



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General
Office of Audit Services

AUG 19 2004

REGION IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

Report Number: A-04-04-00002

Ms. Carie Summers, Chief Financial Officer
State of Georgia Community Health
Division of Medical Assistance
2 Peachtree Street, N.W.
Atlanta, Georgia 30303-3159

Dear Ms. Summers:

Enclosed are two copies of the Office of Inspector General (OIG) report entitled *Review of Medicaid Management Information System Expenditures Claimed by Georgia for Fiscal Year 2002*. A copy of this report will be forwarded to the action official noted below for his review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the Department of Health and Human and Services (HHS) action official named below. 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, Office of Audit Services reports issued to the department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the department chooses to exercise. (See 45 CFR Part 5.)

If you have any questions or comments about this report, please do not hesitate to call Peter Barbera, Audit Manager at (404) 562-7758 or pbarbera@oig.hhs.gov. To facilitate identification, please refer to report number A-04-04-00002 in all correspondence.

Sincerely,

A handwritten signature in cursive script, reading "Charles J. Curtis", is positioned above the typed name.

Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Enclosures – as stated

Page 2 - Carie Summers

Direct Reply to HHS Action Official:

Mr. Renard L. Murray

Associate Regional Administrator

Division of Medicaid and State Operations, Region IV

61 Forsyth Street, S.W., Suite 4T20

Atlanta, Georgia 30303

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICAID
MANAGEMENT INFORMATION
SYSTEM EXPENDITURES CLAIMED BY
GEORGIA FOR FISCAL YEAR 2002**



Inspector General

**AUGUST 2004
A-04-04-00002**

Office of Inspector General

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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

Medicaid Program

The Medicaid program, enacted in 1965 under title XIX of the Social Security Act, is a Medical Assistance Program that authorizes Federal grants to States for Medicaid programs that provide medical assistance to needy persons. Within broad Federal guidelines, the States design and administer the program according to an approved State plan, while the Centers for Medicare & Medicaid Services (CMS) provides general oversight. For the State of Georgia (State), the Department of Community Health (DCH) is the State agency responsible for administering the Medicaid program within the guidelines.

As a jointly funded venture between the Federal and State governments, Federal financial participation (FFP) is available to match expenditures made by the State. Federal regulations at 42 CFR 433.15 provides FFP at a 75 percent reimbursement rate for the operation of the State's mechanized claims processing and information retrieval systems. This system is known as the Medicaid Management Information System (MMIS).

OBJECTIVE

The objective of this review was to determine whether the MMIS expenditures claimed at the 75 percent FFP rate by the Georgia Medicaid agency during Federal fiscal year 2002 were adequately supported and allowable. We performed this review at the request of CMS.

SUMMARY OF FINDINGS

Overall, the MMIS costs claimed by the State for Federal reimbursement at the 75 percent rate were adequately supported and allowable. The State's controls relative to the classification, support, and reporting of such expenditures were very good. Of the costs reviewed, we found only \$12,232 (Federal share \$9,174) that was not related to the MMIS services, and was considered unallowable for Federal reimbursement.

The State Medicaid Manual issued by CMS requires States to have supporting documentation for costs claimed, including those claimed as MMIS related.

We recommend that the State reimburse the Federal Government for \$9,174, representing the Federal share of the costs claimed that had no relationship to MMIS services.

In written comments to our draft report, the State concurred with our findings and recommendation. The State's entire response is included as Appendix A.

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INTRODUCTION

BACKGROUND

Medicaid Program

The Medicaid program, enacted in 1965 under title XIX of the Social Security Act, is a Medical Assistance Program that authorizes Federal grants to States for Medicaid programs that provide medical assistance to needy persons. Within broad Federal guidelines, the States design and administer the program according to an approved State plan, while CMS provides general oversight. For the State, the DCH is the State agency responsible for administering the Medicaid program within the guidelines.

Federal Reimbursement

As a jointly funded venture between the Federal and State governments, FFP is available to match expenditures made by the State. Federal regulations at 42 CFR 433.15 provides FFP at a 75 percent reimbursement rate for the operation of the State's mechanized claims processing and information retrieval systems. This system is known as MMIS. To provide the States with guidance for claiming FFP reimbursement, CMS issued a State Medicaid Manual (Medicaid Manual).

