

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CALIFORNIA INCORRECTLY CLAIMED
MEDICAID EXPENDITURES FOR INDIAN
HEALTH SERVICE FACILITIES ON THE
CMS-64**

*Inquiries about this report may be addressed to the Office of Public Affairs at
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Sheri L. Fulcher
Regional Inspector General
for Audit Services

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Office of Inspector General

<http://oig.hhs.gov>

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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.

INTRODUCTION

California incorrectly claimed Medicaid expenditures at Indian Health Service facilities on the CMS-64.

WHY WE DID THIS REVIEW

The Federal Government pays a share of a State's medical assistance expenditures under Medicaid based on the Federal medical assistance percentage (FMAP). However, it reimburses States for services provided through Indian Health Service (IHS) facilities at an enhanced FMAP rate of 100 percent. Prior Office of Inspector General reviews¹ determined that State agencies incorrectly claimed expenditures as services provided through IHS facilities, therefore receiving unallowable Federal reimbursement. We conducted this audit to determine whether California claimed Medicaid expenditures at IHS facilities, in accordance with Federal requirements.

OBJECTIVE

Our objective was to determine whether the State agency correctly claimed Medicaid expenditures on the CMS-64 for IHS facilities at the enhanced FMAP rate from October 1, 2007 through September 30, 2014, in accordance with Federal requirements.

BACKGROUND

Medicaid Program: How It Is Administered and How States Claim Federal Reimbursement for Their Expenditures

The Medicaid program provides medical assistance to low-income individuals and individuals with disabilities and along with the Medicare program, represents one of the largest areas of spending in the Federal Government. In contrast to the Medicare program, both the Federal and State Governments jointly fund and administer the Medicaid program.

At the Federal level, the Centers for Medicare & Medicaid Services (CMS), an agency with the Department of Health and Human Services (DHHS), administers the Medicaid program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. In California, the California Department of Health Care Services (State agency) administers the Medicaid program. The State plan establishes which services the Medicaid program will cover. 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 expenditures under Medicaid based on the FMAP, which varies depending on the State's relative per capita income.

¹ *Review of the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program in Oklahoma*, (A-06-09-00097, issued July 5, 2011) and *Indiana Incorrectly Reported Expenditures on the Form CMS-64 at the Enhanced Federal Medical Assistance Percentage Rate*, (A-05-14-00011, issued May 22, 2014).

Although FMAPs are adjusted annually for economic changes in the States, Congress may increase FMAPs at any time. Certain Medicaid services receive a higher FMAP, including family planning services (90 percent) and services provided through an IHS facility (100 percent). CMS's *State Medicaid Manual* instructs States to use Column (c) of the CMS-64.9 to report expenditures provided by IHS facilities.

HOW WE CONDUCTED THIS REVIEW

We selected 4 quarters with a total of \$45,554,249 in Medicaid expenditures that the State agency reported for IHS facilities in Column (c) of the CMS-64.9 from October 1, 2007 through September 30, 2014 (FFY 2008 through 2014). We reviewed supporting records that the State agency maintained but did not evaluate claims submitted by providers to determine their validity.

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 contains the Federal requirements related to reporting Medicaid expenditures at the IHS facilities' rate.

FINDING

The State agency did not correctly claim Medicaid expenditures at IHS facilities on the CMS-64 from October 1, 2007 through September 30, 2014, in accordance with Federal requirements. The State agency incorrectly reported current Medicaid expenditures for IHS facilities in Column (b) of the CMS-64.9, which is for the regular FMAP rate. In subsequent quarters, the State agency adjusted Column (b) to remove IHS facility expenditures and correctly added them to Column (c). Although the expenditures were subsequently corrected, the State agency has had gaps in reporting IHS facility expenditures and continues to report current period IHS facility expenditures in Column (b).

This error occurred because the State agency does not have adequate procedures in place to distinguish regular Medicaid expenditures from IHS facility expenditures. The State agency's fiscal intermediary sends it a report that combines regular Medicaid expenditures with IHS facility expenditures. The State agency then reports those amounts in Column (b) of the CMS-64.9 as current period expenditures. Once the IHS facilities have sent in their quarterly reports, the State agency reconciles those reports and adjusts entries, in subsequent quarters, to remove IHS facility expenditures from Column (b) and add them to Column (c).

