



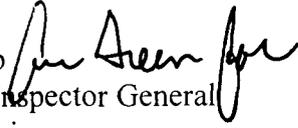
DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

APR 15 2003

TO: Neil Donovan
Director, Audit Liaison
Centers for Medicare and Medicaid Services

FROM: George M. Reeb 
Acting Deputy Inspector General
for Audit Services

SUBJECT: Review of Payments for Transportation Services Made to Special Service School Districts under New Jersey's Medicaid Program (A-02-02-01022)

As part of the Office of Inspector General's self-initiated audit work, we are alerting you to the issuance of the subject final audit report within 5 business days. A copy of the report is attached. This report is one of a series of reports involving our multi-state initiative focusing on costs claimed for Medicaid school-based health services. We suggest you share this report with components of the Centers for Medicare and Medicaid Services involved with program integrity, provider issues, and state Medicaid agency oversight, particularly the Center for Medicaid and State Operations.

The objective of our audit was to determine whether federal Medicaid payments for transportation services paid to Special Service School Districts (SSSD) within New Jersey were allowable and made in accordance with applicable federal and state regulations and guidelines.

During the period July 1, 1998 through June 30, 2001, seven of the eight SSSDs were improperly reimbursed for transportation services and New Jersey improperly claimed \$1,223,426 of federal financial participation (FFP) under the Medicaid program for these services. In our opinion, the improper payments were primarily caused by a lack of effective administrative or prepayment controls to prevent SSSDs from being reimbursed for transportation services.

Our report recommended that New Jersey refund \$1,223,426 to the Federal Government, identify and return any improper FFP claimed subsequent to June 30, 2001, and periodically review the SSSD transportation edit to ensure that it is functioning as intended. New Jersey officials concurred with our findings and recommendations. State officials also noted that the professional efforts of our auditors were greatly appreciated and that the auditors minimized the burden on state staff during the course of the audit.

Page 2 – Neil Donovan

Any questions or comments on any aspect of this memorandum are welcome. Please address them to Ben Jackson, Audit Director for Medicare and Medicaid Audits, at (410) 786-7113 or Timothy J. Horgan, Regional Inspector General for Audit Services, Region II, at (212) 264-4620.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office Of Inspector General
Office Of Audit Services

APR 17 2003

Report Number: A-02-02-01022

Region II
Jacob K. Javits Federal Building
28 Federal Plaza
New York, NY 10278

Ms. Kathryn A. Plant
Director
New Jersey Division of Medical Assistance
and Health Services
Post Office Box 712
Trenton, New Jersey 08625-0712

Dear Ms. Plant:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) final report entitled, "Review of Payments for Transportation Services Made to Special Service School Districts under New Jersey's Medicaid Program." A copy of this report will be forwarded to the HHS action official noted below for review and any action deemed necessary.

Final determination 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/OAS reports are made available to members of the 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.) As such, within 10 business days after the final report is issued, it will be posted on the Internet at <http://oig.hhs.gov/>.

To facilitate identification, please refer to report number A-02-02-01022 in all correspondence relating to this report.

Sincerely yours,

Timothy J. Horgan
Regional Inspector General
for Audit Services

Enclosures – as stated

Page 2 – Ms. Kathryn A. Plant

Direct Reply to HHS Action Official:

Ms. Sue Kelly
Associate Regional Administrator
Division of Medicaid and Children's Health
Centers for Medicare and Medicaid Services, Region II
Department of Health and Human Services
26 Federal Plaza, Room 3811
New York, New York 10278

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PAYMENTS FOR
TRANSPORTATION SERVICES MADE TO
SPECIAL SERVICE SCHOOL DISTRICTS UNDER
NEW JERSEY'S MEDICAID PROGRAM**



**JANET REHNQUIST
Inspector General**

**APRIL 2003
A-02-02-01022**

Office Of Inspector General Notices

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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 information contained therein 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. Final determination on these matters will be made by authorized officials of the HHS divisions.



