



DEPARTMENT OF HEALTH AND HUMAN SERVICES  
OFFICE OF AUDIT SERVICES  
233 NORTH MICHIGAN AVENUE  
CHICAGO, ILLINOIS 60601

REGION V  
OFFICE OF  
INSPECTOR GENERAL

September 4, 2008

Report Number: A-05-07-00080

Mr. Barry Maram  
Director  
Illinois Department of Healthcare and Family Services  
201 South Grand Avenue East  
Springfield, Illinois 62763

Dear Mr. Maram:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Social Security Act Section 1915(c) Waiver Payments for Home and Community-Based Services at Chicago ARC, July 1, 2004, Through June 30, 2005." 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.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Steve Slamar, Audit Manager, at (312) 353-7905 or through e-mail at [Stephen.Slamar@oig.hhs.gov](mailto:Stephen.Slamar@oig.hhs.gov). Please refer to report number A-05-07-00080 in all correspondence.

Sincerely,

  
Marc Gustafson  
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, Illinois 60601

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF SOCIAL SECURITY  
ACT SECTION 1915(C) WAIVER  
PAYMENTS FOR HOME AND  
COMMUNITY-BASED SERVICES  
AT  
CHICAGO ARC, JULY 1, 2004,  
THROUGH JUNE 30, 2005**



Daniel R. Levinson  
Inspector General

September 2008  
A-05-07-00080

# ***Office of Inspector General***

<http://oig.hhs.gov>

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## **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 Federal requirements.

Section 1915(c) of the Act authorizes the Medicaid Home and Community-Based Services (HCBS) waiver program. A State's HCBS waiver program must be approved by CMS and allows the State to claim Federal reimbursement for services not usually covered by Medicaid. HCBS are generally provided to Medicaid-eligible beneficiaries in a community rather than an institutional setting.

The Illinois Department of Healthcare and Family Services (the State agency) administers the State's HCBS waiver program, which includes a waiver to provide services to adults with developmental disabilities (DD). The State agency contracts with the Illinois Department of Human Services (DHS) to manage the DD waiver program. DHS contracts with providers that offer HCBS to Medicaid-eligible beneficiaries in a community setting. The State agency claimed Federal reimbursement of about \$182 million for HCBS provided under the DD waiver program during State fiscal year (SFY) 2005 (July 1, 2004, through June 30, 2005).

Chicago ARC (CARC) was the second largest provider of HCBS under the Illinois DD waiver during SFY 2005. DHS reimbursed CARC about \$10 million (\$5 million Federal share) for HCBS provided under the DD waiver program during SFY 2005.

### **OBJECTIVE**

Our objective was to determine whether the State agency's claim for Medicaid reimbursement for HCBS provided by CARC during SFY 2005 complied with Federal and State requirements.

### **SUMMARY OF FINDINGS**

During SFY 2005, we estimate the State agency claimed \$136,568 (\$68,284 Federal share) for HCBS that did not comply with Federal and State requirements and \$1,454,144 (\$727,072 Federal share) for services that may not have been allowable for Medicaid reimbursement. Of the 100 random beneficiary-months reviewed, the State agency claimed reimbursement for HCBS that

- were provided by CARC and were allowable for 44 beneficiary-months,

- were unallowable in 29 beneficiary-months because CARC did not provide the services or meet documentation requirements; and
- may have been unallowable in 27 beneficiary-months because the CARC's HCBS documentation did not include necessary details to determine whether the services complied with Federal and State requirements.

The claims for the unallowable and potentially unallowable services were made because CARC did not implement adequate internal controls to ensure it documented and claimed reimbursement only for allowable services actually provided.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund \$68,284 to the Federal Government for unallowable HCBS claimed in SFY 2005,
- work with CMS to resolve the \$1,454,144 (\$727,072 Federal share) for which documentation did not include necessary details to determine whether the services complied with Federal and State requirements, and
- require CARC to implement internal controls to ensure it documents and claims reimbursement only for allowable HCBS actually provided in accordance with Federal and State requirements.