State Medicaid Manual Guidance

The Medicaid Manual provides instructions, regulatory citations, and information needed by the States to administer the Medicaid program. The Medicaid Manual also provides guidance as to the identification of MMIS costs available for FFP.

The Medicaid Manual allows direct costs attributable to the operations of the MMIS for ongoing automated processing of claims, payments, and reports. Costs that are reimbursed at the 75 percent rate include hardware and supplies, peripheral equipment, related salaries, and overhead directly associated with the operation of the system.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objective

The objective of our review was to determine whether the MMIS expenditures claimed at the 75 percent FFP rate by the Georgia Medicaid agency during Federal fiscal year 2002 were adequately supported and allowable.

Scope

During our audit period the State filed four quarterly CMS Form 64s. The State reported \$42,650,087 in expenditures on line 4 of the CMS Form 64s as expenditures for the

MMIS operations (of which \$31,987,567 was claimed at the 75 percent Federal share). This \$31,987,567 was the focus of our review. See chart below:

Georgia Medicaid Expenditures for FFY 02				
Quarter	<u>State & Local Administration</u>		<u>MMIS Processing Costs</u>	
	<u>Total Computable</u>	<u>Federal Share</u>	<u>Total Computable</u>	<u>Federal Share</u>
12/31/2001	\$69,840,916	\$39,964,643	\$ 9,774,094	\$ 7,330,571
03/31/2002	95,855,006	52,418,478	10,864,034	8,148,026
06/30/2002	83,857,431	48,476,642	8,410,774	6,308,081
09/30/2002	<u>53,105,027</u>	<u>30,993,981</u>	<u>13,601,185</u>	<u>10,200,889</u>
Total	\$302,658,380	\$171,852,744	\$42,650,087	\$31,987,567

Methodology

This review was conducted at the request of CMS. Prior to beginning our review, we held several meetings with CMS officials to discuss the CMS Form 64s filed by the State to gain an understanding of the areas of potential risk.

To accomplish our objective, we first reviewed the sections of the Medicaid Manual that addressed requirements for claiming costs at the 75 percent Federal reimbursement rate. Next, we held several meetings with various Georgia Medicaid representatives to gain an understanding of their MMIS reporting process, including responsibility for coding, authorizing and categorizing MMIS expenditures. Our meetings included discussions with personnel from Finance, Budget, and Accounting, as well as a meeting with the MMIS project director.

To select the specific expenses to review, we used adhoc expenditure schedules provided by the State. We then traced these expenditures reported on the State’s schedules to the costs claimed on the CMS Form 64s filed during our audit period. The costs fell into three main areas: outside contracts, salaries, and other miscellaneous expenditures.

For contract related costs, we reviewed the contracts between the State and two contractors, Electronic Data Systems Corporation (EDS) and Medstat Group Inc. (Medstat), to determine whether the contracts involved MMIS related services that were appropriate for the 75 percent FFP rate.

To test the costs we selected a judgmental sample of the high cost items from the expenditures claimed at the 75 percent reimbursement rate. Our sample represented approximately 93 percent of the EDS costs and approximately 86 percent of the Medstat costs. We traced the entries to the contractors’ invoices, the State’s internal verification

and approval documentation, and verified that the expenditures were claimed at the 75 percent FFP rate.

For salaries, we selected a judgmental sample of salary entries from the State's adhoc payroll schedules. We tested whether the salaries claimed as MMIS costs were properly supported, accurately calculated, and were eligible for the 75 percent FFP rate. Our tests included tracing the salary entries to paycheck and payroll documentation to verify that the salary amount was accurate and had been paid. In addition, we verified that the amount claimed had been properly calculated at the 75 percent FFP rate. Finally, we interviewed employees and reviewed job descriptions to verify that the employees were performing jobs applicable to the MMIS function and were allowable at the 75 percent FFP rate. Our test represented approximately 9 percent of the total salaries claimed at the 75 percent FFP rate.

Additionally, we reviewed a selection of the miscellaneous expenditures that made up the remaining adhoc expenditure schedules. We selected a judgmental sample of expenditures over \$1,000, selecting at least 20 entries from each quarter. Our sample represented 82 percent of the dollars reported on the State's adhoc expenditure schedules and designated as eligible for a Federal share. We reviewed the expenditures related to a variety of services including computer, copier, phone, and more.

