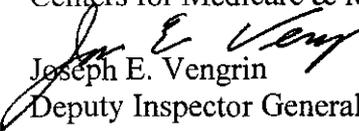




JUN - 1 2005

TO: Dennis G. Smith
Director, Center for Medicaid and State Operations
Centers for Medicare & Medicaid Services

FROM: 
Joseph E. Vengrin
Deputy Inspector General for Audit Services

SUBJECT: Review of Family Planning Service Costs Claimed by Virginia's Medicaid Managed Care Program (A-03-04-00209)

Attached is an advance copy of our final report on family planning service costs claimed by Virginia's Medicaid managed care program between April 2001 and March 2004. We will issue this report to Virginia within 5 business days. We conducted the audit as part of a multistate review, requested by the Centers for Medicare & Medicaid Services (CMS), of the rates used to claim family planning service costs at the 90-percent Federal funding rate.

Virginia contracts with managed care organizations to provide family planning services as required by the Social Security Act (the Act). States may claim 90-percent Federal funding for the costs of these services. The Federal share for most other Medicaid services in Virginia is about 50 percent. Although the Act does not specifically require enhanced Federal funding for family planning services provided through managed care delivery systems, CMS has permitted States to claim these costs. Virginia developed a methodology to calculate family planning costs by multiplying a rate, known as a factor, by its managed care capitation payments.

Our objective was to determine whether Virginia claimed family planning service costs under its Medicaid managed care program in accordance with its methodology and Federal statutes, regulations, and guidelines.

Virginia did not claim family planning service costs in accordance with its methodology. Virginia included in the numerator of its family planning factor calculations family planning service costs for beneficiaries not eligible to enroll in managed care and not represented in the denominator, as well as costs for services that did not qualify as family planning.

As a result, between April 2001 and March 2004, Virginia overstated its claims for family planning service costs by \$3.7 million. By claiming these costs at the enhanced family planning rate of 90 percent, rather than its regular Federal share of about 50 percent, Virginia received \$1.4 million in unallowable Federal reimbursement.

We recommend that Virginia:

- refund to the Federal Government \$1,388,506 in family planning service costs incorrectly claimed between April 2001 and March 2004 and
- apply the audited factor of 1.43 percent for claims after March 2004 and refund the Federal share of any overpayments.

Virginia concurred with both recommendations.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or Stephen Virbitsky, Regional Inspector General for Audit Services, Region III, at (215) 861-4470. Please refer to report number A-03-04-00209 in all correspondence.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES
150 S. INDEPENDENCE MALL WEST
SUITE 316
PHILADELPHIA, PENNSYLVANIA 19106-3499

JUN - 2 2005

Report Number: A-03-04-00209

Mr. Patrick W. Finnerty
Director
Department of Medical Assistance Services
Commonwealth of Virginia
600 East Broad Street, Suite 1300
Richmond, Virginia 23219

Dear Mr. Finnerty:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Family Planning Service Costs Claimed by Virginia's Medicaid Managed Care Program." A copy of this report will be forwarded to the HHS action official noted below 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 the HHS action official within 30 days. 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 is not subject to exemptions in the Act which the Department chooses to exercise (see 45 CFR part 5).

Page 2 – Mr. Patrick W. Finnerty

If you have any questions or comments about this report, please do not hesitate to contact me at (215) 861-4470 or through e-mail at stephen.virbitsky@oig.hhs.gov or Robert Baiocco, Audit Manager, at (215) 861-4486 or through e-mail at robert.baiocco@oig.hhs.gov. Please refer to report number A-03-04-00209 in all correspondence.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Stephen Virbitsky", with a long horizontal line extending to the right.