EXECUTIVE SUMMARY

OBJECTIVE

The audit objective was to determine whether federal Medicaid payments for transportation services paid to Special Service School Districts (SSSD) within New Jersey were allowable and made in accordance with applicable federal and state regulations and guidelines.

FINDINGS

During the period July 1, 1998 through June 30, 2001, seven of the eight SSSDs were improperly reimbursed for transportation services and New Jersey improperly claimed \$1,223,426 of federal financial participation (FFP) under the Medicaid program for these services. In our opinion, the improper payments were primarily caused by a lack of effective administrative or prepayment controls to prevent SSSDs from being reimbursed for transportation services. We discussed this issue with state officials who agreed with our findings and instituted corrective actions.

RECOMMENDATIONS

We recommended that New Jersey:

1. Refund \$1,223,426 to the Federal Government for the improper FFP claimed during the period July 1, 1998 through June 30, 2001.
2. Identify and return any improper FFP claimed subsequent to June 30, 2001.
3. Periodically review the SSSDs transportation edit to ensure that it is functioning as intended.

AUDITEE'S COMMENTS

In comment's dated March 14, 2003, New Jersey officials concurred with our findings and recommendations. The state's response is included in its entirety as an APPENDIX to this report.

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INTRODUCTION

BACKGROUND

The Medicaid Program

In 1965, Congress established the Medicaid program under title XIX of the Social Security Act (Act) to pay for health care costs for persons who qualify because of medical condition, economic condition, or other qualifying factors. Medicaid costs are shared between the Federal Government and participating states. Within the Federal Government, the Medicaid program is administered by the Centers for Medicare and Medicaid Services (CMS).

To participate in the Medicaid program, a state enters into a state plan with CMS. The state plan is a comprehensive written document describing the nature and scope of the Medicaid program in the state and the obligations by the state to the Federal Government. The Medicaid program can pay for medically necessary services that are specified in Medicaid law when provided to individuals eligible under the state plan.

Medicaid Coverage For School Health Services

The Individuals with Disabilities Education Act (IDEA), formerly called the Education of the Handicapped Act, authorized federal funding to states under the Medicaid program for services provided in schools. Section 411(k)(13) of the Medicare Catastrophic Coverage Act of 1988 (Public Law 100-360) amended section 1903(c) of the Act to permit Medicaid payment for medical services provided to children under IDEA through a child's Individualized Education Plan (IEP). This amendment was enacted to ensure that Medicaid would cover the health-related services under IDEA.

In general, school health-related services included in a child's IEP can be covered if all relevant statutory and regulatory requirements are met. A state may cover services included in an IEP as long as: (1) the services are medically necessary and coverable under a Medicaid coverage category; (2) all federal and state regulations are followed, including those for provider qualifications; and (3) the services are included in the state plan or are available under the Early and Periodic Screening, Diagnostic and Treatment Medicaid benefit. Covered services can include but are not limited to physical therapy, occupational therapy, speech pathology/therapy services, psychological counseling, nursing, and transportation services.

New Jersey's Medicaid Program

The New Jersey Department of Human Services (NJ DHS) is the single state agency responsible for operating the state's title XIX Medicaid program. Within NJ DHS, the Division of Medical Assistance and Health Services (DMAHS) is responsible for administering the Medicaid program.

The administrative responsibility for the operation of New Jersey's school-based program, known as the Special Education Medicaid Initiative (SEMI), is among three state departments: DMAHS, Education, and Treasury. An outside billing agent called DMG-MAXIMUS is also used. The responsibilities of each are as follows:

DMAHS:

- Conducts Medicaid provider enrollment,
- Issues Medicaid provider numbers to local education agencies (LEA),
- Provides Medicaid technical assistance to LEAs, and
- Processes and adjudicates claims through its Medicaid Management Information System (MMIS) fiscal intermediary, UNISYS.

New Jersey Department of Education:

- Provides policy guidance to LEAs, and
- Certifies LEAs.

New Jersey Department of Treasury:

- Serves as the contract manager for the DMG-MAXIMUS billing unit.