EXPENDITURES NOT REPORTED CORRECTLY ON CMS-64

CMS's *State Medicaid Manual* instructs States to use Column (c) of the CMS-64.9 to report expenditures provided by IHS facilities. The State agency did not correctly claim current period Medicaid expenditures at IHS facilities in Column (c) on the CMS-64.9. Instead, the State agency claimed all current period IHS expenditures in Column (b). Later, in subsequent reporting periods, the State agency made adjustments to the appropriate quarters by removing the IHS expenditures from Column (b) and correctly adding them to Column (c). Although the expenditures were subsequently corrected, the State agency has had gaps in reporting IHS facility expenditures and continues to incorrectly report current period IHS facility expenditures in Column (b).

RECOMMENDATIONS

We recommend that the State agency:

- work with CMS to develop procedures that would distinguish current period IHS facility expenditures from regular Medicaid expenditures,
- establish procedures to ensure that current period IHS facility expenditures are reported correctly in Column (c) of the CMS-64, and
- establish procedures to ensure that IHS facility expenditures are reported timely on the CMS-64.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency agreed with our first and second recommendations and described corrective actions it planned to take. It agreed with our third recommendation but stated that it's not feasible to ensure that all current period IHS facility expenditures are reported timely. However, the State agency proposed new procedures that would require IHS facilities provide their data earlier so IHS facility expenditures can be reported timely.

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

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

From the audit period October 1, 2007 through September 30, 2014, we selected 4 quarters with a total of \$45,554,249 in Medicaid expenditures that the State agency reported for IHS facilities in Column (c) of the Form CMS-64.9.

We limited our review of supporting documentation to records that the State agency maintained but did not evaluate claims submitted by providers to determine their validity. Our objectives did not require a review of the overall internal control structure of the State agency. Therefore, we limited our internal control review to the State agency's procedures for reporting Medicaid expenditures on the CMS-64 report.

We conducted audit work from January through June 2015.

METHODOLOGY

To accomplish our objectives, we:

- reviewed applicable Federal laws and regulations and sections of the State plan;
- interviewed State agency officials to obtain an understanding of their policies and procedures for reporting Medicaid expenditures on the CMS-64 report;
- traced expenditures reported at IHS facilities to detailed records and analyzed those records; 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 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

FEDERAL REQUIREMENTS FOR REPORTING MEDICAID EXPENDITURES AT THE INDIAN HEALTH SERVICE FACILITIES' RATE

Section 1905(b) of the Act and 42 CFR § 433.10(c)(2) authorize reimbursement for services provided through IHS facilities at 100 percent.

The CMS State Medicaid Manual (the Manual) section 2500.2(C) states the FMAP is 100 percent for services received by Indians through an IHS facility, whether operated by the IHS, an Indian Tribe, or a tribal organization. The Manual states to use Column (c) of Form CMS-64.9 to report expenditures for medical assistance made in accordance with the Indian Health Care Improvement Act (P. L. No. 94-437).

APPENDIX C: STATE AGENCY COMMENTS



State of California—Health and Human Services Agency
Department of Health Care Services



EDMUND G. BROWN JR.
GOVERNOR

Ms. Sheri Fulcher
Regional Inspector General for Audit Services
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Dear Ms. Fulcher:

The California Department of Health Care Services (DHCS) has prepared its response to the U.S. Department of Health and Human Services, Office of Inspector General (OIG) draft report entitled, *California Incorrectly Claimed Medicaid Expenditures at Indian Health Service Facilities on the CMS-64 (A-05-15-00018)*.

DHCS appreciates the work performed by OIG and the opportunity to respond to the draft report. Please contact Ms. Sarah Hollister, Audit Coordinator, at (916) 650-0298 if you have any questions.

