



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

JAN 13 2005

Report Number: A-07-04-01008

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

Vivianne M. Chaumont
Director, Medical Assistance Office
Department of Health Care Policy and Financing
1570 Grant Street
Denver, Colorado 80203-1818

Dear Ms. Chaumont:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' (OAS) report entitled "Fee-for-Service Family Planning Claimed by Colorado" for Fiscal Year 1999. A copy of this report will be forwarded to the action official listed on the following page for his review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the 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.

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Please refer to report number A-07-04-01008 in all correspondence.

Sincerely yours,

James P. Aasmundstad
Regional Inspector General
for Audit Services

Enclosures - as stated

Direct Reply to HHS Action Official:

Mr. Richard Allen
Centers for Medicare and Medicaid Services
Branch Chief, Region VIII
1600 Broadway, Suite 700
Denver, Colorado 80202

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**FEE-FOR-SERVICE FAMILY
PLANNING CLAIMED BY
COLORADO**



**JANUARY 2005
A-07-04-01008**

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 awarding agency will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

Congress established the Medicaid program under title XIX of the Social Security Act (the Act) to pay the medical assistance costs for persons with limited income and resources. Each State administers its Medicaid program in accordance with a State plan approved by the Centers for Medicare & Medicaid Services (CMS) to ensure compliance with Federal requirements. Congress amended sections 1903(a)(5) and 1905(a)(4) of the Act to promote family planning services. Although not specified in the Act, CMS defines family planning services as services that prevent or delay pregnancy, or otherwise control family size. The Federal share of providing family planning services is 90 percent (enhanced rate) of actual costs.

In Colorado, the Department of Health Care Policy and Financing (Colorado) administers the Medicaid program and is responsible for providing family planning services. Colorado used computer programs to classify claims as family planning according to diagnosis and procedure codes. Colorado claimed \$3.9 million of family planning costs under fee-for-service for fiscal year (FY) 1999 for which it received \$3.5 million in reimbursement as the Federal share. For FY 2000 to December 2003, Colorado received \$12.1 million in Federal reimbursement for family planning services under fee-for-service.

OBJECTIVE

Our objective was to determine if Colorado claimed Medicaid family planning costs under fee-for-service for FY 1999 in accordance with Federal laws and regulations.

SUMMARY OF FINDINGS

Colorado did not claim Medicaid family planning costs under fee-for-service for FY 1999 in accordance with Federal laws and regulations. Colorado claimed \$1,153,986 that did not qualify as family planning costs, which caused \$454,786 in excessive Federal Medicaid reimbursement. Colorado treated negative adjustments as paid claims and classified non-family planning claims as family planning because its computer programs did not ensure negative adjustment amounts were subtracted instead of added or that non-family planning costs were extracted from all inpatient claims.

Because Colorado had not changed its process of identifying family planning costs, we believe additional overpayments may have occurred subsequent to our audit period. Therefore, a portion of the \$12.1 million of Federal reimbursement received for FY 2000 to December 2003 may be unallowable.

RECOMMENDATIONS

We recommend that Colorado:

- refund \$454,786 to the Federal Government,
- ensure claims for family planning are based on accurate and reliable information, and
- review the \$12.1 million in Federal reimbursement received for family planning services under fee-for-service for FY 2000 to December 2003 for errors and refund unallowable costs.

Colorado agreed with our findings and recommendations. Colorado's response is included in its entirety on the Appendix.

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INTRODUCTION

BACKGROUND

Medicaid Family Planning Services

Congress established the Medicaid program under title XIX of the Act to pay for medical assistance costs for persons with limited income and resources. Each State administers its Medicaid program in accordance with a State plan approved by CMS to ensure compliance with Federal requirements.

In 1972, Congress amended sections 1903(a)(5) and 1905(a)(4) of the Act to promote family planning services. Although not specified in the Act, CMS defines family planning services as services that prevent or delay pregnancy, or otherwise control family size (§4270 of the State Medicaid Manual). Services include sterilization; counseling services and patient education; examination and treatment by medical professionals in accordance with applicable State requirements; laboratory examinations and tests; medically approved methods, procedures, pharmaceutical supplies, and devices to prevent conception; and infertility services, including sterilization reversals. The CMS's "Title XIX Financial Management Review Guide (Number 20): Family Planning Services" (CMS Guide) provides guidance to determine if States' claims for family planning services are allowable. The Federal share of providing family planning services is 90 percent of actual costs.

States report Medicaid expenditures on Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64). The costs claimed for Federal reimbursement must comply with Office of Management and Budget (OMB) Circular A-87, which contains principles and standards for determining costs reimbursable to State Governments.

