



September 27, 2010

Office of Audit Services  
Jacob Javits Federal Building  
26 Federal Plaza, Room 3900  
New York, NY 10278

Report Number: A-02-08-01015

Jennifer Velez, Esq.  
Commissioner  
New Jersey Department of Human Services  
222 South Warren Street  
P.O. Box 700  
Trenton, NJ 08625-0700

Dear Ms. Velez:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of New Jersey's Medicaid Management Information System Expenditures for the Period January 1, 2006, Through December 31, 2007*. We will forward a copy of this report to the HHS action official noted on the following page for 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 this 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Brenda Tierney, Audit Manager, at (518) 437-9390, extension 222 or through email at [Brenda.Tierney@oig.hhs.gov](mailto:Brenda.Tierney@oig.hhs.gov). Please refer to report number A-02-08-01015 in all correspondence.

Sincerely,

/James P. Edert/  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Jackie Garner, Consortium Administrator  
Consortium for Medicaid and Children's Health Operations  
Centers for Medicare & Medicaid Services  
233 North Michigan Avenue, Suite 600  
Chicago, IL 60601

Department of Health & Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF NEW JERSEY'S  
MEDICAID MANAGEMENT  
INFORMATION SYSTEM  
EXPENDITURES FOR THE PERIOD  
JANUARY 1, 2006, THROUGH  
DECEMBER 31, 2007**



Daniel R. Levinson  
Inspector General

September 2010  
A-02-08-01015

# *Office of Inspector General*

<http://oig.hhs.gov>

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

## EXECUTIVE SUMMARY

### BACKGROUND

A Medicaid management information system (MMIS) is a system of software and hardware used to process Medicaid claims and manage information about Medicaid beneficiaries and services. Section 1903(a) of the Social Security Act authorizes Federal reimbursement for the operation of an MMIS at an enhanced rate of 75 percent. The Centers for Medicare & Medicaid Services' (CMS's) *State Medicaid Manual* identifies the specific types of MMIS costs that are allowable for Federal reimbursement. For such costs to be allowable at the enhanced rate of 75 percent, they must be related to the operations of the MMIS for ongoing automated processing of claims, payments, and reports. The standard Federal reimbursement rate for Medicaid general administrative expenditures is 50 percent.

In New Jersey, the Department of Human Services, Division of Medical Assistance and Health Services (the State agency), administers the Medicaid program with Federal oversight from CMS. The State agency contracts with a fiscal agent, Unisys, to process claims through the MMIS.

During the 2-year period January 1, 2006, through December 31, 2007, the State agency claimed current quarter MMIS operating costs totaling \$81,448,043 (\$61,086,032 Federal share) at the enhanced Federal reimbursement rate under the Medicaid program.

### OBJECTIVE

Our objective was to determine whether current quarter MMIS costs claimed by the State agency at the enhanced Federal reimbursement rate were allowable and claimed at the correct Federal reimbursement rate.

### SUMMARY OF FINDINGS

The State agency's claims for MMIS costs were generally allowable. Of the \$61,086,032 (Federal share) of MMIS costs that we reviewed, \$60,210,194 was allowable. However, the remaining \$875,838 was unallowable. Specifically, the State agency claimed:

- salary, postage, audit, and other general administrative costs at the enhanced reimbursement rate of 75 percent rather than the standard 50 percent rate, resulting in an overpayment of \$823,938; and
- unallowable MMIS costs totaling \$51,900.

The State agency improperly claimed these costs for Federal reimbursement because it did not have adequate controls and procedures to ensure that all of its MMIS costs were claimed at the correct reimbursement rate and allowable.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund \$875,838 to the Federal Government;
- strengthen internal controls and procedures to ensure that its MMIS costs claimed for Federal reimbursement are allowable, and claimed at the correct Federal reimbursement rate; and
- review MMIS costs claimed for Federal reimbursement after December 31, 2007, to ensure that all costs claimed were allowable and claimed at the correct Federal reimbursement rate.

## **STATE AGENCY COMMENTS**

In written comments on our draft report, the State agency partially agreed with our first recommendation (financial disallowance) and disagreed with our remaining recommendations.

