



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region IX
50 United Nations Plaza, Rm. 171
San Francisco, CA 94102
(415) 437-8360 FAX (415) 437-8372

Report Number: A-09-03-00054

March 11, 2004

Ms. Lillian Koller
Director
Department of Human Services
State of Hawaii
P.O. Box 339
Honolulu, Hawaii 96809

Dear Ms. Koller:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General Report (OIG) entitled "Review of Title XXI Hawaii State Children's Health Insurance Program" for the period July 1, 2000 to June 30, 2002. A copy of this report will be forwarded to the action official noted below for her 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 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 HHS grantees and contractors are made available to members of the press and general public to the extent is not subject to exemptions in the Act which HHS chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to report number A-09-03-00054 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori A. Ahlstrand".

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures – as stated

Page 2 – Ms. Koller

Direct Reply to HHS Action Official:

Ms. Linda Minamoto
Associate Regional Administrator for Medicaid and Children's Health
Centers for Medicare and Medicaid Services
4th Floor
75 Hawthorne St.
San Francisco, California 94105

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF TITLE XXI HAWAII
STATE CHILDREN'S HEALTH
INSURANCE PROGRAM**



**MARCH 2004
A-09-03-00054**

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The OIG's Office of Audit Services (OAS) provides all 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 in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the department.

Office of Evaluation and Inspections

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

Office of Investigations

The OIG's Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties. The OI also oversees state Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

Office of Counsel to the Inspector General

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 in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

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

OBJECTIVE

Our objective was to determine whether the State of Hawaii Department of Human Services (State) properly reported and claimed State Children's Health Insurance Program (SCHIP) expenditures for the period July 1, 2000 through June 30, 2002. We also determined whether SCHIP beneficiaries met the program's eligibility requirements.

SUMMARY OF FINDINGS

For the 2-year period ended June 30, 2002, the State overstated its SCHIP expenditures by \$1,407,199, resulting in a \$947,411 overclaim of Federal matching funds. This overstatement occurred because the State (i) did not apply a \$1,053,191 credit for rate adjustments against the SCHIP program, and (ii) claimed \$354,008 of unallowable managed-care expenditures for individuals who were not eligible for the SCHIP program.

The State also incorrectly reported and claimed SCHIP fee-for-service (FFS) expenditures as Medicaid costs because of system reporting limitations. In addition, based on our sample review of 100 SCHIP beneficiaries, we found 6 beneficiaries who did not meet program eligibility requirements. The State's eligibility staff made various errors when determining the individuals' SCHIP eligibility. We did not recommend a financial adjustment because the dollar amount of the errors was immaterial.

RECOMMENDATIONS

We recommend that the State (i) credit the SCHIP program for \$1,407,199 of overstated expenditures and refund \$947,411 of overclaimed Federal matching funds, (ii) implement claims processing controls to separately identify SCHIP and Medicaid FFS expenditures so that they can be properly reported and claimed, (iii) work with the Centers for Medicare & Medicaid Services (CMS) to adjust Medicaid quarterly expenditures reports for prior periods to properly reflect SCHIP and Medicaid program costs, and (iv) educate its eligibility staff regarding the importance of properly calculating age and family income when determining if individuals qualify for the SCHIP program.

STATE'S COMMENTS

In its response to our draft report, the State agreed with each of our findings and recommendations except for the one concerning \$354,008 in unallowable SCHIP managed-care expenditures. Although the State felt that a majority of the recipients were eligible for the Medicaid program, it agreed to return the amount on the next Form CMS-64 report. We summarized the State's comments at the end of this report and included the complete text of the comments as the appendix.

OIG'S RESPONSE

The SCHIP program must be credited for the \$354,008 of unallowable expenditures, even though some of the children may be eligible for another program, such as Title XIX. SCHIP and Medicaid are separate programs, therefore the State must claim and account for each program separately.

INTRODUCTION

BACKGROUND

Titles XIX and XXI of the Social Security Act

The Medicaid program was enacted under Title XIX of the Social Security Act in 1965. The program provides grants to States for medical assistance programs. Medicaid is a matching entitlement program that provides necessary medical services to low-income families, elderly individuals, and persons with disabilities.

The SCHIP program was created under Title XXI of the Social Security Act, enacted by the Balanced Budget Act of 1997. The SCHIP program provides Federal matching funds to States to enable them to extend coverage to uninsured low-income children. Each State sets its own SCHIP eligibility standards.

Like Medicaid, the SCHIP is a State and Federal partnership, but the Federal match for SCHIP expenses is greater than the match for Medicaid¹. To prevent States from enrolling Medicaid-eligible beneficiaries in the SCHIP program, Title XXI requires States to screen SCHIP applicants for Medicaid eligibility.

