

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ALABAMA DID NOT COMPLY WITH
FEDERAL AND STATE REQUIREMENTS
FOR CLAIMING MEDICAID CERTIFIED
PUBLIC EXPENDITURES FOR FEDERAL
FISCAL YEAR 2010**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



**Daniel R. Levinson
Inspector General**

July 2016
A-06-15-00004

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

Alabama did not comply with Federal and State requirements for claiming any of the \$209.5 million in certified public expenditures for Federal fiscal year 2010.

WHY WE DID THIS REVIEW

Public entities (e.g., public hospitals) may certify that they have spent funds on Medicaid items or services that are eligible for Federal matching funds. These funds are referred to as certified public expenditures (CPEs) and may be claimed as the State's share of Medicaid expenditures. The Alabama Medicaid Agency (State agency) made a \$123.5 million adjustment to Medicaid hospital CPEs in Federal fiscal year (FY) 2011 that more than doubled the CPEs claimed for FY 2010.

The objective of this review was to determine whether the State agency complied with Federal and State requirements for claiming Medicaid hospital CPEs for FY 2010.

BACKGROUND

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. In Alabama, the State agency administers the Medicaid program. Although the State agency has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements. The Federal Government pays its share of a State's Medicaid expenditures based on the Federal medical assistance percentage, which varies depending on the State's relative per capita income.

During FY 2010, the State agency operated a hospital CPE program for both inpatient and outpatient hospital services. Under this program, the State agency should have claimed CPEs for the difference between regular payments for services provided to Medicaid beneficiaries and public hospitals' actual costs to provide those services. The last year that the State agency operated its CPE program was FY 2013.

WHAT WE FOUND

The State agency did not comply with Federal and State requirements for claiming \$209,534,844 (\$162,452,365 Federal share) in CPEs for FY 2010. The State agency incorrectly claimed \$27,476,217 (\$21,302,311 Federal share) because it made errors in its CPE calculation. We are setting aside the remaining \$182,058,627 (\$141,150,054 Federal share) the State agency claimed because it did not calculate the CPEs in accordance with the CMS-approved State plan. Of that amount, \$55,267,326 (\$42,848,758 Federal share) resulted from the State agency inappropriately applying a market inflation factor to 2010 costs, which essentially increased those costs to 2013 levels.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government the \$21,302,311 that related to the errors the State agency made when calculating CPEs and
- work with CMS to determine whether any portion of the \$141,150,054 related to CPEs that were not calculated in accordance with the State plan should be refunded to the Federal Government, particularly the \$42,848,758 Federal share associated with the increase from the application of the market inflation factor.

STATE AGENCY COMMENTS AND OUR RESPONSE

In written comments on our draft report, the State agency did not concur with our first recommendation and partially concurred with our second recommendation. In response to both recommendations, the State agency explained that it is working with CMS to reconcile to actual costs for the FY 2010 hospital CPE program. The State agency stated that the reconciliation will or should address the concerns that led to the report's recommendations.

After reviewing the State agency's comments, we maintain that our findings and recommendations are valid. The State agency did not dispute our findings that it made errors when calculating the FY 2010 hospital CPEs and that it did not calculate CPEs in accordance with its State plan. If the State agency had not made the calculation errors, it would not have claimed the \$21,302,311 in Federal funds that we recommend for refund. The State agency has had those incorrectly claimed funds for more than 5 years.

Further, information essential to the State plan methodology for completing CPE reconciliations does not exist, so the State agency will not be able to complete reconciliations according to the State plan.

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INTRODUCTION

WHY WE DID THIS REVIEW

Public entities (e.g., public hospitals) may certify that they have spent funds on Medicaid items or services that are eligible for Federal matching funds. These funds are referred to as certified public expenditures (CPEs) and may be claimed as the State's share of Medicaid expenditures. The Alabama Medicaid Agency (State agency) made a \$123.5 million adjustment to Medicaid hospital CPEs in Federal fiscal year (FY) 2011 that more than doubled the CPEs claimed for FY 2010.

OBJECTIVE

Our objective was to determine whether the State agency complied with Federal and State requirements for claiming Medicaid hospital CPEs for FY 2010.

BACKGROUND

Medicaid Program

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. In Alabama, the State agency administers the Medicaid program. Although the State agency has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements. The Federal Government pays its share of a State's Medicaid expenditures based on the Federal medical assistance percentage, which varies depending on the State's relative per capita income.

Within 30 days after the end of each quarter, States report to CMS expenditures and the associated Federal share on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64 report). The amounts that States report must represent actual expenditures.

State Agency's Hospital Certified Public Expenditures Program

During FY 2010, the State agency operated a hospital CPE program for both inpatient and outpatient hospital services. Under this program, the State agency should have claimed CPEs for the difference between payments for services provided to Medicaid beneficiaries and public hospitals' actual costs to provide those services. The last year that the State agency operated its CPE program was FY 2013.

