessee was one of the States with the highest per capita expenditures in the nation for ICF-IDDs during the same period. Previous audits in other States identified excessive payment for beneficiaries with intellectual and developmental disabilities (A-02-10-01027, A-02-11-01029, and A-02-10-01029).

The objective of our audit was to determine whether Tennessee calculated and reported its payment rates for State-operated intermediate care facilities for beneficiaries with intellectual and developmental disabilities in accordance with Federal requirements.

BACKGROUND

In Tennessee, the Bureau of TennCare (State agency) within the Tennessee Department of Finance and Administration is the State agency responsible for administering the State's Medicaid program. The Tennessee Department of Intellectual and Developmental Disabilities (DIDD) is the State agency responsible for providing services and support to Tennesseans with intellectual and developmental disabilities. DIDD oversees State-operated ICF-IDDs, which include State-operated and privately operated facilities with 30 or more beds.

The State submits to the Centers for Medicare & Medicaid Services (CMS) quarterly reports summarizing its Medicaid ICF-IDD expenditures on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program, Form CMS-64 (CMS-64). CMS uses the information on the CMS-64 to reimburse States for the Federal share of Medicaid expenditures.

WHAT WE FOUND

Tennessee calculated its payment rates in accordance with Federal requirements in SFYs 2010 and 2011. However, the State agency incorrectly reported costs on its CMS-64 for reimbursement of services provided to beneficiaries with intellectual and developmental disabilities in the category for nursing facility (line 3 on the CMS-64) instead of in the category for ICF-IDD (lines 4a and 4b on the CMS-64). Nevertheless, this incorrect reporting did not result in Tennessee receiving any overpayments from the Federal Government.

These reporting errors occurred because the State's accounting systems did not properly identify and separate the ICF-IDD public and private costs from the nursing facility general costs. In

addition, the State agency did not have a process to reconcile the amounts reported on its CMS-64s either to the monthly reports from the Medicaid Management Information System (MMIS) or to the new State accounting system. As a result, the CMS-64 quarterly reports that Tennessee originally filed were not an effective monitoring tool for expenditures for ICF-IDDs in Tennessee.

Because of our review and findings, the State agency submitted a revised CMS-64 with a prior period adjustment of \$19,187,313 (\$13,925,132 Federal share) to correctly report ICF-IDD expenditures for SFYs 2010 and 2011. We did not review the CMS-64 reports for quarters prior to or after our audit period.

WHAT WE RECOMMEND

We recommend that the State agency work with CMS to:

- update the Edison system to ensure that costs reported on the CMS-64 for State-operated and privately operated ICF-IDD providers for line 3 (Nursing Facility), line 4a (ICF-IDD – Public), and line 4b (ICF-IDD – Private) are correct and
- improve controls over CMS-64 accuracy and support by generating and maintaining monthly reports from the MMIS and by reconciling the MMIS reports to the accounting system that the State uses to prepare its CMS-64s.

STATE AGENCY COMMENTS

In comments on our draft report, the State agency stated that it concurred with the findings outlined in our draft report. It stated that incorrect mapping of the data led to expenditures reported on incorrect lines in the CMS-64, but the total dollars reported were correct. Additionally, it has rectified the observed issues and strengthened its controls over reconciling the MMIS to the CMS-64.

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INTRODUCTION

WHY WE DID THIS REVIEW

Tennessee's payment rates for State-operated intermediate care facilities for beneficiaries with intellectual and developmental disabilities (ICF-IDD) from July 1, 2009, through June 30, 2011 (State fiscal years (SFY) 2010 and 2011), were 178 to 285 percent higher than the average payment rates for privately operated facilities. In addition, Tennessee was one of the States with the highest per capita expenditures in the nation for ICF-IDDs during the same period. Previous audits in other States identified excessive payment for beneficiaries with intellectual and developmental disabilities (A-02-10-01027, A-02-11-01029, and A-02-10-01029).

OBJECTIVE

Our objective was to determine whether Tennessee calculated and reported its payment rates for State-operated intermediate care facilities for beneficiaries with intellectual and developmental disabilities in accordance with Federal requirements.