## **STATE AGENCY COMMENTS**

In written comments on our draft report, the State agency did not address our first recommendation. In response to our second and third recommendations, the State agency stated that it strongly agreed that monitoring and documenting the individuals' response to the service plan is important. However, the State agency did not think the payments should be disallowed because documentation demonstrated that individuals participated in the program. The State agency plans to reissue guidance, which will be updated to clarify issues identified in this audit, to all providers.

The State agency comments are included in their entirety as Appendix B.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

We continue to recommend that the State agency refund \$68,284 to the Federal Government and work with CMS to resolve the \$1,454,144 (\$727,072 Federal share) in potentially unallowable payments.

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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. The Illinois Department of Healthcare and Family Services (the State agency) administers the State's Medicaid program.

#### **1915(c) Waivers**

Section 1915(c) of the Act authorizes the Medicaid Home and Community-Based Services (HCBS) waiver program. A State's HCBS waiver program must be approved by CMS and allows the State to claim Federal reimbursement for services not usually covered by Medicaid. HCBS are generally provided to Medicaid-eligible beneficiaries in a community rather than an institutional setting. With CMS approval and pursuant to section 1915(c)(4)(B), States determine the services that may be provided under the waiver program including:

. . . case management services, homemaker/home health aide services and personal care services, adult day health services, habilitation services, respite care, and such other services requested by the State as the Secretary may approve and for day treatment or other partial hospitalization services, psychosocial rehabilitation services, and clinic services (whether or not furnished in a facility) for individuals with chronic mental illness.

#### **Illinois Adults With Developmental Disabilities Waiver**

The Illinois adults with developmental disabilities (DD) waiver program is one of several section 1915(c) waivers approved by CMS. The DD waiver allows the State agency to provide HCBS to Medicaid-eligible beneficiaries in a community setting as opposed to an institutional setting. The State agency contracts with the Illinois Department of Human Services (DHS) to operate the waiver program on a day-to-day basis. DHS reimbursed providers for claimed HCBS, and subsequently, submitted claims for reimbursement to the State agency. Under the DD waiver program, the State agency claimed Federal reimbursement of about \$182 million during the State fiscal year (SFY) 2005 (July 1, 2004, through June 30, 2005).

## **Chicago ARC**

Chicago ARC (CARC) was the second largest provider of HCBS under the Illinois DD waiver during SFY 2005. DHS reimbursed CARC about \$10 million (\$5 million Federal share) for HCBS provided under the DD waiver program during SFY 2005.

This review of the State agency's claim for reimbursement for HCBS at CARC is one in a series of reports regarding Illinois' claims for HCBS.

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

### **Objective**

Our objective was to determine whether the State agency's claim for Medicaid reimbursement for HCBS provided by CARC during SFY 2005 complied with Federal and State requirements.

### **Scope**

Our review covered the State agency's claims for Medicaid reimbursement of HCBS provided by CARC under the DD waiver program for SFY 2005. The State agency claimed \$10 million (\$5 million Federal share) for 127,745 HCBS provided by CARC under the DD waiver program during 5,714 beneficiary-months<sup>1</sup> for this period. The scope of our audit did not include a medical review or an evaluation of the medical necessity for the services that CARC provided and claimed reimbursement.

We did not assess the State agency's overall internal controls. We limited our review to gaining an understanding of the State agency's and DHS's controls related to Medicaid claims and payments and to the operation of the DD waiver program. We reviewed CARC's internal controls for providing, documenting, and claiming reimbursement for HCBS. We did not review the propriety of HCBS payment rates.

We performed fieldwork at the State agency and DHS offices located in Springfield, Illinois, and at CARC located in Chicago, Illinois, from November 2007 through June 2008.

### **Methodology**

To accomplish our objective, we:

- reviewed Federal and State laws, Medicaid HCBS waiver regulations, the Illinois Waiver Manual, and the CMS-approved DD waiver;
- interviewed CMS, State agency, DHS, and CARC officials regarding HCBS policies, procedures, and documentation requirements;

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<sup>1</sup>A beneficiary-month includes all HCBS for one beneficiary for 1 month. The beneficiary-month can include multiple services.