For each sampled item, we examined supporting documentation consisting of purchase orders and invoices to assure that the entries were valid MMIS expenses reimbursable at the 75 percent FFP rate.

The fieldwork was conducted from January 21, 2004 through April 30, 2004 at the DCH offices in Atlanta, Georgia. We conducted an exit conference with State officials on May 21, 2004 and presented our preliminary findings.

Our review was conducted in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

Overall, the MMIS costs claimed by the State for Federal reimbursement at the 75 percent rate were adequately supported and allowable. The State's controls relative to the classification, support, and reporting of such expenditures were very good. Of the costs reviewed, we found only \$12,232 (Federal share \$9,174) that was not related to the MMIS services, and was considered unallowable for Federal reimbursement.

Section 11276.1 of the Medicaid Manual, requires that only direct costs identified specifically with the MMIS system may be claimed at the enhanced rate. Section 11276.3A, specifically addresses FFP at 75 percent and states that it is available for direct

costs directly attributable to the Medicaid program for ongoing automated processing of claims, payments, and reports.

The Medicaid Manual also requires States to have supporting documentation for the costs claimed including those claimed as MMIS related. Section 2497.2 of the Medicaid Manual requires States to review the supporting documentation before filing a claim for FFP. In addition, the manual explains that Federal regulations at 45 CFR 74.61 subsection (b), require the maintaining of accounting records "... which identify adequately the source and application of funds for grant- or subgrant-supported activities,...."

The State claimed \$12,232 that was not related to the MMIS services in accordance with Federal regulations. The following costs were not adequately supported as MMIS costs:

- \$10,300 (Federal share \$7,725) for a computer system license and technical support for a time and attendance system that was scrapped because it either never worked or it was too complicated to use.
- \$1,932 (Federal share \$1,449) for services performed on a printer that was not assigned to the MMIS program. The user of the printer could not be identified and the printer was placed in surplus.

The State did not ensure that all costs claimed as MMIS at the 75 percent actually related to MMIS services.

By claiming costs that were not related to the MMIS services, the State received \$9,174 in excess Federal reimbursement.

RECOMMENDATION

We recommend that the State reimburse the Federal Government for \$9,174, representing the Federal share of the costs claimed that had no relationship to MMIS services.

STATE AGENCY COMMENTS

The State concurred with our findings and recommendation. We have included the State's entire response at Appendix A.

APPENDIX



GEORGIA DEPARTMENT OF
COMMUNITY HEALTH

Tim Burgess, Commissioner

Sonny Perdue, Governor

2 Peachtree Street, NW
Atlanta, GA 30303-3159
www.communityhealth.state.ga.us

July 26, 2004

Mr. Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

Re: Report Number: A-04-04-00002

Dear Mr. Curtis:

We have reviewed your letter, dated June 30, 2004, and accompanying draft report entitled "Review of Medicaid Management Information System Expenditures Claimed by Georgia for Fiscal Year 2002."

Overall, we were very pleased with the results of your review considering that there were only two minor findings for \$12,232 (Federal Share \$9,174). We concur with your recommendation in this draft report. We will reimburse the Federal Government \$9,174 for the Federal share of the costs that were not adequately supported as MMIS costs.

We appreciate the opportunity to respond to the draft report. In addition, we thank you for the comment in the draft report which states that our controls relative to the classification, support, and reporting of the expenditures related to your review were very good.

If you need additional information, please contact Alan Sacks, Audit Coordinator, at (404) 657-7113.

Sincerely,

A handwritten signature in cursive script that reads "Carie Summers".

Carie Summers
Chief Financial Officer

CS: as

C: Tim Burgess
Kim Hinton
Alan Sacks

ACKNOWLEDGMENTS

This report was prepared under the direction of Charles J. Curtis, Regional Inspector General for Audit Services, Region IV. Other principal Office of Audit Services staff who contributed includes:

Pete Barbera, *Audit Manager*
Tim Romero, *Senior Auditor*
Tasha Wolford, *Senior Auditor*
Mark Mathis, *Auditor*

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