BACKGROUND

Tennessee's Medicaid Program

In Tennessee, the Bureau of TennCare (State agency) within the Tennessee Department of Finance and Administration is the State agency charged with responsibility for administering the State's Medicaid program. Tennessee's Medicaid program provides health care for approximately 1.2 million people and operates with an annual budget of approximately \$8 billion.

For SFYs 2010 and 2011, the State reported to the Centers for Medicare & Medicaid Services (CMS) \$439,502,336 (\$327,157,494 Federal Share) in ICF-IDD expenditures for a variety of services provided to beneficiaries with intellectual and developmental disabilities. During our audit period, the State operated 3 ICF-IDDs with 30 or more beds and 17 small residential homes located in community settings. The State agency reported Medicaid expenditures on behalf of 443 beneficiaries at these 20 facilities, totaling \$255,759,031 (\$190,480,037 Federal share). In addition, to the State-operated facilities, Tennessee has 112 private small residential ICF-IDD homes located in community settings. The State agency reported Medicaid expenditures on behalf of 770 beneficiaries at these 112 private ICF-IDDs totaling \$183,743,305 (\$136,677,457 Federal share).

On January 15, 2011, responsibility for services regarding developmental disabilities was transferred from the Tennessee Department of Mental Health to the Tennessee Department of Intellectual and Developmental Disabilities (DIDD).

In Tennessee, Medicaid dollars are used to fund both institutional care and home and community-based services for people with intellectual disabilities. Intermediate care facilities, including State-operated developmental centers, provide institutional care. Having closed

Arlington Developmental Center in October 2010, Tennessee now serves approximately 336 persons in the 2 remaining developmental centers: Clover Bottom in Nashville and Greene Valley in Greeneville. The State also provides ICF-IDD services to approximately 68 persons in smaller homes located in community settings. Private agencies also participate in the ICF-IDD program and serve approximately 700 people across the State.

The State agency uses the Medicaid Management Information System (MMIS), a computerized payment and information reporting system, to process and pay Medicaid claims. The State submits to the CMS quarterly reports summarizing its Medicaid ICF-IDD expenditures on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program, Form CMS-64 (CMS-64). CMS uses the information on the CMS-64 to reimburse States for the Federal share of Medicaid expenditures.

Tennessee's Intermediate Care Facilities for Beneficiaries With Intellectual and Developmental Disabilities

In Tennessee, the DIDD maintains a system of supports and services for persons with intellectual and developmental disabilities. ICF-IDDs provide 24-hour onsite assistance and training, intensive clinical and direct-care services, supervised activities, and a variety of therapies. Developmental disabilities include a variety of conditions that cause mental or physical limitation (e.g., autism and cerebral palsy).

Tennessee's payment rates for State-operated ICF-IDDs in SFYs 2010 and 2011 were 178 to 285 percent higher than the average payment rates for privately operated facilities. During this period, the per-patient payment rate at the 20 State-operated facilities ranged from \$794 to \$1,272 per day, an average payment rate of \$969 per day.

In recent years, the State has taken steps to transition from large State-run institutions to smaller, community-based homes. During this period, the per-patient payment rate at the 112 privately operated facilities ranged from \$172 to \$868 per day, an average payment rate of \$446 per day.

HOW WE CONDUCTED THIS REVIEW

We obtained and reviewed the ICF-IDD's cost reports for SFYs 2010 and 2011 and recalculated the Medicaid daily rates using the actual costs reported in the cost reports. We then compared the number of patients, types of services, and payment rates for State-operated and privately operated ICF-IDDs. We further compared expenditures and occupancy levels reported on the cost reports received for the State-operated facilities to those of the privately operated facilities. We also obtained and reviewed the State agency's MMIS data for all ICF-IDD claims paid from July 1, 2009, through June 30, 2011, and compared this information to the CMS-64s submitted to CMS for quarters ending September 30, 2009, through June 30, 2011, to determine the Medicaid reimbursement expenditures reported to CMS for ICF-IDD services.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A contains the details of our audit scope and methodology, and Appendix B lists the Federal requirements related to payment rates and reporting requirements for ICF-IDDs. Appendix C contains a list of related OIG reports.