Sincerely,



Jennifer Kent
Director

Enclosure

cc: Karen Johnson, Chief Deputy Director

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**Department of Health Care Services Response to OIG Draft Audit Report:
California Incorrectly Claimed Medicaid Expenditures at Indian Health
Service Facilities on the CMS-64 (A-05-15-00018)**

Finding #1: **The State agency did not correctly claim Medicaid expenditures at IHS facilities on the CMS-64 from October 1, 2007 through September 30, 2014, in accordance with Federal requirements.**

The State agency incorrectly reported current Medicaid expenditures for Indian Health Service (IHS) facilities in Column (b) of the CMS-64.9, which is for the regular Federal medical assistance percentage (FMAP) rate. In subsequent quarters, the State agency adjusted Column (b) to remove IHS facility expenditures and correctly added them to Column (c). Although the expenditures were subsequently corrected, the State agency had gaps in reporting IHS facility expenditures and continues to report current period IHS facility expenditures in Column (b).

Finding #2: **The State agency does not have adequate procedures in place to distinguish regular Medicaid expenditures from IHS facility expenditures.**

The State agency's fiscal intermediary sends a report that combines regular Medicaid expenditures with IHS facility expenditures. The State agency then reports those amounts in Column (b) of the CMS-64.9 as current period expenditures. Once the IHS facilities have sent in their quarterly reports, the State agency reconciles those reports and adjusts entries, in subsequent quarters, to remove IHS facility expenditures from Column (b) and add them to Column (c).

Recommendation 1: **DHCS should work with CMS to develop procedures that would distinguish current period IHS facility expenditures from regular Medicaid expenditures.**

Response: DHCS agrees with the recommendation

DHCS agrees they should work with CMS to develop procedures that would assist in distinguishing current period IHS facility expenditures to allow for timelier claiming on the CMS-64. DHCS recognizes that the ability for states to receive 100 % FMAP for services provided to IHS-eligible American Indians is based on a Memorandum of Agreement (MOA) between Federal IHS and the

federal Centers for Medicare and Medicaid Services (CMS) (formerly the Health Care Financing Administration). The MOA establishes roles for both CMS and IHS, which includes the provision of the data to states to aid in FMAP claiming. Notably, DHCS is unable to determine from internal data the number of IHS-eligible American Indians receiving services at IHS facilities. DHCS must rely on data received from IHS facilities in order to claim 100% FMAP. The MOA requires CMS to provide technical assistance (TA) to states on the implementation of the MOA. DHCS will request TA from CMS on the development of procedures that would ensure timelier reporting of expenditures from IHS facilities. This could include the release of CMS guidance to IHS facilities to require timely reporting to states in order for continued participation in the MOA as it is incumbent upon IHS and CMS to uphold the MOA and provide the necessary support to facilitate the FMAP claiming process for states.

DHCS will work with CMS on the development and implementation of procedures by July 1, 2016.

Recommendation 2: **DHCS should establish procedures to ensure that current period IHS facility expenditures are reported correctly in Column (c) of the CMS-64.**

DHCS Response: DHCS agrees with the recommendation.

DHCS agrees with this finding; however, it may not be feasible to ensure that all current period IHS facility expenditures are reported timely in Column C of the CMS-64. DHCS could establish new procedures that would change the deadline for reporting entities to 20 days after the end the quarter. This would enable DHCS to report expenditures more timely in Colum C of the CMS-64. Timely reporting by DHCS would be dependent upon compliance with the new reporting timelines by the IHS facilities

DHCS anticipates completion of this change in procedures by July 1, 2016.

Recommendation 3: **DHCS should establish procedures to ensure that IHS facility expenditures are reported timely on the CMS-64.**

DHCS Response: DHCS agrees with this finding, unfortunately it is not feasible to ensure that all current period IHS facility expenditures are reported timely in Column C of the CMS-64. As previously noted, DHCS proposes the development of new procedures that would require that IHS facilities provide DHCS with their data no later than 20 days following the end of the quarter. If reporting entities are compliant with the new timelines, the IHS expenditures would be included timely in Column C.

DHCS anticipates completion of this change in procedures by July 1, 2016.