



NOV 5 2004

Report Number: A-09-04-00041

Region IX
Office of Audit Services
50 United Nations Plaza
Room 171
San Francisco, CA 94102Mr. Anthony D. Rodgers
Director
Arizona Health Care Cost Containment System
801 E. Jefferson
Phoenix, Arizona 85034

Dear Mr. Rodgers:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General's (OIG) final report entitled "Audit of Arizona's Medicaid Payments for Vaccines Obtained Through the Vaccines for Children Program for Federal Fiscal Year 2003." A copy of this report will be forwarded to the HHS action official noted below for review and any action deemed necessary.

Final determinations as to actions taken on all matters reported will be made by the HHS action official. 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 the Department's grantees and contractors are made available to members of the press and general public to the extent the information contained therein is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please refer to report number A-09-04-00041 in all correspondence.

Sincerely,

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:Mr. Jeff Flick
Regional Administrator, Region IX
Centers for Medicare & Medicaid Services
75 Hawthorne Street, Suite 408
San Francisco, California 94105

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF ARIZONA'S
MEDICAID PAYMENTS FOR
VACCINES OBTAINED THROUGH THE
VACCINES FOR CHILDREN PROGRAM
FOR FEDERAL FISCAL YEAR 2003**



**NOVEMBER 2004
A-09-04-00041**

Office of Inspector General

<http://oig.hhs.gov>

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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

Title XIX of the Social Security Act (the Act), as amended, created the Vaccines for Children (VFC) program under section 1928. The VFC program provided federally purchased vaccines at no cost to VFC-registered providers and began operations on October 1, 1994.

Section 1928(c)(2)(C) of the Act specified that providers may not charge for VFC vaccines. However, providers could impose a fee for administering VFC vaccines, as long as the fee did not exceed the maximum reimbursement amount (the administration cap) established by the Centers for Medicare & Medicaid Services (CMS).

OBJECTIVE

Our objective was to determine, for Federal fiscal year (FFY) 2003, whether Arizona made unallowable Medicaid payments to providers for vaccines obtained through the VFC program. Our audit was performed at the request of CMS.

SUMMARY OF FINDINGS

Arizona made unallowable Medicaid payments totaling \$21,058 (\$14,162 Federal share) to fee-for-service (FFS) providers, which consisted of payments for vaccines obtained at no cost through the VFC program and duplicate payments for vaccine administration. This condition occurred because Arizona did not have adequate controls to identify and prevent (1) payments for vaccines obtained through the VFC program and (2) duplicate payments for vaccine administration.

In addition, the paid claims data that Arizona uses to establish Medicaid managed care capitation rates included unallowable payments for VFC vaccines, payments above the administration cap, and duplicate payments for vaccine administration. Arizona did not have adequate controls to identify and exclude these unallowable payments from the paid claims data. As a result, future capitation rates may be inflated.

RECOMMENDATIONS

We recommend that Arizona:

- refund to the Federal Government \$14,162 in unallowable Medicaid payments to FFS providers
- implement controls to identify and prevent (1) unallowable Medicaid payments to FFS providers for VFC vaccines and (2) duplicate payments for vaccine administration
- implement controls to identify and exclude unallowable Medicaid payments from the paid claims data used to establish managed care capitation rates

ARIZONA COMMENTS

Arizona acknowledged that it had some minor problems with its FFS and managed care claims processing systems but disagreed that it did not have adequate internal controls. Nevertheless, it agreed to tighten its FFS and managed care systems controls in response to our findings and recommendations. In addition, Arizona stated that it had refunded the Federal share of the unallowable Medicaid payments to FFS providers.

OFFICE OF INSPECTOR GENERAL RESPONSE

We commend Arizona for its willingness to implement the recommendations in this report.

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INTRODUCTION

BACKGROUND

Medicaid Program

Title XIX of the Act authorizes Federal grants to States for Medicaid programs that provide medical assistance to needy persons. Each State Medicaid program is jointly financed by the Federal and State Governments and administered by the State in accordance with an approved State plan. While the State has considerable flexibility in designing its plan and operating its Medicaid program, it must comply with Federal requirements. The Federal Government pays its share of Medicaid expenditures to a State according to a formula.

Vaccines for Children Program

Title XIX of the Act, as amended, created the VFC program under section 1928. The VFC program began operations on October 1, 1994.

The VFC program provided federally purchased vaccines for eligible children¹ at no cost to VFC-registered providers. The program eliminated or reduced vaccine cost as a barrier to vaccinating eligible children. Funding was through CMS to the Centers for Disease Control and Prevention (CDC), with awards made to States.

Section 1928 of the Act specified that providers may not charge for VFC vaccines given to eligible children. However, providers could impose a fee for administering VFC vaccines, as long as the fee did not exceed the administration cap established by CMS.