FINDINGS

Tennessee calculated its payment rates in accordance with Federal requirements in SFYs 2010 and 2011. However, the State agency incorrectly reported costs on its CMS-64 for reimbursement of services provided to beneficiaries with intellectual and developmental disabilities in the category for nursing facility (line 3 on the CMS-64) instead of in the category for ICF-IDD (lines 4a and 4b on the CMS-64). Nevertheless, this incorrect reporting did not result in Tennessee receiving any overpayments from the Federal Government.

These reporting errors occurred because the State's accounting systems did not properly identify and separate the ICF-IDD public and private costs from the nursing facility general costs. In addition, the State agency did not have a process to reconcile the amounts reported on its CMS-64s either with the monthly reports from the MMIS or with the new State accounting system. As a result, the CMS-64 quarterly reports that Tennessee originally filed were not an effective monitoring tool for expenditures for ICF-IDDs in Tennessee.

Because of our review and findings, the State agency submitted a revised CMS-64 with a prior period adjustment of \$19,187,313 (\$13,925,132 Federal share) to correctly report ICF-IDD expenditures for SFYs 2010 and 2011. We did not review the CMS-64 reports for quarters prior to or after our audit period.

PAYMENT RATES CALCULATED IN ACCORDANCE WITH FEDERAL REQUIREMENTS

Although the payment rates for Tennessee's State-operated ICF-IDDs are higher than those of privately operated ICF-IDDs, they are calculated in accordance with Federal requirements. The per diem rates are higher because of the higher costs to run these large, older facilities and because the patients tend to be more medically fragile. In an attempt to reduce costs, DIDD is in the process of closing these large State-operated facilities and, in their place, building several smaller facilities similar to the privately run ICF facilities.

INCORRECTLY REPORTED COSTS

The State incorrectly reported some IDD costs in the category for nursing facility (line 3 on the CMS-64) instead of in the category for ICF-IDD (line 4a and 4b on the CMS-64). These reporting errors occurred because the State's accounting systems did not properly identify and separate costs. Specifically, on September 1, 2009, the State agency's accounting department changed accounting systems used to prepare their CMS-64s. The previous State accounting system was the Stars system and the current replacement State accounting system is the Edison

system. Neither the Stars nor the Edison system properly identified and separated the ICF-IDD public and private costs from the nursing facility general costs. Stars put ICF-IDD costs under general nursing home costs, and Edison did not separate State costs from private institution costs accurately.

In addition, the State agency did not have a process in place to reconcile monthly reports generated from the MMIS, the new accounting system, and the CMS-64s. The State agency used the MMIS to process and pay Medicaid claims, but the payment amounts generated by the MMIS could not be reconciled to the costs reported on its CMS-64s. As a result, the Federal share of expenditures reported to CMS for ICF-IDDs was not accurate. Nevertheless, this inaccurate reporting did not result in Tennessee receiving any overpayments from the Federal Government.

Subsequent to our discussions with the State agency, they submitted a revised CMS-64 with a prior period adjustment of \$19,187,313 (\$13,925,132 Federal share) to correctly report ICF-IDD expenditures for SFYs 2010 and 2011.

RECOMMENDATIONS

We recommend that the State agency work with CMS to:

- update the Edison system to ensure that costs reported on the CMS-64s for State-operated and privately operated ICF-IDD providers for line 3 (Nursing Facility), line 4a (ICF-IDD¹ – Public), and line 4b (ICF-IDD – Private) are correct and
- improve controls over CMS-64 accuracy and support by generating and maintaining monthly reports from the MMIS and by reconciling the MMIS reports to the accounting system that the State uses to prepare its CMS-64s.

STATE AGENCY COMMENTS

In comments on our draft report, the State agency stated that it concurred with the findings outlined in our draft report. It stated that incorrect mapping of the data led to expenditures reported on incorrect lines in the CMS-64, but the total dollars reported were correct. Additionally, it has rectified the observed issues and strengthened its controls over reconciling the MMIS to the CMS-64.

The State agency's comments are included in their entirety as Appendix D.