- reconciled the HCBS claimed for Federal reimbursement on the “Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program,” Form CMS-64, by the State agency to its accounting records for the quarters ended March and June 2005;
- analyzed the State agency’s SFY 2005 HCBS payments to DD service providers and identified CARC as the second largest provider;
- selected a simple random sample of 100 beneficiary-months at CARC from the population of all HCBS claimed and paid under the DD waiver program during SFY 2005 and:
  - reviewed the supporting documentation including individual service plans (ISP), monthly staff notes, attendance reports, clinical notes, and all other medical history notes;
  - verified services were paid accurately based on the individual payment rate sheets provided by the State agency;
  - ensured claimed services were included in the approved ISP;
  - confirmed beneficiary eligibility for services;
  - determined whether services were provided by appropriately qualified staff;
  - identified any services that were not provided or paid in accordance with applicable criteria; and
  - estimated the results of our sample review to the population of beneficiary-months (see Appendix A).

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**

During SFY 2005, we estimate the State agency claimed \$136,568 (\$68,284 Federal share) for HCBS that did not comply with Federal and State requirements and \$1,454,144 (\$727,072 Federal share) for services that may not have been allowable for Medicaid reimbursement. Of the 100 random beneficiary-months reviewed, the State agency claimed reimbursement for HCBS that

- were provided by CARC and were allowable for 44 beneficiary-months,

- were unallowable in 29 beneficiary-months because CARC did not provide the services or meet documentation requirements, and
- may have been unallowable in 27 beneficiary-months because the CARC's HCBS documentation did not include necessary details to determine whether the services complied with Federal and State requirements.

The claims for the unallowable and potentially unallowable services were made because CARC did not implement adequate internal controls to ensure it documented and claimed reimbursement only for allowable services actually provided.

## **WAIVER REQUIREMENTS**

HCBS program requirements are contained in Federal law, a CMS program manual, the CMS-approved DD waiver, Illinois Administrative Code, and the Illinois Waiver Manual.

### **Federal Law**

Federal regulations state that costs must be adequately documented in order to be allowable under Federal awards (2 CFR § 225, Appendix A (C.1.j.)).

### **Centers for Medicare & Medicaid Services Program Manual**

Section 2500.2 of the CMS "State Medicaid Manual," instructs States to:

Report only expenditures for which all supporting documentation, in readily reviewable form, has been complied and which is immediately available when the claim is filed. Your supporting documentation includes at minimum the following: date of service, name of recipient, Medicaid identification number, name of provider agency and person providing the service, nature, extent, or units of service, and the place of service. (Emphasis in the original.)

### **CMS-Approved DD Waiver Agreement**

The CMS-approved DD waiver agreement with Illinois states that all waiver services will be furnished pursuant to a written plan of care and Federal Financial Participation will not be claimed for waiver services which are not included in the individual written plan of care.

### **Illinois Administrative Code**

Title 59 Illinois Code, section 115.320(h)3(E), requires the provider to record and update as necessary information including physical and dental examinations, and medical history in an individual's record.

Title 59 Illinois Code, section 119.260(i)(4)(D), requires the provider to enter chronological progress notes, at least monthly, into the individual's record documenting involvement in and response to the ISP.

### **Illinois Waiver Manual**

The Illinois Waiver Manual, sections 850.00(c) and 1050(c), require the service provider to submit complete and accurate service reports and claims, and to maintain appropriate documentation (attendance reports, staff logs, etc.) establishing an audit trail for individuals receiving Medicaid HCBS through the waiver.

The Illinois Waiver Manual, section 1050.00(b), states that “. . . Hours when the individual is **not** participating in DT (developmental training) programmatic services are **not** billable.” (Emphasis in the original.)