Arizona Medicaid Program

The Arizona Health Care Cost Containment System is Arizona's Medicaid program. Arizona uses a managed care model to serve recipients through a combination of managed care and FFS providers. Under the managed care program, Arizona pays the Medicaid managed care health plans a monthly capitation amount for each enrolled member. Arizona develops the capitation rates using paid claims data submitted by the health plans. FFS primarily covers services for Indian Health Service recipients and emergency services for qualified aliens and noncitizens ineligible for full Medicaid services.

Arizona Requirements for Vaccines for Children Program

Arizona required Medicaid managed care providers to participate in the VFC program. Under the terms of the managed care contract, health plans had to comply with VFC requirements. However, FFS providers were not required to participate in the VFC program.

¹ Eligible children under the VFC program were children through 18 years of age that meet at least one of the following Federal criteria: (1) Medicaid-eligible, (2) uninsured, (3) underinsured, or (4) American Indian or Alaska Native.

To ensure that providers were reimbursed for only the administration fee, Arizona's billing procedures required providers to append a modifier to the appropriate vaccine procedure code. Providers were not to use the separate immunization administration code.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine, for FFY 2003, whether Arizona made unallowable Medicaid payments to providers for vaccines obtained through the VFC program. Our audit was performed at the request of CMS.

Scope

Our audit was limited to FFY 2003 Medicaid payments for VFC vaccines. During this period, Arizona providers claimed and were paid for more than 670,000 services under the VFC program.

Because the objective of our audit did not require an understanding or assessment of Arizona's overall internal control structure, we did not perform such a review.

For the managed care program, we did not determine the impact of unallowable payments on future Medicaid managed care capitation rates because the rate-setting process was beyond the scope of this audit.

Our fieldwork was conducted from April through August 2004 and included visits to State offices in Phoenix.

Methodology

To accomplish our objective, we:

- held discussions with CMS and CDC staff
- reviewed Arizona's State plan amendment related to the VFC program
- reviewed Arizona's policies and procedures for the VFC program
- interviewed Arizona's key personnel involved in the VFC program
- reviewed FFY 2003 Medicaid FFS paid claims data and Medicaid managed care paid claims data related to the VFC program
- reviewed other documents provided by Arizona pertinent to the VFC program

We performed the audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

Arizona made unallowable Medicaid payments totaling \$21,058 (\$14,162 Federal share) to FFS providers, which consisted of payments for vaccines obtained at no cost through the VFC program and duplicate payments for vaccine administration. This condition occurred because Arizona did not have adequate controls to identify and prevent (1) payments for vaccines obtained through the VFC program and (2) duplicate payments for vaccine administration.

In addition, the paid claims data that Arizona uses to establish Medicaid managed care capitation rates included unallowable payments for VFC vaccines, payments above the administration cap, and duplicate payments for vaccine administration. Arizona did not have adequate controls to identify and exclude these unallowable payments from the paid claims data. As a result, future capitation rates may be inflated.

UNALLOWABLE PAYMENTS TO FEE-FOR-SERVICE PROVIDERS

Arizona made unallowable Medicaid payments totaling \$21,058 to FFS providers, which consisted of \$18,886 for vaccines obtained at no cost through the VFC program and \$2,172 of duplicate payments for vaccine administration.

Payments for Vaccines Obtained at No Cost

Arizona made unallowable Medicaid payments totaling \$18,886 to FFS providers for vaccines obtained at no cost through the VFC program. These providers incorrectly billed for the vaccines without the required modifier. Section 1928(c)(2)(C)(i) of the Act and the VFC provider enrollment agreement required that providers not charge for VFC vaccines. Arizona did not have adequate controls to identify and prevent unallowable Medicaid payments for VFC vaccines.

During our audit, Arizona officials stated they would recoup these unallowable payments and implement a change in the claims processing system to prevent such payments in the future.

Duplicate Payments for Vaccine Administration

Arizona made duplicate payments totaling \$2,172 to FFS providers for vaccine administration. These providers incorrectly billed using both the vaccine procedure code and the separate immunization administration code. Arizona did not have adequate controls to identify and prevent duplicate payments.

During our audit, Arizona officials stated they would recoup these unallowable payments and implement a change in the claims processing system to prevent such payments in the future.

UNALLOWABLE PAYMENTS INCLUDED IN MANAGED CARE DATA

The paid claims data that Arizona uses to establish Medicaid managed care capitation rates included unallowable payments for VFC vaccines, payments above the administration cap, and duplicate payments for vaccine administration. Section 1928 (c)(2)(C) of the Act and the VFC provider enrollment agreement specified that providers may not charge for vaccines obtained through the VFC program but could impose a fee for administering vaccines as long as the fee did not exceed the administration cap.

Managed care providers incorrectly billed for vaccines without the required modifier and imposed a fee that exceeded the administration cap. In addition, providers billed using both the vaccine procedure code and the separate immunization administration code, resulting in duplicate payments for vaccine administration. Arizona did not have adequate controls to identify and exclude unallowable payments from the paid claims data. Because Arizona uses the paid claims data to establish the Medicaid managed care capitation rates, future rates may be inflated.

