

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**ARKANSAS INAPPROPRIATELY  
RECEIVED MEDICAID FAMILY  
PLANNING FUNDING FOR FEDERAL  
FISCAL YEARS 2006 THROUGH 2010**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



Gloria L. Jarmon  
Deputy Inspector General

January 2013  
A-06-11-00022

# *Office of Inspector General*

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## **EXECUTIVE SUMMARY**

### **BACKGROUND**

While conducting a review of Arkansas' Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64 report) for one quarter, we noted several errors in the worksheet that the Arkansas Department of Human Services (State agency) used to aggregate family planning expenditures (the family planning worksheet). Those errors, which caused the State agency to overreport the family planning expenditures, were systemic in nature. As a result, we decided to focus on the expenditures included on family planning worksheets during Federal fiscal years (FY) 2006 through 2010.

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 administer and fund 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 States have considerable flexibility in designing and operating their Medicaid programs, they must comply with applicable Federal requirements. In Arkansas, the State agency is responsible for administering the Medicaid program.

The State agency claims Medicaid expenditures and the associated Federal share of those expenditures on the CMS-64 report. This report shows Medicaid funds used to pay for medical and administrative expenditures for the quarter being reported and any prior-period adjustments.

Pursuant to section 1905(b) of the Act, the Federal Government pays its share of a State's medical assistance expenditures under Medicaid based on the Federal medical assistance percentage (FMAP), which varies depending on the State's relative per capita income. For FYs 2006 through 2010, the State agency's regular FMAP ranged from 72.94 percent to 81.18 percent. The Act established a higher, fixed-reimbursement rate for family planning medical assistance services of 90 percent (90-percent rate). Family planning services are those that prevent or delay pregnancy or otherwise control family size.

For infant delivery claims that included a sterilization, which is a family planning service, the State agency's methodology called for allocating 40 percent of the cost of vaginal deliveries and 35 percent of the cost of caesarean section deliveries as family planning expenditures.

### **OBJECTIVE**

Our objective was to determine whether the State agency accurately claimed Federal reimbursement for expenditures included on family planning worksheets from October 1, 2005, through September 30, 2010.

## **SUMMARY OF FINDINGS**

The State agency accurately claimed Federal reimbursement for \$42,483,500 of the \$65,320,298 in expenditures that it included on family planning worksheets from October 1, 2005, through September 30, 2010.

Of the remaining \$22,836,798 in expenditures, \$16,088,361 did not qualify for the 90-percent rate because it (1) exceeded limits specified in the State agency's infant delivery allocation methodology, (2) resulted from errors in compiling the family planning expenditures, and (3) resulted from errors in the computer programming used to identify infant delivery costs during three quarters for which we analyzed claim-level data. As a result, the State agency inappropriately received \$1,906,657 in additional family planning Federal share, which is the difference between the 90-percent rate and the regular FMAP.

In addition, \$6,748,437 in infant delivery expenditures resulted from the State agency's allocation methodology. The State agency could not support that the percentages it had used were a reasonable allocation of the costs, so we are setting aside the \$929,019 in additional family planning Federal share that the State agency received for the allocated expenditures.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund to the Federal Government \$1,906,657 in family planning Federal share;
- work with CMS to determine the allowable portion of the \$929,019 in family planning Federal share that it received for allocated sterilization costs;
- review the claim-level data of quarters that we did not analyze, identify infant delivery costs incorrectly classified as family planning expenditures as a result of the programming errors, and refund overpayments to the Federal Government;
- review its computer programming for identifying the cost of infant deliveries that include sterilizations, ensure that the programming excludes the cost of deliveries without sterilizations, and ensure that the programming correctly classifies the costs into delivery categories;
- submit documentation to CMS supporting the reasonableness of the percentages used for allocating infant delivery costs as family planning expenditures; and
- establish review procedures to ensure that family planning expenditures are correctly compiled, assigned, and claimed.

## **STATE AGENCY COMMENTS**

The State agency concurred with all of our recommendations.

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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 administer and fund 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 States have considerable flexibility in designing and operating their Medicaid programs, they must comply with applicable Federal requirements. In Arkansas, the Department of Human Services (State agency) is responsible for administering the Medicaid program.

Pursuant to section 1905(b) of the Act, the Federal Government pays its share of a State's medical assistance expenditures under Medicaid based on the Federal medical assistance percentage (FMAP), which varies depending on the State's relative per capita income. For Federal fiscal years (FY) 2006 through 2010, the State agency's regular FMAP ranged from 72.94 percent to 81.18 percent. The Act established a higher, fixed-reimbursement rate for family planning medical assistance services of 90 percent (90-percent rate).