The State agency agreed that \$383,897 of the \$875,838 recommended disallowance was incorrectly claimed but stated that the remaining \$491,941 was correctly claimed because the salary and general administrative costs were directly related to the operations of the MMIS. Further, the State agency agreed that costs related to Unisys staff were claimed at the incorrect hourly rate; however, it believed that the work performed by the Unisys staff was an allowable expense.

The State agency indicated that its internal controls and procedures are adequate to ensure that MMIS costs claimed for Federal reimbursement are allowable and claimed at the correct Federal reimbursement rate. Further, the State agency indicated that it is confident that MMIS costs claimed after December 31, 2007, were allowable and claimed at the correct Federal reimbursement rate. The State agency's comments are included in their entirety as the appendix.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

After reviewing the State agency's comments, we maintain that our findings and recommendations are valid. Specifically, the salary and general administrative costs referenced in the State agency's response were not directly related to the operations of the MMIS. Therefore, these costs were not eligible for the enhanced Federal reimbursement rate. In addition, we agree that work performed by Unisys staff was an allowable expense; however, we note that we questioned the difference between the hourly rate claimed by the State agency (\$125) and the contracted rate (\$103). Accordingly, we continue to recommend that the State agency refund \$875,838. Further, we maintain that the State agency should strengthen its internal controls and procedures, and review MMIS costs claimed after December 31, 2007, to ensure all costs claimed for Federal reimbursement are allowable, and claimed at the correct Federal reimbursement rate.

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## INTRODUCTION

### BACKGROUND

#### Medicaid Program

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

States report expenditures for administrative costs related to the Medicaid program to CMS on the “Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program,” Form CMS-64 (CMS-64). The standard Federal reimbursement rate for Medicaid general administrative expenditures is 50 percent.

#### Medicaid Management Information System

Section 1903(r)(1) of the Act states that, to receive Federal funding for the use of automated data systems in administration of the Medicaid program, the State must have a mechanized claims processing and information retrieval system. Pursuant to chapter 11, section 11100 of CMS’s *State Medicaid Manual*, for Medicaid purposes, the mechanized system is the Medicaid Management Information System (MMIS). An MMIS is a system of software and hardware used to process Medicaid claims and manage information about Medicaid beneficiaries and services. The system may be operated by either a State agency or a fiscal agent, which is a private contractor hired by the State.

Section 1903(a)(3) of the Act authorizes an enhanced 75-percent Federal reimbursement rate for the operation of an MMIS. Section 11276.3(A) of CMS’s *State Medicaid Manual* states that for costs to be allowable at the enhanced rate, they must be directly attributable to the Medicaid program for ongoing automated processing of claims, payments, and reports.

#### New Jersey Medicaid Management Information System

In New Jersey, the Department of Human Services, Division of Medical Assistance and Health Services (the State agency), administers the Medicaid program with Federal oversight from CMS. The State agency contracts with a fiscal agent, Unisys, to process claims through the MMIS.

During the 2-year period January 1, 2006, through December 31, 2007, the State agency claimed current quarter MMIS operating costs totaling \$81,448,043 (\$61,086,032 Federal share) at the enhanced Federal reimbursement rate.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine whether current quarter MMIS costs claimed by the State agency at the enhanced Federal reimbursement rate were allowable and claimed at the correct Federal reimbursement rate

### **Scope**

We limited our review to current quarter MMIS costs claimed by the State agency at the enhanced Federal reimbursement rate during calendar years 2006 and 2007. During this period, the State agency claimed \$81,448,043 (\$61,086,032 Federal share) in Medicaid reimbursement for MMIS operating costs.

We did not perform a detailed review of the State agency's internal controls. Rather, we limited our review to obtaining an understanding of the procedures used to calculate and claim MMIS costs for Federal reimbursement.

We performed fieldwork at the State agency's office in Trenton, New Jersey, from February through September 2009.