Hawaii SCHIP Eligibility Requirements

Effective July 1, 2000, CMS approved the SCHIP program as a Medicaid expansion program under Hawaii's Title XXI State plan. In addition to the general eligibility requirements of residency, citizenship, social security number, and non-institutional status, the State's SCHIP program had three additional requirements:

- Child is under age 19.
- Child is uninsured.
- Family income exceeds the appropriate age-specific income limits but does not exceed 200 percent of the Federal Poverty Level (FPL) for a family of applicable size as follows.

<u>Age</u>	<u>Income must be greater than</u>	<u>But must not exceed</u>
Under 1	185% FPL	200% FPL
1 thru 5	133% FPL	200% FPL
6 thru 18	100% FPL	200% FPL

State Management of Medical Assistance Programs

Within the State, the Med-QUEST Division provided overall management of the plans, policies, regulations, and procedures of the State's SCHIP and Medicaid programs. These programs were

¹ During our audit period, the Federal Medicaid reimbursement rates for the State of Hawaii ranged from 51.01 to 56.34 percent. For the same period, the Federal SCHIP reimbursement rates ranged from 65.71 to 69.44 percent.

designed to provide medical services to eligible individuals and families through either the FFS program or the managed care program.

SCHIP Eligibility, Enrollment, and Claims Processing Systems

The State used the Hawaii Automated Welfare Information (HAWI) system to determine eligibility for all SCHIP beneficiaries. The HAWI also maintained eligibility information for Medicaid, welfare, food stamps, and other social programs. For the first 4 months of the SCHIP program, the HAWI system did not have a specific SCHIP program-category code. Therefore, the State had to modify its HAWI system to use combinations of the existing codes in order to identify SCHIP beneficiaries. The HAWI was also used to track enrollment data until November 2000.

In November 2000, the State created a new automated enrollment information system called the Hawaii Prepaid Medical Management Information System (HPMMIS). The State used the HPMMIS to process managed care applications (such as enrollment data, calculation of capitation amounts, and encounter data) and to pay monthly capitation amounts.

The State contracted with a fiscal agent to process and pay FFS claims. These claims were processed under the Medicaid Management Information System operated by the State's Medicaid fiscal agent, which relied on eligibility and enrollment data from the HAWI and HPMMIS systems. The fiscal agent also processed claims for those managed care beneficiaries awaiting enrollment in a managed-care health plan.

Quarterly Medicaid Statement of Expenditures (Form CMS-64)

Form CMS-64 is the accounting statement that States must submit each quarter under Title XIX of the Social Security Act. It shows the Medicaid grant funds for the current quarter and previous fiscal years, refunds received, and income earned on grant funds. The amount claimed on the Form CMS-64 is a summary of expenditures derived from source documents, such as invoices, cost reports, and eligibility records. Reporting of SCHIP expenditures is shown on Form CMS-64.21U, Quarterly Medical Assistance Expenditures by SCHIP Expenditure Categories, and Form CMS-64.21UP, Quarterly Medical Assistance Expenditures by SCHIP Expenditure Categories Prior Period Expenditures.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of our audit were to determine whether (i) the State properly reported and claimed SCHIP expenditures and (ii) SCHIP beneficiaries met the program's eligibility requirements.

Scope and Methodology

For the period July 1, 2000 through June 30, 2002, the State claimed SCHIP expenditures of \$8,892,354 on its Form CMS-64.21U, of which the Federal Government provided matching

funds in the amount of \$6,075,307. To accomplish the objectives of our audit, we performed the following audit steps:

- Reviewed the Federal laws and regulations relating to the Medicaid program in general and the SCHIP program specifically.
- Reviewed the State's Hawaii Administrative Rules and policy guidelines covering the Medicaid and SCHIP programs.
- Interviewed State officials to obtain an understanding of the SCHIP program and how it relates to the State's other Medicaid programs.
- Obtained and examined the Quarterly Medicaid Statement of Expenditures reports (CMS-64.9 forms and CMS-64.21U form) and the related supporting documentation.
- Conducted computer analyses comparing the supporting SCHIP documentation with the HAWI eligibility files.
- Selected a statistical sample of 100 SCHIP beneficiaries from the HAWI eligibility system containing 13,871 SCHIP beneficiaries with the program-category code of MS-KQ using the Office of Audit Service's Statistical Sampling Software program RAT-STATS.

Our review was conducted in accordance with generally accepted government auditing standards. We did not review the State's overall internal control structure since such a review was not necessary to accomplish the objectives of our audit. Our audit fieldwork was conducted from August 2003 through October 2003, and included site visits to the State's offices in Kapolei and Honolulu, Hawaii.