#### Medicaid Coverage of Family Planning Services

Section 1905(a)(4)(C) of the Act requires States to furnish family planning services and supplies to individuals of childbearing age (including minors who can be considered sexually active) who are eligible under the State plan and who desire such services and supplies.

Section 4270 of the CMS *State Medicaid Manual* states that family planning services are those that prevent or delay pregnancy or otherwise control family size. That provision of the manual generally permits the 90-percent rate for the following family planning services and items: counseling services and patient education, examination and treatment by medical professionals according to each State's requirements, devices to prevent conception, and infertility services (including sterilization reversals). The manual provides that only items and procedures clearly furnished or provided for family planning purposes may be claimed at the 90-percent rate.

#### Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program

The State agency claims Medicaid expenditures and the associated Federal share on the Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64 report). This report shows Medicaid funds used to pay for medical and administrative expenditures for the quarter being reported and any prior-period adjustments. The CMS *State Medicaid Manual*, section 2500(A)(1), states that the amounts reported on the CMS-64 report and its attachments must represent actual expenditures. In addition, all supporting documentation must be in readily reviewable form and available at the time the claim is filed.

This audit resulted from a separate review of Arkansas' CMS-64 report for the quarter ended June 30, 2010.<sup>1</sup>

### **The State Agency's Family Planning Worksheet**

The State agency used a worksheet to support family planning expenditures (the family planning worksheet) that it claimed on the CMS-64 report. The family planning worksheet included two types of expenditures: infant delivery expenditures and expenditures from family planning categories of service.

To identify infant delivery expenditures, the State agency used a computer program to identify delivery claims that included more than one procedure. The State agency believed that delivery claims with multiple procedures included a sterilization procedure, which is a family planning service, and therefore a portion of the expenditures should always be claimed at the 90-percent rate. Using the delivery procedure code, the computer program then categorized the expenditures as either vaginal delivery or caesarean section delivery. The State agency's methodology called for allocating 40 percent of the cost of vaginal delivery claims and 35 percent of the cost of caesarean section delivery claims as family planning expenditures. A State agency official manually added delivery costs to the family planning worksheet.

The State agency's claim processing system used categories of service to classify claims for reporting on the CMS-64 report. Several categories captured claims related to family planning services. Another State agency official manually added the expenditures from those family planning categories to the family planning worksheet.

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

### **Objective**

Our objective was to determine whether the State agency accurately claimed Federal reimbursement for expenditures included on family planning worksheets from October 1, 2005, through September 30, 2010.

### **Scope**

Our review covered \$65,320,298 (\$58,788,268 Federal share) in expenditures that the State agency claimed as family planning and included on family planning worksheets from October 1, 2005, through September 30, 2010.

Our objective did not require a review of the overall internal control structure of the State agency. Therefore, we limited our internal control review to the State agency's procedures for aggregating family planning expenditures on the CMS-64 report.

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<sup>1</sup> We will issue the results of this review under report number A-06-10-00098.



## **Methodology**

To accomplish our objective, we:

- reviewed applicable laws, regulations, and guidance;
- interviewed State agency officials;
- gained an understanding of the process that the State agency used to claim family planning expenditures on the CMS-64 reports;
- traced expenditures claimed as family planning on the CMS-64 reports to supporting documentation;
- analyzed the claim-level data supporting infant delivery costs claimed as family planning expenditures for three selected quarters;
- calculated Federal overpayments related to expenditures that the State agency incorrectly claimed at the 90-percent rate (i.e., calculated overpayments as the difference between the 90-percent rate and the regular FMAP); and
- discussed our results with the State agency.

We assessed the reliability of the State agency's data by (1) performing electronic testing of required data elements, (2) reviewing information about the data and the system that produced the data, and (3) interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this audit.

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**

Of the \$65,320,298 in expenditures that the State agency included on family planning worksheets from October 1, 2005, through September 30, 2010, the State agency accurately claimed Federal reimbursement for \$42,483,500. The remaining \$22,836,798 consisted of:

- \$16,088,361 in expenditures that did not qualify for the 90-percent rate, which caused the State agency to inappropriately receive \$1,906,657 in additional family planning Federal share, and

- \$6,748,437 in infant delivery expenditures that resulted from the State agency's unsupported allocation methodology, which caused the State agency to receive \$929,019 in additional family planning Federal share that we are setting aside.