### **Methodology**

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations and CMS guidance;
- met with CMS officials to obtain an understanding of MMIS costs that may be claimed for enhanced Federal reimbursement and the process for claiming these costs;
- interviewed State agency officials to gain an understanding of the State agency's policies, procedures, and controls related to calculating and claiming MMIS costs for Federal reimbursement;
- interviewed Unisys officials to gain of an understanding of MMIS costs submitted to the State agency for reimbursement;
- reviewed the State agency's contract with Unisys;
- compared MMIS costs claimed by the State agency on the CMS-64 to supporting schedules for the period January 1, 2006, through December 31, 2007;

- selected a judgmental sample of the State agency's non-salary expenditures and fiscal agent expenditures claimed on the CMS-64;<sup>1</sup>
- reviewed documentation for sampled expenditures to determine whether costs were allowable and adequately supported; and
- reviewed MMIS operations cost center assignments and associated salaries to determine whether the costs were related to the operation of the State's MMIS.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## **FINDINGS AND RECOMMENDATIONS**

The State agency's claims for MMIS costs were generally allowable. Of the \$61,086,032 (Federal share) of MMIS costs that we reviewed, \$60,210,194 was allowable. However, the remaining \$875,838 was unallowable. Specifically, the State agency claimed:

- salary, postage, audit, and other general administrative costs at the enhanced reimbursement rate of 75 percent rather than the standard 50 percent rate, resulting in an overpayment of \$823,938; and
- unallowable MMIS costs totaling \$51,900.

The State agency improperly claimed these costs for Federal reimbursement because it did not have adequate controls and procedures to ensure that all of its MMIS costs were claimed at the correct reimbursement rate and allowable.

### **COSTS CLAIMED AT THE INCORRECT REIMBURSEMENT RATE**

Section 1903(a)(3) of the Act authorizes an enhanced 75-percent Federal reimbursement rate for the operation of an MMIS. Section 11276 of CMS's *State Medicaid Manual* identifies the specific types of MMIS costs that are eligible for enhanced Federal reimbursement. For such costs to be allowable at the enhanced rate of 75 percent, they must be related to the operations of the MMIS for ongoing automated processing of claims, payments, and reports. The standard Federal reimbursement rate for Medicaid administrative expenditures is 50 percent.

The State agency incorrectly claimed salary, postage, audit and other general administrative costs totaling \$3,295,753 at the enhanced reimbursement rate of 75 percent rather than the standard 50 percent rate, resulting in an overpayment of \$823,938.

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<sup>1</sup>These costs represented 93 percent of the State agency's non-salary expenditures and 90 percent of Unisys' MMIS expenditures, respectively.

## **Salary Costs**

Section 11276.3(A) of CMS's *State Medicaid Manual* states that for MMIS costs to be allowable at the enhanced 75-percent Federal reimbursement rate, they must be directly attributable to the Medicaid program for ongoing automated processing of claims, payments, and reports. The State agency incorrectly claimed salary costs totaling \$2,354,323 at the enhanced 75-percent Federal reimbursement rate for employees in cost centers whose functions were not directly related to the operations of the MMIS rather than at the standard 50 percent rate. This resulted in an overpayment of \$588,581.

## **Postage Costs**

Section 11276.8 of CMS's *State Medicaid Manual* states: "... all postage costs associated with the operation of an MMIS are matched at the 50 percent FFP rate." The State agency incorrectly claimed \$270,565 in postage costs at the enhanced 75-percent Federal reimbursement rate rather than at the standard 50 percent rate, resulting in an overpayment of \$67,641.

## **Audit Costs**

Section 11276.7(C) of CMS's *State Medicaid Manual* states that all State and fiscal agent audit activity costs are not eligible for enhanced Federal reimbursement as an MMIS activity. Section 11276.11(B)(3) of the manual states that these costs will be reimbursed at the 50-percent Federal reimbursement rate. The State agency incorrectly claimed \$203,768 for costs associated with the annual audit of Unisys' controls related to MMIS data at the enhanced 75-percent Federal reimbursement rate rather than at the standard 50 percent rate. This resulted in an overpayment of \$50,942.

## **Other General Administrative Costs**

Section 11276.3(A) of CMS's *State Medicaid Manual* states that for MMIS costs to be allowable at the enhanced 75-percent Federal reimbursement rate, they must be directly attributable to the Medicaid program for ongoing automated processing of claims, payments, and reports. The State agency incorrectly claimed general administrative costs totaling \$467,097 at the enhanced Federal reimbursement rate of 75-percent rather than at the standard 50 percent rate, resulting in an overpayment of \$116,774. Specifically, the State agency incorrectly claimed the enhanced 75-percent Federal reimbursement rate for:

- a modification to the electronic application used to determine program eligibility for the State's health insurance programs for uninsured children and certain low-income parents, resulting in an overpayment of \$114,216;
- costs related to Medicaid eligibility determinations made on the State agency's behalf by the Social Security Administration for supplemental security income applicants, resulting in an overpayment of \$2,001;

- training and travel costs for employees not directly involved in the operation of the MMIS, resulting in an overpayment of \$363; and
- office supplies and other expenses not directly related to MMIS operations, resulting in an overpayment of \$194.