DMG-MAXIMUS:

- Receives and processes billing agreements from LEAs,
- Receives and processes pupil registration information from LEAs,
- Provides technical assistance on SEMI issues,
- Conducts Medicaid eligibility verification for registered pupils,
- Produces turnaround documents identifying Medicaid eligible pupils and tracking logs,
- Prepares Medicaid claims based on the turnaround documents completed by the LEAs and submits those claims to UNISYS, and
- Provides on-site training, technical assistance, and program compliance monitoring.

Special Service School Districts

Counties may establish a Special Service School District (SSSD) for the education and treatment of handicapped children if a need for the SSSD exists. Eight of New Jersey's 21 counties have set up SSSDs. The SSSDs are a type of LEA. The SSSDs are separate Medicaid providers that can claim Medicaid reimbursement for the school health services they render. However, New Jersey issued specific guidance that prohibits the SSSDs from claiming Medicaid reimbursement for transportation services.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The audit objective was to determine whether federal Medicaid payments for transportation services paid to SSSDs within New Jersey were allowable and made in accordance with applicable federal and state regulations and guidelines.

Scope

Our review was conducted in accordance with generally accepted government auditing standards. Audit field work was performed at the DMAHS office in Mercerville, New Jersey, and at five of the eight SSSDs as follows: Mercer County SSSD, Atlantic County SSSD, Cape May County SSSD, Burlington County SSSD, and Salem County SSSD. Our audit period was July 1, 1998 through June 30, 2001.

During our audit, we did not review the overall internal control structure of the state agency or of the Medicaid program. Rather, our internal control review was limited to obtaining an understanding of the controls in place to preclude SSSDs from receiving reimbursement for transportation services under the Medicaid program.

Methodology

To accomplish our audit objective, we:

- Held discussions with state and billing agent officials to ascertain policies and procedures regarding SSSDs claiming federal financial participation (FFP) under the Medicaid program for transportation services.
- Obtained an understanding of computer edits and administrative controls regarding SSSDs claiming Medicaid reimbursement for transportation services.

- Requested and received from the state, a computer generated universe of all Medicaid school-based claims totaling \$204,717,816 (\$102,358,908 of FFP) for the period July 1, 1998 through June 30, 2001.
- Performed limited testing of the universe received from the state and obtained reasonable assurance that it was reliable for audit purposes. Specifically, we held discussions with state officials regarding the overall design and specifications of the application used to create the universe. Additionally, we performed various analytical and verification tests to assure the accuracy and completeness of the universe.
- Reviewed the universe and noted that \$2,446,852 (\$1,223,426 of FFP) was paid under the Medicaid program to SSSDs for transportation services. We removed these claims from the overall universe and created a separate universe for our audit consisting of 11,322 SSSD's transportation claims totaling \$2,446,852 (\$1,223,426 of FFP). The remaining universe of school-based claims totaling \$202,270,964 (\$101,135,482 of FFP) is being reviewed under a separate audit.
- Used simple random sampling techniques to select a sample of 30 claims from the universe of 11,322 FFP claims. For these 30 claims, we reviewed students' records to verify that transportation services were rendered and we determined that New Jersey claimed FFP under the Medicaid program for these services. The purpose of testing the 30 sample claims was to validate the accuracy of our audit universe.
- Discussed our audit findings with New Jersey officials.
- Determined that New Jersey officials took corrective actions as a result of our audit findings.

FINDINGS AND RECOMMENDATIONS

During the period July 1, 1998 through June 30, 2001, seven of the eight SSSDs were improperly reimbursed for transportation services and New Jersey improperly claimed \$1,223,426 of FFP under the Medicaid program for these services. In our opinion, the improper payments were primarily caused by a lack of effective administrative or prepayment controls to prevent SSSDs from being reimbursed for transportation services. We discussed this issue with state officials who agreed with our findings and instituted corrective actions.

