



July 13, 2011

TO: Donald M. Berwick, M.D.
Administrator
Centers for Medicare & Medicaid Services

FROM: /Lori S. Pilcher/
Acting Deputy Inspector General for Audit Services

SUBJECT: Review of Medicaid Administrative Costs Claimed for the Pennsylvania Department of Aging's Healthy Steps Program (A-03-10-00205)

Attached, for your information, is an advance copy of our final report on Medicaid administrative costs claimed for the Pennsylvania Department of Aging's Healthy Steps program. We will issue this report to the Pennsylvania Department of Public Welfare within 5 business days.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Brian P. Ritchie, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through email at Brian.Ritchie@oig.hhs.gov or Stephen Virbitsky, Regional Inspector General for Audit Services, Region III, at (215) 861-4470 or through email at Stephen.Virbitsky@oig.hhs.gov. Please refer to report number A-03-10-00205.

Attachment



Office of Audit Services, Region III
Public Ledger Building, Suite 316
150 S. Independence Mall West
Philadelphia, PA 19106-3499

July 15, 2011

Report Number: A-03-10-00205

Ms. Karen Deklinski
Acting Deputy Secretary for Administration
Pennsylvania Department of Public Welfare
P. O. Box 2375
Harrisburg, PA 17105-2375

Dear Ms. Deklinski:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Medicaid Administrative Costs Claimed for the Pennsylvania Department of Aging's Healthy Steps Program*. 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 Robert Baiocco, Audit Manager, at (215) 861-4486 or through email at Robert.Baiocco@oig.hhs.gov. Please refer to report number A-03-10-00205 in all correspondence.

Sincerely,

/Stephen Virbitsky/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. 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 MEDICAID
ADMINISTRATIVE COSTS CLAIMED FOR
THE PENNSYLVANIA
DEPARTMENT OF AGING'S
HEALTHY STEPS PROGRAM**



Daniel R. Levinson
Inspector General

July 2011
A-03-10-00205

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health & Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

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

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. In Pennsylvania, the Department of Public Welfare (State agency) administers the Medicaid program.

Section 1903(a) of the Act permits States to claim Federal reimbursement for Medicaid administrative costs. These costs must be “for the proper and efficient administration of the State plan.” In a December 1994 letter to State Medicaid directors, CMS (formerly the Health Care Financing Administration) clarified its position on State claims for administrative costs, stating that “allowable claims ... must be directly related to the administration of the Medicaid program.” CMS’s letter included a listing, though not all inclusive, of allowable administrative activities. The letter also stated that claims for administrative costs cannot “reflect the cost of providing a direct medical or remedial service.”

The Pennsylvania Department of Aging plans and coordinates all programs for the elderly in the State and contracts with local Area Agencies on Aging (local agencies) to administer most of its programs. Local agencies contract with local providers for service delivery. There are 52 local agencies in Pennsylvania; 35 are divisions of government and 17 are nonprofit organizations.

In State fiscal year (FY) 2005–2006, the State agency and the Department of Aging, in a partnership with the University of California at Berkeley, developed the Healthy Steps for Older Adults program (Healthy Steps) to help adults stay active and prevent falls. Healthy Steps consists of two 2-hour workshops conducted in community and senior centers. Local agencies coordinate the program, which is available to both Medicaid beneficiaries and non-Medicaid-eligible individuals aged 50 or older. The Department of Aging reimbursed the local agencies \$70 for each program participant.

For State FYs 2007 through 2009, the State agency claimed \$2,392,981 (\$1,196,491 Federal share) in Healthy Steps costs as Medicaid administrative costs.

OBJECTIVE

Our objective was to determine whether the State agency complied with Federal requirements when it claimed Medicaid administrative costs for Healthy Steps.

SUMMARY OF FINDING

The State agency did not comply with Federal requirements when it claimed Healthy Steps costs. The claimed costs were for Department of Aging payments for services to help older adults

remain active and not for the administration of the Medicaid program. Accordingly, the State agency's claims of \$2,392,981 (\$1,196,491 Federal share) in Healthy Steps costs for State FYs 2007 through 2009 were unallowable.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$1,196,491 in Federal funds for unallowable Healthy Steps costs,
- refund the Federal share of unallowable Healthy Steps costs claimed after our audit period, and
- discontinue all future claims for Healthy Steps costs.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

The State agency did not comment on our recommendations. The State agency said that the goal of the Healthy Steps program was to educate Medical Assistance consumers on the hazards of falling, and the program did not require participants to provide personal information such as Medical Assistance status or income. However, the State agency said that, in the future, the program will require participants to provide their Medical Assistance status so administrative costs can be identified more clearly. The State agency's comments are included in their entirety as the Appendix.