## UNALLOWABLE COSTS

Pursuant to OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Att. A, § C.1.a (2 CFR pt. 225, App. A, § C.1.a), to be allowable under a Federal award, a cost must be necessary and reasonable for the proper and efficient performance and administration of a Federal award. In addition, pursuant to section 2500 of CMS's *State Medicaid Manual*, amounts reported on the CMS-64 and its attachments must be actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled and is available immediately at the time the claim is filed.

Contrary to Federal requirements, the State agency claimed unallowable MMIS costs totaling \$69,200 at the enhanced Federal reimbursement rate, resulting in an overpayment of \$51,900. Specifically:

- The State agency claimed \$44,627 at the enhanced Federal reimbursement rate for costs related to Unisys staff at an hourly rate of \$125. However, according to Unisys' contract with the State agency, the hourly rate for these employees was \$103, resulting in an overpayment of \$33,470.
- The State agency claimed \$17,752 at the enhanced Federal reimbursement rate for costs related to the operation of a data warehouse that it shared with another division within the Department of Human Services. Although the other division reimbursed the State agency for its share of the data warehouse costs, the State agency did not always reduce its claim for Federal reimbursement to reflect these payments, which resulted in an overpayment of \$13,314.
- The State agency claimed \$3,060 at the enhanced Federal reimbursement rate for costs related to Unisys employees which were not supported by time sheets and other source documentation, resulting in an overpayment of \$2,295.
- The State agency claimed \$2,141 at the enhanced Federal reimbursement rate for Unisys postage costs that were not related to MMIS activities, resulting in an overpayment of \$1,606.
- The State agency claimed \$1,620 at the enhanced Federal reimbursement rate for charges that were greater than what was indicated on Unisys' invoices and supporting documentation, resulting in an overpayment of \$1,215.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund \$875,838 to the Federal Government;
- strengthen internal controls and procedures to ensure that its MMIS costs claimed for Federal reimbursement are allowable and claimed at the correct Federal reimbursement rate; and
- review MMIS costs claimed for Federal reimbursement after December 31, 2007, to ensure that all costs claimed were allowable and claimed at the correct Federal reimbursement rate.

## **STATE AGENCY COMMENTS**

In its written comments on our draft report, the State agency partially agreed with our first recommendation (financial disallowance) and disagreed with our remaining recommendations.

The State agency agreed that \$383,897 of the \$875,838 recommended disallowance was incorrectly claimed but stated that the remaining \$491,941 was correctly claimed. Specifically, the State agency indicated that salaries totaling \$464,208 assigned to cost centers within its Office of Research and its Financial Transactions Unit were eligible for the enhanced Federal reimbursement rate of 75 percent because employees in these costs centers work with the MMIS. The State agency also indicated that training, travel, and supply costs totaling \$376 were directly related to the Office of Research or Financial Transactions Unit and were therefore eligible for the enhanced Federal reimbursement rate. Finally, the State agency agreed that costs related to Unisys staff were claimed at an incorrect hourly rate; however, it believed that the work performed by the Unisys staff was an allowable expense. Therefore, the State agency stated that \$27,357 of these costs was correctly claimed.

The State agency indicated that its internal controls and procedures are adequate to ensure that MMIS costs claimed for Federal reimbursement are allowable and claimed at the correct Federal reimbursement rate. Further, the State agency stated that it is confident that its MMIS costs claimed after December 31, 2007, were allowable and claimed at the correct Federal reimbursement rate. The State agency's comments are included in their entirety as the appendix.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

After reviewing the State agency's comments, we maintain that our findings and recommendations are valid. Specifically, the salary and general administrative costs referenced in the State agency's comments were not directly related to the operations of the MMIS. Therefore, these costs were not eligible for the enhanced Federal reimbursement rate. In addition, we agree that work performed by Unisys staff was an allowable expense; however, we note that we questioned the difference between the hourly rate claimed by the State agency (\$125) and the contracted rate (\$103). Accordingly, we continue to recommend that the State

agency refund \$875,838. Further, we maintain that the State agency should strengthen its internal controls and procedures, and review MMIS costs claimed after December 31, 2007, to ensure all costs claimed for Federal reimbursement are allowable, and claimed at the correct Federal reimbursement rate.