Stephen Virbitsky
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Ms. Nancy B. O'Connor
Regional Administrator
Centers for Medicare & Medicaid Services, Region III
Department of Health and Human Services
The Public Ledger Building, Suite 216
150 S. Independence Mall West
Philadelphia, Pennsylvania 19106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF FAMILY PLANNING
SERVICE COSTS CLAIMED BY
VIRGINIA'S MEDICAID
MANAGED CARE PROGRAM**



**JUNE 2005
A-03-04-00209**

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

Section 1905(a)(4)(C) of the Social Security Act (the Act) requires States to provide family planning services to Medicaid beneficiaries. The Centers for Medicare & Medicaid Services (CMS) defines family planning services as those services that prevent or delay pregnancy or otherwise control family size. States may claim 90-percent Federal funding for the costs of family planning services. The Federal share for most other Medicaid services is computed using the Federal medical assistance percentage (FMAP). In Virginia, the FMAP rate is about 50 percent. Although the Act does not specifically require enhanced Federal funding for family planning services provided through managed care delivery systems, CMS has permitted States to claim these costs.

With the assistance of a consultant, the Virginia Department of Medical Assistance Services developed a methodology to calculate its family planning service costs by multiplying a rate, known as a factor, by its managed care capitation¹ payments. The factor represented the ratio of family planning expenditures to total health care expenditures. (See Appendix A.) Between April 2001 and March 2004, Virginia claimed \$35.7 million in family planning service costs.

This audit is part of a multistate review, requested by CMS, of the rates used to claim family planning service costs at the 90-percent Federal funding rate.

OBJECTIVE

Our objective was to determine whether Virginia claimed family planning service costs under its Medicaid managed care program in accordance with its methodology and Federal statutes, regulations, and guidelines.

SUMMARY OF FINDINGS

Virginia did not claim family planning service costs in accordance with its methodology. Virginia included the following ineligible costs in the numerator of its family planning factor calculations:

- family planning service costs for beneficiaries not eligible to enroll in managed care and not represented in the denominator and
- services that did not qualify as family planning.

As a result, between April 2001 and March 2004, Virginia overstated its claims for family planning service costs by \$3.7 million. By claiming these costs at the enhanced family planning rate of 90 percent, rather than its FMAP rate of about 50 percent, Virginia received \$1.4 million in unallowable Federal reimbursement.

¹A capitation is a predetermined per member, per month State payment to managed care organizations.

RECOMMENDATIONS

We recommend that Virginia:

- refund to the Federal Government \$1,388,506 in family planning service costs incorrectly claimed between April 2001 and March 2004 and
- apply the audited factor of 1.43 percent (Appendix A, page 2) for claims after March 2004 and refund the Federal share of any overpayments.

STATE COMMENTS

Virginia officials agreed with our recommendations. The full text of Virginia's comments is included as Appendix C.

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INTRODUCTION

BACKGROUND

Medicaid Overview

In 1965, Congress established Medicaid as a jointly funded State and Federal program that provides medical assistance to low-income people who qualify under Title XIX of the Social Security Act (the Act). In the Commonwealth of Virginia, the Department of Medical Assistance Services administers the Medicaid program with Federal oversight from the Centers for Medicare & Medicaid Services (CMS).

Medicaid Reporting Requirements

CMS requires States to report their Medicaid expenditures, both medical assistance and administrative, on Form CMS-64, Medicaid Program Expenditures Report (CMS-64). The Federal Government pays its share of medical assistance expenditures according to a formula defined in section 1905(b) of the Act. That share is known as the Federal medical assistance percentage (FMAP) and ranges from 50 percent to 83 percent depending upon each State's relative per capita income. The FMAP rate in Virginia is about 50 percent for most services.

Family Planning Services

Section 1905(a)(4)(C) of the Act requires States to provide family planning services to Medicaid beneficiaries. The scope of family planning services is not further defined in the statute or by regulation. However, CMS provided general guidance in section 4270 of the State Medicaid Manual, which states that the purpose of the family planning benefit is "to aid those who voluntarily choose not to risk an initial pregnancy." Section 4270 further defines family planning services as those services that prevent or delay pregnancy or otherwise control family size. CMS issued additional guidelines, "Title XIX Financial Management Review Guide (Number 20): Family Planning Services," to clarify the reporting of these services.¹T

Pursuant to section 1903(a)(5) of the Act and 42 CFR §§ 432.50 and 433.15, States may claim 90-percent Federal funding for the costs of family planning services. Although section 1905(a)(4)(C) of the Act does not specifically require enhanced Federal funding for family planning services provided through managed care delivery systems, CMS has permitted States to claim these costs.