FINDINGS AND RECOMMENDATIONS

The State overstated its SCHIP expenditures by \$1,407,199, which resulted in a \$947,411 overclaim of Federal matching funds for the 2-year period ended June 30, 2002. This overstatement occurred because the State (i) did not apply a \$1,053,191 credit for rate adjustments applicable to the SCHIP program and (ii) claimed \$354,008 of unallowable managed care expenditures for individuals who were not eligible for the SCHIP program.

The State also incorrectly reported and claimed SCHIP FFS expenditures as Medicaid costs because of system reporting limitations. In addition, based on our sample review of 100 SCHIP beneficiaries, we found 6 beneficiaries who did not meet program eligibility requirements. The State's eligibility staff made various errors when determining the individuals' SCHIP eligibility. Because the dollar amount of the errors was immaterial, we did not recommend a financial adjustment.

SCHIP CREDIT ADJUSTMENT FOR MANAGED CARE

For the 6-month period July through December 2000, the State reported \$2,021,448 of SCHIP managed-care plan expenditures on its Medicaid quarterly expenditure reports (Form CMS-64.21U). Of this amount, \$230,663 was related to nonmedical costs (i.e., dental plan and behavioral health plan costs) and was properly charged to the SCHIP program. However, the remaining \$1,790,785 represented medical plan payments based on unadjusted capitation rates.

Each managed care plan calculated the unadjusted capitation rates based on the anticipated population of beneficiaries on each island. However, the State recognized that there were different risk characteristics associated with the beneficiaries. These different risk characteristics were based on age, gender, and geographic location. Therefore, the State adjusted the capitation rates to reflect the characteristics of the population served.

Using the adjusted capitation rates, the State retroactively calculated the applicable credit adjustment amount of \$1,053,191 related to SCHIP medical plan services. However, it failed to properly apply this credit to the SCHIP program. Instead, for five of its six plan providers, the State incorrectly credited the Medicaid program². As of the date of this report, the State had not provided documentation to support a credit for the remaining plan provider.

UNALLOWABLE SCHIP MANAGED-CARE EXPENDITURES

Based on our computer analyses of comparing SCHIP monthly managed care payments with the HAWI eligibility system, we identified 8,921 monthly payments totaling \$354,008 for individuals who were not classified as SCHIP beneficiaries. Our review disclosed that the State claimed 8,089 monthly payments totaling \$318,173 for individuals with non-SCHIP program-category codes. In addition, the State claimed 832 monthly payments totaling \$35,835 for individuals who were not listed on the HAWI eligibility system. We have furnished the State's officials with our computer analyses files of these ineligible SCHIP individuals for their review.

INCORRECTLY REPORTED SCHIP FFS EXPENDITURES

The State incorrectly reported SCHIP FFS expenditures under its Medicaid program. This occurred because the State was unable to identify SCHIP beneficiaries on its fiscal agent's claims processing system. Therefore, it elected to report its SCHIP FFS claims under the Medicaid program.

Beginning with the March 31, 2003 quarter, the State correctly reported and claimed the SCHIP FFS expenditures, with the exception of SCHIP drug FFS claims and the related drug rebates.

REVIEW OF ELIGIBILITY

In our sample review of 100 SCHIP beneficiaries, we identified 6 beneficiaries who did not meet the eligibility requirements to qualify as a SCHIP beneficiary. For five of the beneficiaries, the

² By applying the credit to the Medicaid program rather than the SCHIP program, the refund of Federal matching funds is understated since the Federal Medicaid reimbursement rate is lower than the SCHIP reimbursement rate.

State eligibility staff incorrectly calculated the family income and age of the children and incorrectly categorized them as SCHIP eligible. For the remaining beneficiary, there was no application for medical assistance under this child's name. We did not project the results of this sample review because the dollar amount was immaterial.

RECOMMENDATIONS

We recommend that the State:

1. Credit the SCHIP program for \$1,407,199 of overstated expenditures and refund \$947,411 of overclaimed Federal matching funds using Form CMS-64.21UP (Quarterly Medical Assistance Expenditures by SCHIP Expenditure Categories Prior Period Expenditures),
2. Implement claims processing controls to separately identify SCHIP and Medicaid FFS expenditures so that they can be properly reported and claimed,
3. Work with CMS to adjust Medicaid quarterly expenditures reports for prior periods to properly reflect SCHIP and Medicaid program costs,
4. Educate its eligibility staff regarding the importance of properly calculating age and family income when determining if individuals qualify for the SCHIP program.