# **APPENDIX**

## APPENDIX: STATE AGENCY COMMENTS



CHRIS CHRISTIE  
*Governor*

KIM GUADAGNO  
*Lt. Governor*

**State of New Jersey**  
DEPARTMENT OF HUMAN SERVICES  
DIVISION OF MEDICAL ASSISTANCE AND HEALTH SERVICES  
PO Box 712  
TRENTON, NJ 08625-0712

JENNIFER VELEZ  
*Commissioner*

JOHN R. GUHL  
*Director*

September 13, 2010

James P. Edert  
Regional Inspector General for Audit Services  
Department of Health and Human Services  
Office of Inspector General  
Office of Audit Services Region II  
Jacob K. Javits Federal Building  
26 Federal Plaza – Room 3900  
New York, NY 10278

**Report Number: A-02-08-01015**

Dear Mr. Edert:

This is in response to your letter dated June 29, 2010 concerning the Department of Health and Human Services, Office of the Inspector General's (OIG) draft report entitled "Review of New Jersey's Medicaid Management Information System Expenditures for the Period January 1, 2006 through December 31, 2007". Your letter provides the opportunity to comment on this draft report.

The Social Security Act authorizes Federal reimbursement for the operation of an MMIS system at an enhanced rate of 75 percent. The objective of this review was to determine whether current quarter MMIS costs for the audit period claimed by the Division of Medical Assistance and Health Services (DMAHS) at the enhanced Federal reimbursement rate were allowable and claimed at the correct Federal reimbursement rate.

The draft audit report concluded that New Jersey's claims for MMIS costs were generally allowable. Of the \$61,086,032 (Federal share) of MMIS costs that were reviewed, \$60,210,194 or 98.6% were allowable. The draft report stated that \$875,838 was unallowable as follows:

- Salary, postage, audit, and other general administrative costs were claimed at the enhanced reimbursement rate of 75% rather than the standard 50% rate, resulting in an overpayment of \$823,938; and
- Unallowable MMIS costs totaling \$51,900.

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The draft report states that DMAHS improperly claimed these costs for Federal reimbursement because it did not have adequate controls and procedures to ensure that all of its MMIS costs were claimed at the correct reimbursement rate and allowable. The report also stated that DMAHS should review MMIS claims for Federal reimbursement after December 31, 2007 to ensure that all costs claimed were allowable and claimed at the correct Federal reimbursement rate.

We appreciate the opportunity to provide this response to the draft OIG audit report. Following are the auditors' recommendations and the Division of Medical Assistance and Health Services responses:

**Recommendation 1:**

**The OIG recommends that New Jersey refund \$875,838 to the Federal Government.**

The State concurs with some but not all of the recommendations in the draft report. The State agrees that \$383,897 of the recommended refund of \$875,838 was incorrectly claimed but that \$491,941 was correctly claimed. Our response to each of the auditor's recommendations is as follows:

**Costs Claimed at the Incorrect Reimbursement Rates**

**Salary Costs**

**Finding:**

Section 11276.3(A) of CMS's *State Medicaid Manual* states that for MMIS costs to be allowable at the enhanced 75-percent Federal reimbursement rate, they must be directly attributable to the Medicaid program for ongoing automated processing of claims, payments, and reports. The State agency incorrectly claimed salary costs totaling \$2,354,323 at the enhanced 75-percent Federal reimbursement rate for employees in cost centers whose functions were not directly related to the operations of the MMIS rather than at the standard 50 percent rate. This resulted in an overpayment of \$588,581.

**Response:**

The DMAHS agrees that several cost centers were incorrectly assigned to MMIS Operations at a 75% federal reimbursement rate. The amount of salary funding that the Division agrees was incorrectly assigned totals \$497,493 resulting in an overpayment of \$124,373.