Virginia's Managed Care Program

Virginia contracts with managed care organizations to provide a full range of physical health services, including family planning, as well as limited mental health services. Virginia's initial managed care program, Medallion, was implemented in the early 1990s to provide primary care case management for its fee-for-service delivery system. In January 1996, Virginia implemented

¹CMS revised the guidelines in 2002 to expand upon material issued in 1997 and to provide assistance to its regional offices. The guidelines are also cited in section 2700.2 of the State Medicaid Manual.

its Medallion II program in the Tidewater area of southeastern Virginia to provide the full package of Medicaid services. CMS approved this program under a waiver granted pursuant to section 1915(b) of the Act. Since its implementation, Virginia has expanded the program four times, the last in December 2001. Medallion II now covers a large portion of the State. In those counties that cannot support at least one managed care organization, Medicaid beneficiaries remain in the Medallion program.

Virginia's Methodology for Claiming Family Planning Service Costs

Virginia claimed family planning service costs using a factor developed with the assistance of a consultant. The factor represented the ratio of family planning service expenditures to total health care expenditures. For each claim, Virginia multiplied the factor by its capitation payments made to managed care organizations.

Between April 2001 and March 2003, Virginia applied a 1.95-percent factor to capitation payments to claim family planning service costs. Using State fiscal year 1999² fee-for-service claims data, Virginia calculated the factor as shown in Appendix A, Table 1. Between April 2003 and March 2004, Virginia applied a 1.61-percent factor to capitation payments to claim family planning service costs. Using State fiscal year 2000 fee-for-service claims and capitation payment data, Virginia calculated the updated factor as shown in Appendix A, Table 2.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Virginia claimed family planning service costs under its Medicaid managed care program in accordance with its methodology and Federal statutes, regulations, and guidelines.

Scope

Our review covered Virginia's \$35.7 million claim for family planning service costs under its Medicaid managed care program for the period April 2001 through March 2004. The Federal share of this claim was \$32.2 million, including \$13.5 million representing the difference between the 90-percent enhanced family planning rate and Virginia's FMAP rate. We reviewed only those internal controls considered necessary to achieve our objective. We performed our fieldwork in Richmond, VA.

Methodology

To accomplish our objective, we:

- reviewed relevant criteria, including the Act; Federal Medicaid regulations; CMS's State Medicaid Manual, policy memorandums, and guidelines; Departmental Appeals Board

²Virginia's State fiscal year 1999 ended June 30, 1999.

decisions; and Virginia's State Medicaid plan, Medallion II waiver, and methodology for computing the family planning factors;

- reconciled the total capitation payments made between April 2001 and March 2004 to those reported on the CMS-64 to determine the Federal share of the family planning service costs;
- reconciled the Federal share claimed on the CMS-64 to the Federal share calculated using the family planning factors; and
- reviewed the numerator and denominator components of the family planning factors to determine whether Virginia computed its factors according to its methodology.

For the numerator (family planning expenditures), we:

- reconciled the total family planning expenditures identified in Virginia's correspondence to CMS to the fee-for-service expenditures reported on the CMS-64 for State fiscal years ended June 30, 1999, and June 30, 2000, and
- analyzed the services identified in two databases of fee-for-service claims to determine whether the claims represented family planning services in accordance with CMS's "Title XIX Financial Management Review Guide (Number 20): Family Planning Services."

For the denominator (total health care expenditures), we reviewed Virginia's capitation rate-setting proposal to support 1999 base-year costs of \$513,155,000 and 2000 base-year costs of \$514,403,920 to determine whether they represented expenditures for beneficiaries eligible for enrollment in managed care for services covered by managed care.