### **UNALLOWABLE HOME AND COMMUNITY-BASED SERVICES**

#### **Unallowable Payments**

During SFY 2005, we estimate that CARC received at least \$136,568 (\$68,284 Federal share) for Medicaid HCBS that did not meet Federal and State requirements. Of the 2,104 services included within the 100 sampled beneficiary-months, 84 services totaling \$2,149 included in 29 beneficiary-months were unallowable because CARC did not provide the services or did not meet documentation requirements. Specifically, CARC claimed:

- 36 services, totaling \$977, for 7 beneficiaries who did not have an ISP;
- 33 services, totaling \$796, that were not adequately documented by home-based service facilitators to show the HCBS that were actually provided for 18 beneficiaries;
- 11 services, totaling \$233, that were not adequately documented by CARC's developmental training staff to show that the HCBS were actually provided for 5 beneficiaries;
- 4 services, totaling \$143, for 4 beneficiaries on the same days that the beneficiaries traveled to other medical facilities and received other medical services. CARC staff confirmed that the beneficiaries did not receive the claimed HCBS on those days.

### **POTENTIALLY UNALLOWABLE HOME AND COMMUNITY-BASED SERVICES**

#### **Potentially Unallowable Payments**

During SFY 2005, we estimate the State agency claimed \$1,454,144 (\$727,072 Federal share) for HCBS that may have been unallowable in 27 beneficiary-months because the CARC's HCBS documentation did not include necessary details to determine whether the services complied with Federal and State requirements. The State agency claimed reimbursement for 466 services in 27

beneficiary-months that CARC was unable to provide complete chronological progress notes that documented the beneficiaries' response to the ISP. While we were able to determine that some services were provided to the beneficiaries, we could not determine if those services were appropriate HCBS because the notes failed to document the beneficiaries' response to the ISP as required by Title 59 Illinois Code, section 119.260(i)(4)(D). For these potentially unallowable HCBS claims, we have set aside the related payments for resolution by CMS.

## **CARC INTERNAL CONTROLS**

CARC did not implement internal controls to ensure that it complied with Federal and State HCBS requirements. Specifically, CARC did not implement adequate internal controls to ensure it documented and claimed reimbursement only for allowable services actually provided.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund \$68,284 to the Federal Government for unallowable HCBS claimed in SFY 2005,
- work with CMS to resolve the \$1,454,144 (\$727,072 Federal share) for which documentation did not include necessary details to determine whether the services complied with Federal and State requirements, and
- require CARC to implement internal controls to ensure it documents and claims reimbursement only for allowable HCBS actually provided in accordance with Federal and State requirements.

## **STATE AGENCY COMMENTS**

In written comments on our draft report, the State agency did not address our first recommendation. In response to our second and third recommendations, the State agency stated that it strongly agreed that monitoring and documenting the individuals' response to the service plan is important. However, the State agency did not think the payments should be disallowed because documentation demonstrated that individuals participated in the program. The State agency plans to reissue guidance, which will be updated to clarify issues identified in this audit, to all providers.

The State agency comments are included in their entirety as Appendix B.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

We continue to recommend that the State agency refund \$68,284 to the Federal Government and work with CMS to resolve the \$1,454,144 (\$727,072 Federal share) in potentially unallowable payments. While we agree that some documentation demonstrated that individuals participated in the program, we could not determine if those services were appropriate HCBS because the notes failed to document the beneficiaries' response to the ISP as required by Title 59 Illinois Code, section 119.260(i)(4)(D). We have set aside the related payments for resolution by CMS.

# **APPENDIXES**

## **SAMPLING METHODOLOGY AND RESULTS**

### **POPULATION**

The population consisted of 5,714 beneficiary-months of service for beneficiaries receiving home and community-based services (HCBS) with a Federal Financial Participation (FFP) component at Chicago ARC (CARC) during State fiscal year (SFY) 2005 (July 1, 2004, through June 30, 2005). A beneficiary-month was defined as all HCBS for one beneficiary for 1 month. CARC received about \$10 million (\$5 million Federal share) for 127,745 HCBS claimed during SFY 2005.

### **SAMPLE UNIT**

The sampling unit was a beneficiary-month for which a HCBS with a FFP component was provided by CARC and claimed for Medicaid reimbursement during SFY 2005.

### **SAMPLE DESIGN**

From the 5,714 beneficiary-months, we selected a simple random sample of 100 beneficiary-months, which included 2,104 HCBS totaling \$156,895 (Federal share \$78,448).