Nothing in the State agency's comments caused us to change our recommendations. The costs claimed were for Department of Aging services to older adults and not for the administration of Medicaid.

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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. In Pennsylvania, the Department of Public Welfare (State agency) administers the Medicaid program.

Pursuant to section 1905(b) of the Act, States receive a Federal share for medical assistance based on the Federal medical assistance percentage (FMAP), which varies depending on the State's relative per capita income. During our audit period, the FMAP in Pennsylvania was approximately 55 percent.¹ Section 1903(a) of the Act permits States to claim Federal reimbursement for Medicaid administrative costs. These costs must be "for the proper and efficient administration of the State plan." Most Medicaid administrative costs are reimbursed at the 50-percent rate (section 1903(a)(7) of the Act). However, the State agency may receive enhanced Federal funding for some administrative costs. States claim medical assistance and administrative costs on Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64).

In a December 1994 letter to State Medicaid directors, CMS² clarified its position on State claims for administrative costs, stating that "allowable claims ... must be directly related to the administration of the Medicaid program." CMS's letter included a list of allowable administrative activities, but it was not all inclusive. The letter also stated that claims for administrative costs cannot "reflect the cost of providing a direct medical or remedial service."

Local Area Agencies on Aging

The Pennsylvania Department of Aging plans and coordinates all programs for the elderly in the State. As authorized under 42 U.S.C. § 3025(a)(2)(A), the Department of Aging designates local Area Agencies on Aging (local agencies) to provide services for the elderly in defined planning and service areas. Local agencies may be public or nonprofit private organizations. The Department of Aging has designated 52 local agencies, including 35 divisions of government and 17 nonprofit organizations. The Department of Aging contracts with the local agencies to administer most of its programs, including the Healthy Steps for Older Adults program (Healthy Steps). Local agencies contract with local providers for service delivery.

¹ The American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, enacted February 17, 2009, increased the FMAP to more than 63 percent in Pennsylvania for claims after October 1, 2008.

² The letter was issued by the Health Care Financing Administration, which was renamed CMS on July 1, 2001.

Healthy Steps for Older Adults Program

In State fiscal year (FY) 2005–2006, the State agency and the Department of Aging, in a partnership with the University of California at Berkeley, developed Healthy Steps to help older adults stay active and reduce the risk of falls. Healthy Steps, which is available to both Medicaid beneficiaries and non-Medicaid-eligible individuals aged 50 or older, consists of two 2-hour workshops conducted in community and senior centers. A pilot program was started through local agencies in Indiana, Mercer, and Somerset Counties in State FY 2005–2006. In February 2007, Healthy Steps expanded to 34 counties, and in October 2007, it expanded to the remaining counties. The Department of Aging reimbursed the local agencies \$70 for each program participant. Healthy Steps was not part of the CMS-approved Medicaid program.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the State agency complied with Federal requirements when it claimed Medicaid administrative costs for Healthy Steps.

Scope

We reviewed the State agency's claims for \$2,392,981 (\$1,196,491 Federal share) in Healthy Steps administrative costs for State FYs 2007 through 2009. We did not review the overall internal control structure of the State agency. We limited our review to those controls related to the State agency's methodology for claiming Healthy Steps costs.

We performed our fieldwork at the State agency in Harrisburg, Pennsylvania, in August 2010.

Methodology

To accomplish our objective, we:

- reviewed relevant criteria, including the Act, Federal Medicaid regulations, CMS letters to State Medicaid directors, the Medicaid State plan, and Department of Aging program directives;
- interviewed Department of Aging officials to gain an understanding of Healthy Steps;
- reviewed State agency accounting records that supported the CMS-64 claims to determine expenditures for Healthy Steps; and
- discussed our findings with CMS, Department of Aging, and State agency officials.

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 finding and conclusions based on our audit objective.

FINDING AND RECOMMENDATIONS

The State agency did not comply with Federal requirements when it claimed Healthy Steps costs. The claimed costs were for Department of Aging payments for services to help older adults remain active and not for the administration of the Medicaid program. Accordingly, the State agency's claims of \$2,392,981 (\$1,196,491 Federal share) in Healthy Steps costs for State FYs 2007 through 2009 were unallowable.