We performed our review in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

Virginia did not claim family planning service costs in accordance with its methodology. Between April 2001 and March 2004, Virginia overstated its claims for family planning service costs by \$3.7 million. By claiming these costs at the enhanced family planning rate of 90 percent, rather than at the FMAP rate of about 50 percent, Virginia received \$1.4 million in unallowable Federal reimbursement.

OVERSTATED NUMERATOR IN FACTOR CALCULATIONS

Virginia included ineligible costs in its family planning factor calculations. In the numerator of the factor computations, Virginia incorrectly included:

- family planning service costs for beneficiaries not eligible to enroll in managed care and not represented in the denominator and
- services that did not qualify as family planning.

As a result, for each of its two factors, Virginia overstated the numerator of its calculation. For the 1.95-percent factor, family planning expenditures were overstated by \$1,056,252. For the 1.61-percent factor, the variance was \$895,944.

Family Planning Services for Beneficiaries Not Eligible To Enroll in Managed Care and Not Represented in the Denominator

Virginia computed capitation rates for two areas: the Tidewater region and the rest of the State. For the denominator of the factor calculations, Virginia used the base-year total health care costs for only the non-Tidewater area of the State. However, Virginia included family planning service costs for the Tidewater and non-Tidewater regions in the numerator. We believe that family planning service claims for only those beneficiaries in the non-Tidewater area of the State should have been included in the numerator. Virginia agreed that this inconsistency inflated the factor and that the numerator derived from the State fiscal year 1999 database of fee-for-service family planning service claims should not have included Tidewater claims totaling \$782,303. In addition, the numerator derived from the State fiscal year 2000 database should not have included 11,038 Tidewater claims totaling \$656,292.

Non-Family-Planning Services

The 1999 State fiscal year database included 291 claims for non-family-planning services totaling \$273,949, and the State fiscal year 2000 database included 245 claims for non-family-planning services totaling \$239,652. The services did not comply with CMS guidelines for family planning services. For example, 254 of the 291 ineligible claims for 1999 and 211 of the 245 ineligible claims for 2000 represented childbirth delivery services. Virginia agreed that these services were not family planning services and should not have been included in the databases.

INADEQUATE OVERSIGHT OF FACTOR CALCULATIONS

Virginia developed the factors with the assistance of a consultant. However, Virginia did not ensure that the claims data used to compute the factors complied with its methodology or CMS family planning guidelines. Virginia provided CMS with documentation to support the methodology for its 1.95-percent factor and stated that it would notify CMS of any proposed changes. However, Virginia did not notify CMS when it changed its factor to 1.61 percent, nor did CMS ask Virginia to support the new rate when it became aware of the change.

UNALLOWABLE FEDERAL REIMBURSEMENT

The initial database of claims totaling \$10,073,155 that supported the numerator of the factor used for the period April 2001 through March 2003 was overstated by \$1,056,252. Virginia

included services for beneficiaries not eligible to enroll in managed care and not represented in the denominator, as well as services that did not qualify as family planning. We recalculated the factor based on family planning expenditures of \$9,016,903 (Appendix A, Table 1).

The second database of claims totaling \$7,886,147 that supported the numerator of the factor used for the period April 2003 through March 2004 was overstated by \$895,944. Virginia included services for beneficiaries not eligible to enroll in managed care and not represented in the denominator, as well as services that did not qualify as family planning. We recalculated the factor by first calculating family planning expenditures to be \$6,990,203 (Appendix A, Table 2).

We applied the recomputed family planning factors of 1.76 and 1.43 percent to capitation payments and determined that Virginia overstated its family planning service claims by \$3,679,963. By claiming these costs at the enhanced 90-percent rate, rather than at the FMAP rate of about 50 percent, Virginia received \$1,388,506 in unallowable Federal reimbursement (Appendix B).