## **FEDERAL REQUIREMENTS**

Section 1903(a)(5) of the Act provides that Federal reimbursement is available at the 90-percent rate for the cost of family planning services. Section 4270(B)(2) of the CMS *State Medicaid Manual* states that only items and procedures clearly provided or performed for family planning purposes may be matched at the 90-percent rate.

CMS's *Financial Management Review Guide Number 20* (Review Guide) states that when multiple procedures are performed during a single hospital stay and one of them is related to family planning, a State's claim for Federal reimbursement must distinguish between those costs attributable to family planning services and those costs attributable to other covered services. The Review Guide states that in the absence of regulations, CMS must accept any method of allocation a State adopts that reasonably allocates costs for the purpose of claiming the appropriate Federal reimbursement rate.

## **EXPENDITURES INAPPROPRIATELY CLAIMED AT THE 90-PERCENT RATE**

The State agency claimed \$16,088,361 in expenditures that did not qualify for the 90-percent rate, consisting of:

- \$9,676,034 in expenditures that exceeded the limits specified in its infant delivery allocation methodology,
- \$6,075,495 in expenditures that resulted from errors in compiling the family planning expenditures, and
- \$336,832 in expenditures that resulted from errors in the computer programming used to identify infant delivery costs.

As a result, the State agency inappropriately received \$1,906,657 in additional family planning Federal share, which is the difference between the 90-percent rate and the regular FMAP.

## **Delivery Expenditures That Exceeded Allocation Methodology Limits**

Although the State agency intended to claim only 35 or 40 percent of the costs for infant deliveries with more than one procedure as family planning expenditures, it incorrectly included the full amount for most deliveries on the family planning worksheet and ultimately claimed the entire amount as family planning expenditures on the CMS-64 report. If the State agency had followed its methodology for allocating the cost of deliveries that included sterilization procedures, it would have claimed \$6,748,437 of costs as family planning expenditures rather than the \$16,424,471 it actually claimed. By claiming the extra \$9,676,034 at the 90-percent

rate, rather than the regular FMAPs to which it was entitled, the State agency inappropriately received additional family planning Federal share of \$1,305,077.

### **Compilation Errors**

The State agency duplicated \$5,713,481 in expenditures at the 90-percent rate, consisting of:

- \$4,649,699 that was claimed as both waiver expenditures and nonwaiver expenditures<sup>2</sup> during two quarters and
- \$1,063,782 in physician services included in two places on the family planning worksheet during four quarters.

To compensate for the duplications, the State agency decreased expenditures claimed at the regular FMAPs rather than at the correct rate of 90 percent. As a result, the State agency received additional family planning Federal share of \$509,270.

Additionally, the State agency made isolated errors when reporting the family planning expenditures for five quarters. For example, the sterilization services amount on the family planning worksheet for the third quarter of FY 2006 was \$1,222,346, but the amount reported on the CMS-64 report was \$1,325,389. The State agency could not explain the errors. In total, the State agency overreported family planning expenditures by \$362,014 for the five quarters and received \$56,919 in additional family planning Federal share.

### **Computer Programming Errors**

During the three quarters for which we reviewed claim-level data for infant deliveries, computer programming errors resulted in the State agency incorrectly claiming the following \$336,832 in expenditures:

- \$222,070 for claims included more than once in the delivery categories,
- \$103,555 for claims that did not include sterilizations (i.e., deliveries that did not include a family planning procedure), and
- \$11,207 of caesarean delivery costs that were misclassified as vaginal delivery costs (i.e., the difference between the 35- and 40-percent allocation rates).

As a result of the computer programming errors, the State agency received additional family planning Federal share of \$35,391.

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<sup>2</sup> States may use waiver programs, which must be approved by CMS, to test new or existing ways to deliver and pay for health care services in Medicaid.

## **UNSUPPORTED ALLOCATION METHODOLOGY**

Had the State agency correctly applied its methodology of allocating 35 or 40 percent of the cost of infant delivery claims with more than one procedure as family planning expenditures, the State agency would have allocated \$6,748,437 as family planning expenditures. However, the State agency could not show how it arrived at the allocation, nor could it support that the percentages were a reasonable allocation of the costs. As a result, we could not determine the appropriate amount of the additional family planning Federal share of \$929,019 that the State agency should have received.