During our audit, Arizona officials stated they would implement a change in the encounter processing system to prevent the inclusion of unallowable payments in the paid claims data.

RECOMMENDATIONS

We recommend that Arizona:

- refund to the Federal Government \$14,162 in unallowable Medicaid payments to FFS providers
- implement controls to identify and prevent (1) unallowable Medicaid payments to FFS providers for VFC vaccines and (2) duplicate payments for vaccine administration
- implement controls to identify and exclude unallowable Medicaid payments from the managed care paid claims data

ARIZONA COMMENTS

Arizona acknowledged that it had some minor problems with its FFS and managed care claims processing systems but disagreed that it did not have adequate internal controls. Nevertheless, it agreed to tighten its FFS and managed care systems controls in response to our findings and recommendations. In addition, Arizona stated that it had refunded the Federal share of the unallowable Medicaid payments to FFS providers.

OFFICE OF INSPECTOR GENERAL RESPONSE

We commend Arizona for its willingness to implement the recommendations in this report.

APPENDIX

Janet Napolitano, Governor
Anthony D. Rodgers, Director

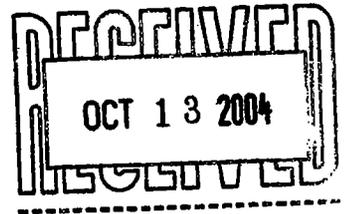


Our first care is your health care
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

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October 8, 2004

Ms. Lori A. Ahlstrand
Regional Inspector General for Audit Services
Department of Health & Human Services
Office of Inspector General
Region IX
Office of Audit Services
50 United Nations Plaza
Room 171
San Francisco, CA 94102



Dear Ms. Ahlstrand:

Thank you for the opportunity to provide input into the draft audit of Arizona's Medicaid Payments for Vaccines obtained through the Vaccines for Children Program for Federal Fiscal Year 2003. We appreciate the chance to work with outside entities to review our operations and to make improvements in our state Medicaid program.

We recognize that the audit was limited to FFY2003 Medicaid payments for the Vaccine for Children program. During the time period in question, Arizona providers claimed and were paid for more than 670,000 services or a total of approximately \$7,400,000 under the VFC program.

Your audit found that Arizona made unallowable Medicaid payments totaling \$21,058 to our Fee For Service providers, which consisted of \$18,886 for vaccines obtained at no cost through the VFC program and \$2,172 of duplicate payments for vaccine administration. These amounts have been recouped, and the federal share returned. Your audit also found that managed care providers incorrectly billed for vaccines without the required modifier and imposed a fee that exceeded the administration cap and that providers billed both the vaccine and administration code, resulting in duplicate payments for vaccine administration.

Your conclusion was that based on these errors, Arizona did not have adequate controls to identify and exclude unallowable payments from the paid claims data. You further concluded that due to this limitation, our future capitation rates may be affected and inflated.

While we accept that there were some minor problems with our claims processing, we would disagree that AHCCCS does not have adequate controls in place. We would also disagree that our capitation rates are overstated due to our inability to exclude unallowable payments from the paid claims data. Managed care providers who incorrectly billed for vaccines without the required modifier and imposed a fee in excess of the administration cap or billed both codes resulted in duplicate payments of \$158,382. This accounted for about 2% of the total paid under the VFC program or 0.005% of the approximately \$2,900,000,000 total paid to managed care

Ms. Lori A. Ahlstrand
October 8, 2004
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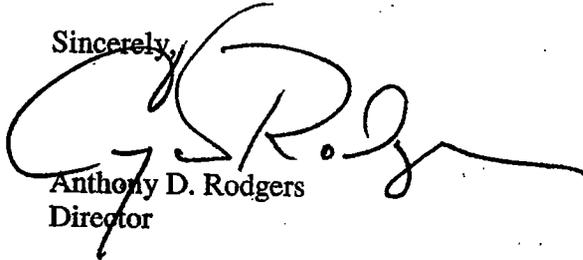
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providers for all services in FFY2003. This amount is not material in the overall rate development.

Your audit gave us the opportunity to go into our system and discover that adequate controls were in place and were operating effectively until a computer software program change was made to accommodate a HIPPA compliance issue. As a consequence of that change, a single provider was inadvertently billing us incorrectly. In addition to our managed care system review and fine-tuning system controls, our managed care organizations have also reviewed and tightened their system controls.

As a direct result of your audit, our team has identified the minor problem in our claims and managed care claims processing systems and is implementing the necessary corrections. While we recognize that the dollar amount to this problem in relation to the overall program is very small, we still want to be responsive to any inaccuracy or problem that was identified through this audit process.

Sincerely,



Anthony D. Rodgers
Director

C: Kate Aurelius
DA&R File

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