STATE'S COMMENTS

In its response to our draft report, the State agreed with each of our findings except for the one concerning \$354,008 in unallowable SCHIP managed-care expenditures. State officials believed that it was highly likely that the majority of these recipients were retroactively disenrolled from SCHIP and placed in the Title XIX program. Therefore, the officials believed that the \$354,008 amount would be substantially reduced because the State would have been able to claim for these individuals under Title XIX. However, due to its severely limited staff and resources, the State will not pursue this reduction and will return \$354,008 on the next Form CMS-64 report. The State concurred with the rest of our findings and recommendations. The complete text of the State's comments is shown in the appendix.

OIG'S RESPONSE

The SCHIP program must be credited for the \$354,008 of unallowable expenditures, even though some of the children may be eligible for another program, such as Title XIX. SCHIP and Medicaid are separate programs, therefore the State must claim and account for each program separately.

APPENDIX

LINDA LINGLE
GOVERNOR



LILLIAN B. KOLLER, ESQ.
DIRECTOR

HENRY OLIVA
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
Med-QUEST Division
Administration
P.O. Box 700190
Kapolei, Hawaii 96709-0190

In reply, please refer to:

In reply, please refer to:

Governor's Referral No.:

February 13, 2004

Ms. Lori A. Ahlstrand
Office of Inspector General
Office of Audit Services
50 United Nations Plaza, Room 171
San Francisco, California 94102

Dear Ms. Ahlstrand:

RE: AUDIT REPORT NUMBER A-09-03-00054

Thank you for the opportunity to review and comment on your draft report entitled, "Review of Title XXI Hawaii State Children's Health Insurance Program". The Department generally agrees with the findings and recommendations, but notes that many of the recommendations have already been implemented.

We have enclosed our comments to each of your findings and recommendations.

Again, thank you for the opportunity to comment on the audit report.

Sincerely,


Aileen Hiramatsu
Med-QUEST Division Administrator

Enclosure

Response to the Audit of the State Children's Health Insurance Program (SCHIP)

Recommendation #1: Credit the SCHIP program for \$1,407,199 of overstated expenditures and refund \$947,411 of overclaimed Federal matching funds. This overstatement occurred because the State did not apply a \$1,053,191 credit for rate adjustments against the SCHIP program, and claimed \$354,008 of unallowable managed care expenditures for individuals who were not eligible for the SCHIP Program.

Response:

The State agrees that the \$1,053,191 was not credited to the SCHIP program. Instead, the funds associated with the rate adjustments were all credited to the Title XIX Medicaid program, which provides a lower FMAP rate than the SCHIP program. The State has already adjusted both the Title XIX (deleted the credit) and SCHIP programs (applied the credit) on the CMS-64 quarter periods of September 2003 and December 2003.

The State does not agree with the finding of \$354,008 of unallowable managed care expenditures. The State contends that at the time of the enrollment, the recipients were eligible. During the time period of the audit, when a SCHIP recipient was later found to be eligible for the Title XIX program, the eligibility worker would retroactively disenroll the individual from SCHIP and place him/her retroactively in the Title XIX program. For this reason, we believe it is highly likely that the majority of these recipients would have been eligible for the Medicaid program. If this is the case, the \$354,008 would be substantially reduced because the State would have been able to claim for these individuals under Title XIX. However, due to our severely limited staffing and resources, we have decided it is not economical to further pursue this issue. The State will return the \$354,008 claimed to the federal government on the next CMS-64 report.

Recommendation #2: Implement claims processing controls to separately identify SCHIP and Medicaid FFS expenditures so that they can be properly reported and claimed.

Response:

The State has made several improvements to its information system to minimize the errors associated with SCHIP and Medicaid fee-for-service claiming. Over time, the eligibility system was modified to create program eligibility codes to clearly distinguish between SCHIP and Medicaid eligibles. Additionally, these codes are now electronically passed to the new claims system implemented in November 2002. The improvements in reporting were acknowledged by the auditor's statement that the March 31, 2003 quarter correctly reported and claimed the appropriate SCHIP expenditures. The State will be addressing the drug FFS claims and drug rebates in the near future.

Recommendation #3: Work with CMS to adjust prior period Medicaid quarterly expenditures reports to properly reflect SCHIP and Medicaid program costs.

Response:

With the exception of the \$354,008 identified earlier, all other adjustments have been processed on the CMS-64 forms.

Recommendation #4: Educate its eligibility staff regarding the importance of properly calculating age and family income for the SCHIP program.

Response:

The State agrees that on-going monitoring and education is needed to assure accuracy in its eligibility determination process. The State will continue with its efforts to improve the performance of its staff.

ACKNOWLEDGMENTS

This report was prepared under the direction of Lori A. Ahlstrand, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

Douglas Rennie, *Audit Manager*

Warren Lum, *Senior Auditor*

Linda Siu, *Auditor*

Mabel Yeung, *Auditor*

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