### **ESTIMATION METHODOLOGY**

We used the Office of Inspector General, Office of Audit Services, statistical software to estimate the amount the State agency claimed for HCBS that did not comply with Federal and State requirements.

### **SAMPLE RESULTS AND ESTIMATION**

Of the 100 sampled beneficiary-months, 29 beneficiary-months included unallowable HCBS totaling \$4,298 (Federal share \$2,149). Using the lower limit of the 90-percent confidence interval, we estimate that the State agency claimed \$68,284 in Federal reimbursement during our audit period for HCBS that did not comply with Federal and State requirements.

Of the 100 sampled beneficiary-months, 27 beneficiary-months included HCBS totaling \$25,448 (Federal share \$12,724) that may have been unallowable. Using the point estimate of the 90-percent confidence interval, we estimate that the State agency claimed \$727,072 in Federal reimbursement that we were unable to determine the appropriateness of the HCBS payments.

<b>Estimate of Unallowable HCBS at the 90-percent Confidence Level</b>		
	<b>Total Unallowable</b>	<b>Federal Share</b>
Point Estimate	\$245,571	\$122,786
Lower Limit	\$136,568	\$68,284
Upper Limit	\$354,574	\$177,287

<b>Estimate of Potentially Unallowable HCBS at the 90-percent Confidence Level</b>		
	<b>Total Unallowable</b>	<b>Federal Share</b>
Point Estimate	\$1,454,144	\$727,072
Lower Limit	\$1,042,483	\$521,242
Upper Limit	\$1,865,806	\$932,903



Rod R. Blagojevich, Governor  
Barry S. Maram, Director

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August 4, 2008

Department of Health and Human Services  
Office of Audit Services

Attn: Marc Gustafson, Regional Inspector General for Audit Services  
233 North Michigan Avenue, Suite 1360  
Chicago, Illinois 60601-5502

Re: Draft Audit Report No. A-05-08-00018

Dear Mr. Gustafson:

Thank you for giving us an opportunity to comment on your draft audit report entitled "Review of Social Security Act Section 1915c HCBS Waiver Services at Chicago ARC Inc. for July 1, 2004 through June 30, 2005." As with the previous waiver provider audits, we appreciate the work performed by the Office of Inspector General auditors, especially the opportunity to meet and review with the auditors the individual findings.

We are pleased with the overall outcome of the Chicago ARC audit, specifically the positive findings regarding documentation in the residential program – the largest service type in the waiver program under review. We are also pleased with the relatively minor findings in the developmental training program. In January of 2006 as a result of a statewide post payment review of day program billings by the Operating Agency – Department of Human Services (DHS) issued "Day Program Billing and Audit Trail Guidance" to all participating waiver providers. This notice informed providers about common errors and provided instruction on how to accurately document day program attendance. In light of the findings you have identified, this department and DHS plan to reissue the day program guidance to all day program providers at the conclusion of this federal waiver audit. The guidance will be updated to clarify any issues raised in this waiver audit.

We believe that the home-based service facilitator documentation finding is an isolated finding. The agency has reported that the staff person responsible for these beneficiary records separated from the agency soon after the audit period under review.

We recognize your concerns regarding the "Potentially Unallowable Payments" cited in the draft report where progress notes for the beneficiary months selected were missing. While we strongly agree that monitoring and documenting the individuals' response to the service plan is important. However, we do not think that payments should be disallowed because extensive documentation was provided by Chicago ARC that clearly demonstrated that the individuals participated in the program. As part of our follow-up to this audit, we will reinforce with providers the importance of maintaining documentation of the QMRP's monthly progress notes.

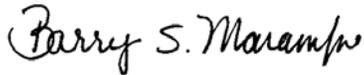
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Internet: <http://www.hfs.illinois.gov/>

Mr. Marc Gustafson  
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Since the close of the fiscal year under review (FY2005), HFS and DHS have increased the number and types of oversight activities undertaken annually. In addition, we will use your findings to reiterate and clarify required policies and strengthen our administration of this program. Again thank you for the opportunity to respond to the draft report.

Sincerely,



Barry S. Maram  
Director

Cc: Carol L. Adams, Secretary, Department of Human Services