¹ Although both State and Federal laws have replaced the term “mental retardation” with “intellectual disability,” the phrase “mentally retarded” remains in the title of line 4a and 4b of the CMS-64 at this time.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered per diem payments for Medicaid beneficiaries residing in State-operated intermediate care facilities for beneficiaries with intellectual and developmental disabilities for SFYs 2010 and 2011. For this period, the State agency reported Medicaid expenditures on behalf of 23,569 claims for 1,152 beneficiaries, totaling \$439,502,336 (\$327,157,494 Federal Share).

During our audit, we did not review the overall internal control structure of the State agency, DIDD, or the Medicaid program. Instead, we limited our internal control review to those controls related to the objective of our audit. While we examined selected expenditures from facility cost reports, we did not verify the accuracy of all cost information provided by the State.

We performed fieldwork at the State agency, DIDD, and Tennessee's State Comptroller's Office in Nashville, Tennessee, from May through July 2012.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations and the Medicaid State plan;
- held discussions with officials from CMS, the State agency, DIDD, and Tennessee's State Comptroller Office to gain an understanding of the State's rate-setting methodology;
- obtained MMIS data from the State agency for all ICF-IDD claims paid from July 1, 2009, through June 30, 2011;
- obtained CMS-64 reports from CMS for quarters ending September 30, 2009, through June 30, 2011, to determine the Medicaid expenditures that the State agency had reported to CMS for ICF-IDD services;
- interviewed officials from the State's largest ICF-IDD (Clover Bottom Developmental Center) to understand how an ICF-IDD is managed;
- interviewed officials from a privately operated ICF-IDD (Mur-Ci ICF-IDD) to understand the facility's operations;
- recalculated the SFY 2010 and 2011 Medicaid daily payment rates for ICF-IDDs using cost reports provided by the State;
- compared the payment rates on the cost reports for SFYs 2010 and 2011 to the payment rates on the State-provided MMIS data;

- compared MMIS payment rates for the State-operated ICF-IDDs to the MMIS payment rates for privately operated ICF-IDDs;
- compared the number of patients and types of services provided at the State-operated ICF-IDDs with those at the privately operated ICF-IDDs; and
- compared expenditures and occupancy levels reported on the cost reports received for the State-operated facilities to those from the privately operated facilities.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX B: FEDERAL REQUIREMENTS

INTERMEDIATE CARE FACILITY PAYMENT CALCULATION METHODOLOGY

Section 1902(a)(30)(A) of the Social Security Act requires that payment for services be consistent with efficiency, economy, and quality of care. The Medicaid State plan for medical assistance provides the methods and procedures related to the utilization of and the payment for care and services to assure that payments are consistent with efficiency, economy, and quality of care.

The Tennessee Medicaid program pays providers the amount determined for services furnished at an intermediate care facility in accordance with the requirements of the Tennessee State plan. A complex methodology, detailed in Attachment 4.19-D, Part II of the State's Medicaid plan, establishes the ICF-IDDs payment rates and sets forth the methods and standards for establishing the rates as follows:

II. Nursing Facilities Providing Level I Care

A. Reimbursement Principles – Effective August 16, 1980, reimbursement for Nursing Facility services (Level I care) shall be on a reasonable cost-related basis. Participation in the program shall be limited to those providers of service who agree by contract to accept as payment in full the amounts paid in accordance with the cost rates determined by the methods described herein....

3. Expenses related to disallowed capital expenditures, such as depreciation, interest on borrowed funds, the return on equity capital in the case of proprietary providers, and repairs are not allowable costs....

6. The reimbursement of excessive costs arising from low occupancy is not consistent with the intent of the Intermediate Care Program. Accordingly, the calculated rate, before application of any ceilings, shall be recalculated....

8. The payment rate for program services shall not exceed the facility's customary charges to the general public for such services....

12. A one year trending factor shall be computed for facilities that have submitted cost reports covering at least six months of program operations. For facilities that have submitted cost reports covering at least three full years of program participation, the trending factor shall be the average cost increase over the three year period, limited to the 75th percentile trending factor of facilities participating for at least three years. Negative averages shall be considered zero. For facilities that have not completed three full years in the program, the one year trending factor shall be the 50th percentile trending factor of facilities participating in the program for at least three years. For facilities that have failed to file timely cost reports, the trending factor shall be zero....