RECOMMENDATIONS

We recommend that Virginia:

- refund to the Federal Government \$1,388,506 in family planning service costs incorrectly claimed between April 2001 and March 2004 and
- apply the audited factor of 1.43 percent (Appendix A, page 2) for claims after March 2004 and refund the Federal share of any overpayments.

STATE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

The full text of Virginia's comments is included in this report as Appendix C. In summary, Virginia officials agreed with the recommendations. Virginia agreed to make the \$1,388,506 refund adjustment on the CMS-64 for the quarter ending June 30, 2005, and has begun using the recommended factor of 1.43 percent. We are pleased with the State's reply to our recommendations and extend our thanks for its cooperation during this review.

APPENDIXES

FAMILY PLANNING FACTOR CALCULATIONS

From April 2001 through March 2003, Virginia calculated its factor by dividing 1999 family planning fee-for-service expenditures by total health care fee-for-service expenditures, as shown in Table 1.

Table 1: Family Planning Factor (April 2001 – March 2003)

Key	Factor Component	Claimed	Submitted	Audited	Variance
A	Family Planning Service Costs	\$10,006,523	\$10,073,155	\$9,016,903	\$1,056,252 ¹
B	Total Health Care Costs	513,155,000	513,155,810	513,155,810	0
	Factor (A/B)	1.95%	1.96%	1.76%	

From April 2003 through March 2004, Virginia calculated its factor by dividing family planning capitation payments by total capitation payments. To calculate family planning capitation payments, Virginia first computed a family planning ratio for each of its Medicaid beneficiary groups, Temporary Assistance for Needy Families (TANF)² and Aged/Blind and Disabled, using State fiscal year 2000 fee-for-service claims data. Table 2 provides each step of the calculation.

Table 2: Family Planning Factor (April 2003 – March 2004)

Key	Medicaid Beneficiary Group	Claimed	Audited	Variance
Numerator – Family Planning Service Costs				
A	TANF	\$6,902,932	\$6,124,518	
B	Aged/Blind and Disabled	983,215	865,685	
	Total	\$7,886,147	\$6,990,203	\$895,944³
Denominator – Total Health Care Costs				
C	TANF	\$272,728,609	\$272,728,609	
D	Aged/Blind and Disabled	241,675,311	241,675,311	
	Total	\$514,403,920	\$514,403,920	\$0
Family Planning Ratio				
E	TANF (A/C)	2.5310627%	2.2456456%	
F	Aged/Blind and Disabled (B/D)	0.4068329%	0.3582015%	
Family Planning Capitation				
G	TANF (E*J)	\$4,547,305	\$4,056,981	
H	Aged/Blind and Disabled (F*K)	564,010	493,008	
I	Total (G+H)	\$5,111,315	\$4,549,989	
Total Capitation				
J	TANF	\$179,659,914	\$180,659,914 ⁴	
K	Aged/Blind and Disabled	138,634,212	137,634,212	
L	Total (J+K)	\$318,294,126	\$318,294,126	

¹Ineligible beneficiary expenditures were \$782,303. Non-family-planning expenditures were \$273,949. The total variance equaled \$1,056,252.

²TANF provides cash assistance to families with dependent children.

³Ineligible beneficiary expenditures were \$656,292. Non-family-planning expenditures were \$239,652. The total variance equaled \$895,944.

⁴Virginia revised this figure from its original submission.

Table 2: Family Planning Factor (April 2003 – March 2004)

Key		Claimed	Audited
Family Planning Factor			
I	Family Planning Capitation	\$5,111,315	\$4,549,989
L	Total Capitation	318,294,126	318,294,126
	Factor (I/L)	1.61%	1.43%

OVERPAYMENT CALCULATION

Using its factors, Virginia claimed that \$35.7 million of its \$1.9 billion in capitation payments for the Medicaid managed care program represented family planning service costs. As shown in Table 1, the Federal share of these expenditures totaled \$32.2 million.