FEDERAL REQUIREMENTS

Section 1903(a) of the Act permits States to claim Federal reimbursement for Medicaid administrative costs. These costs must be "for the proper and efficient administration of the State plan." CMS's December 1994 letter to State Medicaid Directors (#122094) clarifies CMS's policy concerning State claims for administrative costs. CMS states: "We have consistently held that allowable claims under this authority must be directly related to the administration of the Medicaid program."

Although not all inclusive, CMS's list of allowable Medicaid administrative activities provided for Medicaid eligibility determinations, Medicaid outreach, prior authorizations for Medicaid services, third-party liability activities, and utilization reviews. CMS also stated that allowable administrative costs "cannot reflect the cost of providing a direct medical or remedial service, such as immunizations or psychological counseling."

UNALLOWABLE HEALTHY STEPS COSTS CLAIMED

The State agency's claims did not reflect administrative costs as defined in the Act and later clarified by CMS in its letter to State Medicaid directors. Rather, the costs were for Department of Aging payments for Healthy Steps services to help adults aged 50 and older remain active and to prevent falls. CMS explicitly prohibits claiming remedial services, such as those provided through Healthy Steps, as administrative costs because they are not "for the proper and efficient administration of the [Medicaid] State plan."

For State FYs 2007 through 2009, the State agency improperly claimed \$2,392,981 (\$1,196,491 Federal share) as Medicaid administrative costs for Healthy Steps.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$1,196,491 in Federal funds for unallowable Healthy Steps costs,

- refund the Federal share of unallowable Healthy Steps costs claimed after our audit period, and
- discontinue all future claims for Healthy Steps costs.

**STATE AGENCY COMMENTS AND
OFFICE OF INSPECTOR GENERAL RESPONSE**

The State agency did not comment on our recommendations. The State agency said that the goal of the Healthy Steps program was to educate Medical Assistance consumers on the hazards of falling, and the program did not require that participants provide personal information such as Medical Assistance status or income. However, the State agency said that, in the future, the program will require participants to provide their Medical Assistance status so administrative costs can be identified more clearly. The State agency's comments are included in their entirety as the Appendix.

Nothing in the State agency's comments caused us to change our recommendations. The costs claimed were for Department of Aging services to older adults and not for the administration of Medicaid.

APPENDIX

APPENDIX: STATE AGENCY COMMENTS



COMMONWEALTH OF PENNSYLVANIA

JUN 0 1 2011

Mr. Steven Virbitsky
Regional Inspector General for Audit Services
Department of Health & Human Services
Office of Inspector General
Office of Audit Services, Region III
150 South Independence Mall West, Suite 316
Philadelphia, Pennsylvania 19106-3499

Dear Mr. Virbitsky:

The Department of Public Welfare (DPW) has received the draft report number A-03-10-00205 titled, "Review of Medicaid Administrative Costs Claimed for Pennsylvania's Department of Aging's Healthy Steps Program". The objective of this audit was to ensure Pennsylvania's compliance with federal regulations regarding the administrative claims for the costs incurred for the Healthy Steps program.

Office of Inspector General Recommendation: We recommend that the State agency refund \$1,196,491 in federal funds for unallowable Healthy Steps costs, refund the Federal share of unallowable Healthy Steps costs claimed after our audit period, and discontinue all future claims for Healthy Steps costs.

Department of Public Welfare Response: The Healthy Steps program's primary focus is on educating Medical Assistance (MA) consumers on the hazards of falling and the prevention of such events. Therefore, the program's primary goal is overall cost avoidance through the prevention of falls.

The program did not require participants to provide personal information; however, it requested that they voluntarily provide their personal information, which would include their MA status and applicable income level. A review of this data for Fiscal Year 2008-09 indicated that of the 6,659 consumers who participated in the program, 19% responded that they are MA consumers and 77.5% reported that their income level is less than \$25,000. Based on the high percentage of consumers with less than \$25,000 of income, it is probable that the majority of the consumers were indeed MA eligible even though they chose not to identify themselves as such. The program will now require participants to provide their MA status, so that the administrative costs associated with this program can be better identified.

DEPUTY SECRETARY FOR ADMINISTRATION

Mr. Steven Virbitsky

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Thank you for your assistance in this matter. If you have questions or concerns regarding this request, please contact Maranatha Earling, Audit Resolution Section, at (717) 772-4911.

Sincerely,

A handwritten signature in black ink that reads "Kevin M Friel". The signature is written in a cursive style.

Kevin Friel
Acting Deputy Secretary for Administration

c: Mr. Robert Baiocco, Audit Manager