E. 2. The maximum per diem payment level for [ICF-IDD] shall be reasonable allowable costs or charges, whichever is less.

The rate calculation in the Tennessee State plan specifies that payment rates should be calculated using the prior year allowable cost, a cost increase factor, a return on equity, an incentive factor for cost containment, and any allowable costs as may be required by the Commissioner of the Department of Finance and Administration. CMS has approved numerous State plan amendments related to this methodology.

STATE REPORTING REQUIREMENTS

With respect to State reporting requirements, the *Medicaid Program Integrity Manual*, Chapter 11, section 11000, states:

[T]he Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (Form CMS 64) is a quarterly statement of actual program costs and administrative expenditures for which States are entitled to Federal reimbursement under the authority of Title XIX of the Act. Form CMS 64 is also the vehicle for adjustments made to correct overpayments and underpayments. Spending reported on Form CMS 64 is a tabulation of actual, documented Medicaid expenditures, drawn from source documents such as invoices, cost reports and eligibility records. If a State is unable to document a claim for expenditures made in the current quarter, the claim must be withheld until it can be supported. The State then reports the amount on a future Form CMS 64 as a prior period adjustment. Spending therefore reflects all expenditures made during the quarter, not all services used.

APPENDIX C: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Report Title	Report Number	Date Issued
New York Claimed Some Unallowable Costs for Services by New York City Providers Under the State’s Developmental Disabilities Waiver Program	A-02-10-01027	08/14/12
Medicaid Rates for New York State-Operated Developmental Centers May Be Excessive	A-02-11-01029	05/17/12
Review of Medicaid Payments for Services Under New Jersey’s Section 1915(c) Community Care Waiver Program From January 1, 2005, Through December 31, 2007 Audit	A-02-10-01029	04/20/12

APPENDIX D: STATE AGENCY COMMENTS



STATE OF TENNESSEE
DEPARTMENT OF FINANCE AND ADMINISTRATION
DIVISION OF HEALTH CARE FINANCE AND ADMINISTRATION
BUREAU OF TENNCARE
310 Great Circle Road
NASHVILLE, TENNESSEE 37243

April 4, 2013

Report # A-04-12-08016

Ms. Lori S. Pilcher,
Regional Inspector General
Office of Audit Services, Region IV
Office of Inspector General
Department of Health and Human Services
61 Forsyth Street, SW, Suite 3T41
Atlanta, GA 30303

Dear Ms. Pilcher:

I have reviewed the draft audit report issued on March 20, 2013, by your office entitled *Tennessee Incorrectly Reported Costs for Individuals with Intellectual and Developmental Disabilities*. I would like to provide the following written comments per your request:

We concur with the findings outlined in the draft report. However, we would like to provide clarification on the details provided in the section found under the heading *Incorrectly Reported Costs* located on page three of the draft report. This section makes multiple references to costs not being correctly reported due to costs not being properly identified in the State's accounting system referred to as both STARS and Edison. The errors actually occurred due to incorrect mapping in the MMIS claims system and resulted in data being transmitted to the incorrect program code in the accounting system. The State's accounting system and the MMIS system reconciled. **The incorrect mapping of the data to program codes in the accounting system led to expenditures reported on incorrect lines in the CMS 64, but the total dollars reported were correct.**

We have rectified the observed issues and strengthened our controls over reconciling the MMIS to the CMS-64. We have augmented our quarterly procedures within our federal reporting and reconciliation section in the Accounting Division that reconcile information from the MMIS system to the CMS 64 on a quarterly basis to prevent the reporting of information on different lines from occurring in the future.

We appreciate the opportunity to work with your staff and to receive feedback on how to improve upon our current processes. We welcome any further discussion you may wish to have on the comments we have included. Please let me know if you need any additional information.

Sincerely,



Darin J. Gordon, Director
Health Care Finance and Administration

Cc: Jackie Glaze
Casey Dungan
Margaret Walker
Vickie Guye