Table 1: Family Planning Costs Claimed

Federal Fiscal Year ¹	Capitation Payment	Family Planning Expenditures	Federal Share
2001	\$199,811,084	\$3,895,406	\$3,505,866
2002	614,186,553	11,976,638	10,778,974
2003	746,198,417	13,223,426	11,901,083
2004	413,919,575	6,646,912	5,982,221
Total	\$1,974,115,629	\$35,742,382	\$32,168,144

Using our audited factors, we believe that Virginia should have claimed \$32.1 million, not \$35.7 million, in family planning service costs. The enhanced Federal share of the \$32.1 million is \$28.9 million. Virginia is also entitled to its FMAP share, \$1.9 million, of the \$3.7 million originally claimed at the enhanced rate. The total Federal share that Virginia should have claimed was \$30.8 million. (See Table 2.)

Table 2: Family Planning Costs Audited

Federal Fiscal Year	Expenditures			Federal Share		
	Family Planning	Non-Family-Planning	Total	Family Planning	Non-Family-Planning	Total
2001	\$3,510,681	\$384,725	\$3,895,406	\$3,159,613	\$199,480	\$3,359,093
2002	10,791,258	1,185,380	11,976,638	9,712,132	609,878	10,322,010
2003	11,845,570	1,377,856	13,223,426	10,661,013	722,629	11,383,642
2004	5,914,911	732,001	6,646,912	5,323,420	391,474	5,714,894
Total	\$32,062,419	\$3,679,963	\$35,742,382	\$28,856,177	\$1,923,461	\$30,779,638

Table 3 shows that the difference between the Federal share claimed and the audited Federal share is \$1.4 million.

Table 3: Federal Share of Overpayment

Federal Fiscal Year	Claimed	Audited	Overpayment
2001	\$3,505,866	\$3,359,093	\$146,773
2002	10,778,974	10,322,010	456,964
2003	11,901,083	11,383,642	517,441
2004	5,982,221	5,714,894	267,327
Total	\$32,168,144	\$30,779,638	\$1,388,506

¹Federal fiscal year 2001 includes only the quarters ended June 2001 and September 2001. Federal fiscal year 2004 includes only the quarters ended December 2003 and March 2004.



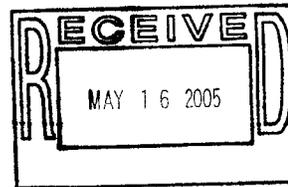
COMMONWEALTH of VIRGINIA
Department of Medical Assistance Services

PATRICK W. FINNERTY
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May 11, 2005

Mr. Stephen Virbitsky
Regional Inspector General
Department of Health and Human Services
150 S. Independence Mall West, Suite 316
Philadelphia, PA 19106-3499



Dear Mr. Virbitsky:

This letter is in response to your letter dated April 14, 2005, which enclosed a draft report entitled, "Review of Family Planning Service costs Claimed by Virginia's Medicaid Managed Care Program" (Report Number A-03-04-00209). You asked DMAS to provide written comments and a statement of concurrence or non-concurrence with each recommendation.

DMAS concurs with both recommendations. DMAS intends to refund \$1,388,506 (Federal share) incorrectly claimed as family planning service costs between April 2001 and March 2004 (recommendation 1). DMAS will make the refund before June 30, 2005 and will include adjustments on the CMS 64 submitted for the quarter ending June 30, 2005. DMAS has already implemented the 1.43 percent factor for managed care family planning claims after March 2004 (recommendation 2).

If there are any questions, please direct them to William Lessard. He can be reached at (804) 225-4593.

Sincerely,

A handwritten signature in cursive script, appearing to read "Patrick W. Finnerty".

Patrick W. Finnerty

PWF/wjl

cc. Manju Ganeriwala
Paul Kirtz
Scott Crawford
William Lessard
Charles Lawver

ACKNOWLEDGMENTS

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

Robert Baiocco, *Audit Manager*
David Besterman, *Senior Auditor*
Lisa Ferraro, *Auditor-in-Charge*
Kevin King, *Auditor*

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