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The remaining salaries in question are assigned to the Office of Research as well as one cost center for Financial Transactions Unit within the Financial Reporting Unit. The DMAHS disagrees that these salaries are ineligible for the 75% federal reimbursement rate. The Office of Research works with/through MMIS in the production of several federal reporting requirements including SEDS (SCHIP Statistical Enrollment Data System), 1115 Waiver Reporting, HIFA Waiver reporting and the 1915(b) Member Months Report. In addition, during the audit period of January 1, 2006 through December 31, 2007, the federally required SURS (Surveillance and Utilization Review Subsystem) staff, which are eligible for 75% federal reimbursement worked within the Office of Research. The cost center that is part of the Financial Transactions Unit controls and processes all MMIS financial transactions for the Division. In addition, any returned MMIS/provider checks are processed through Financial Activity Forms to reflect activity on NJMMIS.

As a result of the functions performed by staff whose salaries are in question, the DMAHS believes that the remaining salary amounts identified by this audit as not eligible for 75% federal reimbursement are in fact eligible for the higher reimbursement rate. As such, of the \$2,354,323 (\$588,581 overpayment) in question, the DMAHS believes that \$1,856,830 (\$464,208 overpayment per the audit) is an allowable expense to be claimed at 75% federal reimbursement.

#### **Postage Costs and Audit Costs**

##### **Finding:**

Section 11276.8 of CMS's *State Medicaid Manual* states: "... all postage costs associated with the operation of an MMIS are matched at the 50 percent FFP rate." The State agency incorrectly claimed \$270,565 in postage costs at the enhanced 75-percent Federal reimbursement rate rather than at the standard 50 percent rate, resulting in an overpayment of \$67,641.

Section 11276.7(C) of CMS's *State Medicaid Manual* states that all State and fiscal agent audit activity costs are not eligible for enhanced Federal reimbursement as an MMIS activity. Section 11276.11(B) (3) of the manual states that these costs will be reimbursed at the 50-percent Federal reimbursement rate. The State agency incorrectly claimed \$203,768 for costs associated with the annual audit of Unisys' controls related to MMIS data at the enhanced 75-percent Federal reimbursement rate rather than at the standard 50 percent rate. This resulted in an overpayment of \$50,942.

##### **Response:**

The DMAHS agrees that the postage and audit costs should have been reimbursed at the 50% Federal reimbursement rate. As such, the total amount claimed for postage and audit costs of \$474,233 resulted in an overpayment of \$118,583.

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#### **Other General Administrative Costs**

##### **Finding:**

Section 11276.3(A) of CMS's *State Medicaid Manual* states that for MMIS costs to be allowable at the enhanced 75-percent Federal reimbursement rate, they must be directly attributable to the Medicaid program for ongoing automated processing of claims, payments, and reports. The State agency incorrectly claimed general administrative costs totaling \$467,097 at the enhanced Federal reimbursement rate of 75-percent rather than at the standard 50 percent rate, resulting in an overpayment of \$116,774. Specifically, the State agency incorrectly claimed the enhanced 75-percent Federal reimbursement rate for:

- a modification to the electronic application used to determine program eligibility for the State's health insurance programs for uninsured children and certain low-income parents, resulting in an overpayment of \$114,216;
- costs related to Medicaid eligibility determinations made on the State agency's behalf by the Social Security Administration for supplemental security income applicants, resulting in an overpayment of \$2,001;

##### **Response:**

The DMAHS agrees that the costs associated with a modification to the electronic application as well as Medicaid eligibility determinations made on the State agency's behalf by the Social Security Administration should have been reimbursed at the 50% Federal reimbursement rate. As such, the total amount claimed for these eligibility costs resulted in an overpayment of \$116,217.

##### **Finding:**

- training and travel costs for employees not directly involved in the operation of the MMIS, resulting in an overpayment of \$363; and

##### **Response:**

DMAHS agrees that \$138 of the \$1,452 training and travel costs should have been reimbursed at the 50% Federal reimbursement rate resulting in an overpayment of \$34. DMAHS believes that \$1,314 (\$329 overpayment per the audit) of the \$1,452 training and travel costs is an allowable expense to be claimed at 75% federal reimbursement as they are directly related to either the Office of Research or the Financial Transactions Unit.

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**Finding:**

- office supplies and other expenses not directly related to MMIS operations, resulting in an overpayment of \$194.