Colorado Family Planning Services

In Colorado, the Department of Health Care Policy and Financing administers the Medicaid program and is responsible for providing family planning services. Colorado used computer programs to identify family planning claims under fee-for-service according to diagnosis and procedure codes. The programs accessed the Medicaid Management Information System (MMIS), which contained claims paid under fee-for-service, and produced reports that listed claims, or portions of claims, with family planning services (family planning reports). For inpatient services, the programs linked the diagnosis related group (DRG)¹ on the claims to a table containing predetermined amounts to be classified as family planning.

To calculate Federal Medicaid reimbursement for all medical services, Colorado subtracted the amount claimed for family planning services from the total payments for all medical services. Colorado received 50.59 percent in Federal funding on the difference. If a service was claimed mistakenly as family planning, Colorado received 39.41 percent (90 percent – 50.59 percent) more than if it was claimed properly.

¹Colorado uses DRGs as its basis for determining payments for inpatient services.

Colorado claimed \$3.9 million of family planning costs under fee-for-service for FY 1999 for which it received \$3.5 million in reimbursement as the Federal share. For FY 2000 to December 2003, Colorado received \$12.1 million in Federal reimbursement for family planning services under fee-for-service.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine if Colorado claimed Medicaid family planning costs under fee-for-service for FY 1999 in accordance with Federal laws and regulations.

Scope

We limited our review to approximately \$3.4 million of the \$3.9 million Colorado claimed as Medicaid family planning under fee-for-service for FY 1999. Colorado could not produce documentation supporting \$532,529 of claims paid for October and November 1998, the first 2 months of FY 1999. Because Federal regulations only require States to maintain documentation for 3 years, we are not expressing an opinion on the accuracy or allowability of the \$532,529.

We reviewed family planning costs claimed under fee-for-service for FY 1999 because Colorado used the amounts to develop factors for claiming family planning costs under its Medicaid managed care program. We performed our review of fee-for-service costs in conjunction with our audit of family planning services under managed care (report number A-07-04-01005).

We limited our review of internal controls to the policies and procedures Colorado used to identify and claim family planning costs for Federal reimbursement.

Methodology

To accomplish our objective, we:

- reviewed sections 1903(a)(5) and 1905(a)(4) of the Act, Federal Medicaid regulations, OMB Circular A-87, CMS's State Medicaid Manual, policy memorandums, the CMS Guide, and Colorado's State Medicaid plan;
- interviewed Colorado officials regarding the policies and procedures used to identify family planning costs and submit claims for Federal Medicaid reimbursement;
- reconciled the results of Colorado's family planning programs to the amounts claimed on the CMS-64;
- verified the accuracy of the family planning reports by comparing claim data to the MMIS for specific claims; and

- verified the allowability of the claims shown on the family planning reports to the requirements of the CMS Guide.

We performed our fieldwork at the State Medicaid offices in Denver. We conducted our audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

Colorado did not claim Medicaid family planning costs under fee-for-service for FY 1999 in accordance with Federal laws and regulations. Colorado claimed \$1,153,986 that did not qualify as family planning costs, which caused \$454,786 in excessive Federal Medicaid reimbursement. Colorado treated negative adjustments as paid claims and classified non-family planning claims as family planning because its computer programs did not ensure negative adjustment amounts were subtracted instead of added or that non-family planning costs were extracted from all inpatient claims.

Because Colorado had not changed its process of identifying family planning costs, we believe additional overpayments may have occurred subsequent to our audit period. Therefore, a portion of the \$12.1 million of Federal reimbursement received for FY 2000 to December 2003 may be unallowable.

Medicaid Claims Must Be Net of Credits and Relate to Benefits Received

According to OMB Circular A-87, attachment A, part C(i), costs submitted for Federal reimbursement must be net of all applicable credits to be allowable. Also, OMB Circular A-87, attachment A, part C(4)(a), defines applicable credits as receipts or reductions of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Therefore, negative adjustments made to claims must be subtracted when calculating claims for Federal Medicaid reimbursement.

Attachment A, part C(3) of OMB Circular A-87, states that costs are allocable to a particular cost objective if the services involved are chargeable and assignable to such cost objectives in accordance with the benefits received. Further, section §4270 B(2) of the State Medicaid Manual states: “Only items and procedures clearly provided or performed for family planning purposes may be matched at the 90-percent rate”

Family Planning Claims Did Not Comply With Federal Requirements

For FY 1999, Colorado claimed \$1,153,986 under Medicaid fee-for-service that did not qualify as family planning services. For the services, Colorado received \$1,038,588, including \$910,678 of negative adjustments treated as paid claims and \$127,910 of non-family planning costs that should not have been reimbursed at the 90-percent enhanced rate.