Prohibition On Billing Transportation Services

The federal Office of Management and Budget Circular No. A-87 establishes principles and standards for determining allowable costs applicable to grants with state and local governments. Section C.1.c. of Attachment A of these principles states that in order to be allowable under a grant program, costs must not be prohibited under state laws or regulations.

New Jersey issued guidance that prohibits the SSSDs from claiming Medicaid reimbursement for transportation services. Specifically, an April 10, 1996 memorandum from the Department of Education's Director of the Office of Special Education Programs states that "... at present neither SSSDs or the sending districts can receive funding for transportation." The prohibition was also contained in the DMG-MAXIMUS Provider Handbook. Chapter VII-3 of the Handbook entitled Out-of-District Claims Exceptions states, "At this time neither the sending nor the SSSD may claim for **transportation** provided to Medicaid-eligible pupils under SEMI." We were also advised that this prohibition was discussed during SEMI coordinator's training sessions conducted by DMG-MAXIMUS.

Transportation Services Improperly Claimed For FFP

Our audit determined that during the period July 1, 1998 through June 30, 2001, seven of the eight SSSDs were improperly reimbursed for transportation services. As a result, \$1,223,426 of improper FFP was claimed by New Jersey under the Medicaid program.

Ineffective Preventative Controls

We found that there were no administrative or prepayment controls in place to prevent SSSDs from being reimbursed for transportation. Our review noted that transportation claims were based on Pupil Registration Forms prepared by the school districts. If a Pupil Registration Form indicated that specialized transportation was required each time a related school health service was provided, the billing contractor, DMG-MAXIMUS, would automatically submit a corresponding claim for a transportation service. Our review determined that there were no controls in place to prevent the SSSDs' transportation claims from being paid and claimed for FFP under the Medicaid program.

Additionally, state officials advised us that the SSSDs were instructed not to mark specialized transportation on the Pupil Registration Forms. However, this occurred for certain students in seven of the eight SSSDs and the resulting improper transportation claims were filed and paid.

Corrective Actions Implemented By The State

We discussed this issue with state officials who agreed with our findings and instituted corrective actions that were explained to us in an October 18, 2002 e-mail. The corrective actions consisted of establishing an edit to preclude SSSDs from being reimbursed for transportation services. This edit was implemented on September 30, 2002.

Review Finds All Sample Claims In Error

Simple random sampling techniques were used to select a sample of 30 claims totaling \$6,855.70 (federal share \$3,427.85) from the universe of 11,322 Medicaid FFP transportation claims. Our review of the 30 sample claims found that they all were improperly claimed for FFP.

The determination as to whether an FFP sample claim was improper and unallowable was based on applicable federal and state laws and regulations. Specifically, if the following three characteristics were met, the FFP claim under review was considered improper and unallowable:

- (i) Transportation services were claimed by an SSSD using either procedure code Y9437 (Transportation: In-District) or Y9438 (Transportation: Specialized).
- (ii) The SSSD was paid for the transportation services under the Medicaid program.
- (iii) New Jersey claimed FFP for the transportation services under review.

To evaluate the 30 sample claims against the 3 criteria above, we performed on-site reviews at 5 of the 8 SSSDs (the 30 sample items were at 5 SSSDs) where we verified the transportation charges to student records. Our on-site reviews noted that all 30 transportation claims were improper. Specifically, we found that in all 30 cases, the SSSDs received payment for transportation services and that New Jersey improperly claimed FFP for these services.

In our opinion, the results of our tests of 30 randomly selected claims assisted us in validating that the SSSD transportation claims' universe, provided to us by New Jersey officials, correctly identified the improper FFP claims made to the Medicaid program. Accordingly, we believe that for the period July 1, 1998 through June 30, 2001, New Jersey improperly claimed \$1,223,426 of FFP.

RECOMMENDATIONS

We recommended that New Jersey:

1. Refund \$1,223,426 to the Federal Government for the improper FFP claimed during the period July 1, 1998 through June 30, 2001.
2. Identify and return any improper FFP claimed subsequent to June 30, 2001.
3. Periodically review the SSSDs transportation edit to ensure that it is functioning as intended.