**Response:**

DMAHS agrees that \$587 of the \$778 office supply costs should have been reimbursed at the 50% Federal reimbursement rate resulting in an overpayment of \$147. DMAHS believes that \$191 (\$48 overpayment per the audit) of the \$778 office supply costs is an allowable expense to be claimed at 75% federal reimbursement as they are directly related to either the Office of Research or the Financial Transactions Unit.

**Unallowable Costs**

Pursuant to OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Att. A, § C.1.a (2 CFR pt. 225, App. A, § C.1.a), to be allowable under a Federal award, a cost must be necessary and reasonable for the proper and efficient performance and administration of a Federal award. In addition, pursuant to section 2500 of CMS's *State Medicaid Manual*, amounts reported on the CMS-64 and its attachments must be actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled and is available immediately at the time the claim is filed.

Contrary to Federal requirements, the State agency claimed unallowable MMIS costs totaling \$69,200 at the enhanced Federal reimbursement rate, resulting in an overpayment of \$51,900.

Specifically:

**Finding:**

- The State agency claimed \$44,627 at the enhanced Federal reimbursement rate for costs related to Unisys staff at an hourly rate of \$125. However, according to Unisys' contract with the State agency, the hourly rate for these employees was \$103, resulting in an overpayment of \$33,470.

**Response:**

DMAHS agrees that the hourly rate claimed was incorrect and should have been claimed at the \$103 hourly rate. However, DMAHS believes that the work performed by the Unisys staff is an allowable expense and is claimable at the \$103 hourly rate or \$36,476. Consequently, the overpayment is \$6,113 and not \$33,470.

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**Finding:**

- The State agency claimed \$17,752 at the enhanced Federal reimbursement rate for costs related to the operation of a data warehouse that it shared with another division within the Department of Human Services. Although the other division reimbursed the State agency for its share of the data warehouse costs, the State agency did not always reduce its claim for Federal reimbursement to reflect these payments, which resulted in an overpayment of \$13,314.
- The State agency claimed \$3,060 at the enhanced Federal reimbursement rate for costs related to Unisys employees that were not supported by time sheets and other source documentation, resulting in an overpayment of \$2,295.
- The State agency claimed \$2,141 at the enhanced Federal reimbursement rate for Unisys postage costs that were not related to MMIS activities, resulting in an overpayment of \$1,606.
- The State agency claimed \$1,620 at the enhanced Federal reimbursement rate for charges that were greater than what was indicated on Unisys' invoices and supporting documentation, resulting in an overpayment of \$1,215.

**Response:**

DMAHS agrees that these costs were improperly claimed or were not properly supported with the proper documentation resulting in an overpayment of \$18,430.

**Recommendation 2:**

DMAHS should strengthen internal controls and procedures to ensure that its MMIS costs claimed for Federal reimbursement are allowable, and claimed at the correct Federal reimbursement rate.

**Response:**

DMAHS is continually reviewing the adequacy of its internal controls and procedures and believes that they are adequate to ensure that its MMIS costs are claimed for Federal reimbursement at the correct Federal reimbursement rate and are allowable. Assuming the OIG auditor agrees with our adjustments to the auditor's findings, of the \$61,086,032 (Federal share) of MMIS costs that were reviewed, \$60,702,135 or 99.4% were allowable and claimed at the proper Federal reimbursement rate.

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**Recommendation 3:**

DMAHS should review MMIS costs claimed for Federal reimbursement after December 31, 2007 to ensure that all costs claimed were allowable and claimed at the correct Federal reimbursement rate.

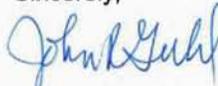
**Response:**

It is the policy of DMAHS to review all costs including MMIS costs that are claimed for Federal reimbursement to ensure that they are allowable and claimed at the proper Federal reimbursement rate. DMAHS is confident that MMIS costs claimed after December 31, 2007 are allowable and claimed at the correct Federal reimbursement rate.

The professionalism and courtesy of the auditors throughout this audit is noteworthy and greatly appreciated. The opportunity to review and comment on this draft audit report is also greatly appreciated.

If you have any questions or require additional information, please contact me at 609-588-2600 or Richard Hurd at 609-588-2550.

Sincerely,



John R. Guhl  
Director

JRG:H

c: Jennifer Velez  
Richard Hurd