The State agency's methodology may not have reasonably estimated the portion of the cost of infant delivery claims related to sterilization procedures. The potential unreasonableness of the State agency's payment methodology becomes clear in cases where the infant delivery claim is a high-cost claim. Because the sterilization procedure cost is calculated as a percentage of claim cost, the sterilization procedure cost is proportionally inflated.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund to the Federal Government \$1,906,657 in family planning Federal share;
- work with CMS to determine the allowable portion of the \$929,019 in family planning Federal share that it received for allocated sterilization costs;
- review the claim-level data of quarters that we did not analyze, identify infant delivery costs incorrectly classified as family planning expenditures as a result of the programming errors, and refund overpayments to the Federal Government;
- review its computer programming for identifying the cost of infant deliveries that include sterilizations, ensure that the programming excludes the cost of deliveries without sterilizations, and ensure that the programming correctly classifies the costs into delivery categories;
- submit documentation to CMS supporting the reasonableness of the percentages used for allocating infant delivery costs as family planning expenditures; and
- establish review procedures to ensure that family planning expenditures are correctly compiled, assigned, and claimed.

## **STATE AGENCY COMMENTS**

The State agency concurred with all of our recommendations and described corrective actions that it had taken or planned to take. The State agency's comments appear in their entirety as the Appendix.

# **APPENDIX**



**Division of Medical Services**

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12/11/2012

Patricia Wheeler  
Regional Inspector General for Audit Services  
Office of Audit Services, Region VI  
1100 Commerce Street, Room 632  
Dallas, TX 75242

SUBJECT: OIG audit number A-06-11-00022 draft report entitled "Arkansas Inappropriately Received Medicaid Family Planning Funding for Federal Fiscal Years 2006 through 2010."

Dear Ms. Wheeler:

Below please find the Arkansas Department of Human Services – Division of Medical Services (DMS) draft response to your letter dated October 16, 2012 requesting written comments on the recommendations included in the draft report of OIG audit number A-06-11-00022. The recommendations along with our initial draft responses are as follows:

- 1) Refund to the Federal Government \$1,906,657 in family planning Federal share

**RESPONSE: DMS concurs with this recommendation. The nature of the corrective action or plan is listed below in the individual findings.**

- 2) Work with CMS to determine the allowable portion of the \$929,019 in family planning Federal share that it received for allocated sterilization costs

**RESPONSE: DMS concurs with this recommendation. We contacted our CMS Regional Office representative Margaret Cano on 6/22/2012 concerning the questioned percentages. Ms. Cano reviews our Arkansas Quarterly Expenditure Statements for Medicaid and the Children's Health Insurance Program (CHIP) (CMS-64 and CMS-21). Per our conversation with her, these percentages were established several years ago when the program began by the DMS CFO. No documentation was discovered by our office or at the Regional Office on the methodology used to determine these percentages. We will examine the application of these percentages with our CMS Regional Office to determine if an update to these percentages is required and/or document the methodology used to determine the percentages.**

- 3) Review the claim-level data of quarters that we did not analyze, identify infant delivery costs incorrectly classified as family planning expenditures as a result of the programming errors, and refund overpayments to the Federal government

**RESPONSE:** DMS concurs with this recommendation. We will work with the programming personnel responsible for maintaining and providing this report each quarter to analyze the claim-level data in the periods subsequent to the period of this audit for programming errors and refund any overpayments discovered to the Federal government.

- 4) Review its computer programming for identifying the cost of infant deliveries that include sterilizations, ensure that the programming excludes the cost of deliveries without sterilization, and ensure that the programming correctly classifies the costs into delivery categories

**RESPONSE:** DMS concurs with this recommendation. During the last several years, our Division has experienced turnover of the computer programming personnel responsible for maintaining and providing this report each quarter. As a result, our Division has made an endeavor to review current programming and to develop and maintain documentation and procedures regarding the production of these reports. This process and documentation are under continuous development to ensure consistency and quality of the family planning reports.

- 5) Establish review procedures to ensure that family planning expenditures are correctly compiled, assigned, and claimed

**RESPONSE:** DMS concurs with this recommendation. As stated in our response to recommendation number four, our Division has made an endeavor to review current programming and to develop and maintain documentation and procedures regarding the production of these reports. This process and documentation are under continuous development to ensure consistency and quality of the family planning reports.

If you have any questions or need to discuss this further, please contact myself, Sharon Jordan or Thomas Carlisle.

Sincerely,

Sheryl Baker, Medical Assistance Manager