Negative Adjustments Treated as Paid Claims

Colorado treated \$910,678 of negative adjustments as paid claims. The family planning reports showed Colorado paid the inpatient service claims, made negative adjustments for the entire amount, and repaid the claims at the original payment amount. However, instead of subtracting the negative adjustments, Colorado added the amounts to calculate the Federal Medicaid reimbursement. For example:

- Colorado treated the negative adjustment as a paid claim:

Original Claim Amount:	\$1,000
Negative Adjustment (in error):	+1,000
<u>Corrected Claim Amount:</u>	<u>+1,000</u>
Total Amount:	\$3,000

- Colorado should have deducted the negative adjustment:

Original Claim Amount:	\$1,000
Negative Adjustment:	-1,000
<u>Corrected Claim Amount:</u>	<u>+1,000</u>
Total Amount:	\$1,000

The \$2,000 difference (\$3,000 - \$1,000) represents an overstated claim for family planning costs.

Non-Family Planning Costs Classified as Family Planning

In addition, Colorado classified \$127,910 of non-family planning costs as family planning. Specifically, Colorado categorized \$270,054 of inpatient services as family planning when only \$142,144 qualified as family planning.

Computer Programs Were Not Designed Correctly

Colorado’s computer programs did not operate as intended. Negative adjustment amounts were added instead of subtracted. Colorado did not extract non-family planning costs from all inpatient claims because the table containing predetermined amounts to be classified as family planning, which the computer programs accessed to compile family planning reports, did not contain all family planning DRGs.

Colorado Overpaid \$454,786

As a result, Colorado received \$454,786 that did not qualify for Federal Medicaid reimbursement, which is the difference between what it received based on the 90 percent enhanced rate (\$1,038,588) and what it should have received at the regular 50.59 percent rate (\$583,802²).

²\$1,153,986 total costs x 50.59 percent = \$583,802 Federal share.

Because Colorado had not changed its process of identifying family planning costs, we believe additional overpayments may have occurred subsequent to our audit period. Therefore, a portion of the \$12.1 million of Federal reimbursement received for FY 2000 to December 2003 may be unallowable.

RECOMMENDATIONS

We recommend that Colorado:

- refund \$454,786 to the Federal Government,
- ensure claims for family planning are based on accurate and reliable information, and
- review the \$12.1 million in Federal reimbursement received for family planning services under fee-for-service for FY 2000 to December 2003 for errors and refund unallowable costs.

AUDITEE'S RESPONSE AND OIG COMMENTS

Colorado agreed with our findings and recommendations. We commend Colorado for initiating a process to develop a more reliable methodology for identifying family planning services. We also are pleased that Colorado will identify and refund unallowable costs for similar errors for FY 2000 to December 2003. Colorado's response is included in its entirety on the Appendix.

APPENDIX

STATE OF COLORADO

DEPARTMENT OF HEALTH CARE POLICY & FINANCING

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Bill Owens
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January 7, 2005

James P. Aasmundstad
Regional Inspector General for Audit Services
Office of Inspector General
Offices of Audit Services
Region VII
601 East 12th Street, Room 284A
Kansas City, Missouri 64106

Dear Mr. Aasmundstad:

The Department of Health Care Policy and Financing has reviewed the draft report of the "Family Planning Costs Under Fee-For-Serve Claimed by Colorado as Medicaid Reimbursement" for FY 1999 and has the following responses.

RECOMMENDATIONS

We recommend that Colorado:

- Refund \$454,786 to the Federal Governments,

DEPARTMENT RESPONSE:

The Department agrees to refund the \$454,786.

- Ensure claims for family planning are based on accurate and reliable information, and

DEPARTMENT RESPONSE:

The Department agrees with this statement and is in the process of developing a more reliable methodology for identifying family planning services.

James P. Aasmundstad
January 7, 2005
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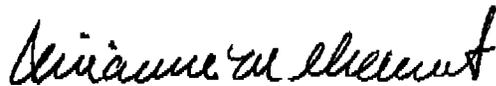
- Review the \$12.1 million in Federal reimbursement received for family planning services under fee-for-service for FY 2000 to December 2003 for errors and refund unallowable costs.

DEPARTMENT RESPONSE:

The Department agrees to review federal reimbursement received for family planning services under fee-for-service for FY 2000 to December 2003 for errors. The Department agrees to refund any unallowable costs identified through this process.

We appreciate the opportunity to comment on the draft. Should you have any questions or require further information, please do not hesitate to contact me.

Sincerely,



Vivianne M. Chaumont
Director
Medical Assistance Office

VMC:bb

cc: Phil Reed
~~Ammarie Maynard~~

ACKNOWLEDGMENTS

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

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