AUDITEE'S COMMENTS

In comment's dated March 14, 2003, New Jersey officials concurred with our findings and recommendations. The state's response is included in its entirety as an APPENDIX to this report.

With respect to recommendation number one, New Jersey officials stated that a review of available documentation noted that this amount was improperly claimed for the audit period.

Officials stated that upon issuance of the final audit report, the transportation claims will be voided within their MMIS creating a decreasing adjustment to be included on the Quarterly Statement of Medicaid Expenditures (form CMS-64) for this amount.

For recommendation number two, state officials replied that they will identify payments to SSSDs for transportation services subsequent to June 30, 2001 and void MMIS claims resulting in the return of any FFP claimed.

Finally, for recommendation number three, officials stated that they will periodically review the transportation edit to ensure it is continuing to function appropriately.



State of New Jersey

DEPARTMENT OF HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES
PO Box 712

TRENTON, NJ 08625-0712
TELEPHONE 1-800-356-1561

JAMES E. MCGREEVEY
Governor

GWENDOLYN L. HARRIS
Commissioner

KATHRYN A. PLANT
Director

March 14, 2003

Timothy J. Horgan
Regional Inspector General
for Audit Services
Office of the Inspector General
Office of Audit Services
Jacob K. Javits Federal Building
26 Federal Plaza
New York, New York 10278

Report Number A-02-02-01022

Dear Mr. Horgan:

This is in response to your correspondence of February 14, 2003 concerning the draft audit report titled "Review of Payments for Transportation Services Made to Special Service School Districts Under New Jersey's Medicaid Program". Your letter provides an opportunity to comment on the draft audit report.

The draft report contains one finding and three recommendations. The report indicated that New Jersey improperly claimed \$1,223,426 federal financial participation (FFP) for Medicaid payments to Special Service School Districts (SSSD) for transportation services. As indicated in the draft report, New Jersey prohibits Medicaid reimbursement to SSSD for transportation services. Consequently, the reimbursement to the SSSD and subsequent claim of FFP for transportation services was inappropriate.

Based on this finding it appears that controls are needed to preclude reimbursement to SSSD for these services.

The recommendations contained in the report and our responses are provided below:

Timothy J. Horgan
March 14, 2003
Page 2

1. New Jersey should refund \$1,223,426 to the Federal government for improper FFP claimed during the period July 1, 1998 through June 30, 2001.

State Response - A review of the available documentation indicates that this amount was improperly claimed for the period indicated. Upon issuance of the final audit report, the claims for SSSD reimbursement for transportation services contained in the Medicaid Management Information System (MMIS) will be voided. This will create a decreasing adjustment to be included on the Quarterly Statement of Medicaid Expenditures (form CMS-64) for this amount.

2. New Jersey should identify and return the improper FFP claimed subsequent to June 30, 2001.

The Division of Medical Assistance and Health Services will identify any payments to SSSD for transportation services subsequent to June 30, 2001 and void any MMIS claims resulting in the return of any FFP claimed.

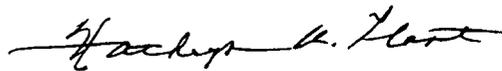
3. New Jersey should periodically review the SSSDs transportation edit to insure that it is functioning as intended.

The Division of Medical Assistance and Health Services will periodically review this edit to insure the continued appropriate functioning.

Please be advised that the professional efforts of the auditors responsible for this report are greatly appreciated. Your staff minimized the burden on State staff in the course of this audit.

If you have any questions or require additional information, please contact me at (609) 588-2600 or David Lowenthal at (609) 588-2820.

Sincerely,



Kathryn A. Plant
Director

KAP:L
C: Gwendolyn L. Harris
David C. Heins
David Lowenthal

ACKNOWLEDGMENTS

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

John Berbach, *Audit Manager*
Terence Sharkey, *Senior Auditor*
Lloyd Canfield, *Auditor*
Romulo Capistrano, *Auditor*
Benjamin Wilson, *Auditor*
John Schwartz, *Auditor*

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