The CMS-approved State plan for Alabama requires hospitals to submit a cost report each year. Hospital cost reports contain information such as costs and charges, facility characteristics, and utilization data. Within 5 months after a hospital's FY end, the hospital submits an initial cost

report for review.¹ CMS expects a final cost report within 17 months of the hospital's FY end. The State plan methodology for calculating CPEs instructed the State agency to use hospitals' cost report sections to determine the cost of Medicaid services and to reconcile the hospital cost report data with the CPEs claimed. The State plan required the State agency to perform both interim and final reconciliations after it received the initial and final hospital cost reports, respectively.

The State agency contracted with a consulting firm, Myers and Stauffer LC, to devise the calculation methodology and claiming procedures for CPEs. The State agency continues its contract with Myers and Stauffer to complete the reconciliation process for CPEs.

HOW WE CONDUCTED THIS REVIEW

The State agency calculated \$235,773,693 in CPEs for FY 2010 (i.e., October 1, 2009, through September 30, 2010). However, the State agency claimed only \$209,534,844 (\$162,452,365 Federal share). We reviewed hospital claims data and other supporting documentation the State agency used to calculate the \$235,773,693 in CPEs and compared its calculation with the methodology approved in the State plan.

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 objectives.

Appendix A contains the details of our audit scope and methodology.

FINDINGS

The State agency did not comply with Federal and State requirements for claiming any of the \$209,534,844 in CPEs for FY 2010. The State agency incorrectly claimed \$27,476,217 (\$21,302,311 Federal share) because it made errors in its CPE calculation. We are setting aside the remaining \$182,058,627 (\$141,150,054 Federal share) the State agency claimed because it did not calculate the CPEs in accordance with the CMS-approved State plan. Of that amount, \$55,267,326 (\$42,848,758 Federal share) resulted from the State agency inappropriately applying a market inflation factor to 2010 costs, which essentially increased the costs to 2013 levels.

¹ Hospital cost reporting requirements are generally set out under Medicare rules; however, information from these cost reports is also used for Medicaid purposes.

THE STATE AGENCY MADE ERRORS WHEN CALCULATING ITS CERTIFIED PUBLIC EXPENDITURES

The State agency incorrectly claimed \$27,476,217 (\$21,302,311 Federal share) because it (1) did not deduct third-party payments² and beneficiary copayments from costs, (2) could not support all of its hospital costs, and (3) claimed costs for a private hospital.

The State agency's calculation of \$235,773,693 in CPEs was incorrect because of the errors the State agency made. Without the errors, the State agency's CPE calculation would have totaled \$182,058,627, which is \$27,476,217 less than the \$209,534,844 the State agency claimed. As a result, the State agency inappropriately received \$21,302,311 in Federal funds. Table 1 shows the Office of Inspector General's (OIG) adjustments to the State agency's calculation and OIG's comparison of the adjusted amounts with the amounts claimed on the CMS-64 reports.

Table 1: Adjustments of State Agency's Calculation and Comparison With the CMS-64 Reports

	Total Calculated	Federal Share³
State Agency's CPE Calculation	\$235,773,693	
Calculation Errors:		
Third-party payments and beneficiary copayments	(36,587,220)	
Unsupported hospital costs	(15,855,080)	
Private hospital costs	(1,272,766)	
OIG's CPE Calculation	\$182,058,627	\$141,150,054
CPEs the State Agency Claimed on the CMS-64 Reports	209,534,844	162,452,365
Incorrectly Claimed CPEs (CPEs the State agency claimed less CPEs OIG calculated)	\$27,476,217	\$21,302,311

Third-Party Payments and Beneficiary Copayments

The State plan required the State agency to deduct third-party payments and beneficiary copayments from the total Medicaid inpatient and outpatient hospital costs in its CPE

² Third-party payments are funds collected from other parties responsible for a beneficiary's health care costs.

³ Because the State agency did not claim the full \$235,773,693 it had calculated, we did not calculate Federal shares until we made corrections and recalculated the CPEs.

calculation.⁴ The State agency did not deduct \$36,587,220 in third-party payments and beneficiary copayments. A Myers and Stauffer official told us that not deducting these payments was a mistake.

Unsupported Hospital Costs

Expenditures are allowable only to the extent that, when a claim is filed, States have adequate supporting documentation in readily reviewable form (CMS, *State Medicaid Manual* (the Manual) § 2497.1). The State agency could not support \$18,316,609 in inpatient hospital costs it included in the CPE calculation. Additionally, the State agency did not include \$2,461,529 in outpatient hospital costs that it could support. As a result, the State agency could not support the net amount of \$15,855,080 in hospital costs. State agency officials could not explain why the amounts used in the CPE calculation differed from the amount it could support.

Private Hospital's Costs

In Alabama, only publicly owned hospitals and hospitals owned or operated by a State agency or a State university can certify the State share of their costs.⁵ The State agency calculated \$1,272,766 in CPEs for a private hospital. This hospital was not publicly owned or owned or operated by a State agency or a State university in FY 2010 and thus should not have been included in the CPE calculation. State agency officials could not explain why this hospital's costs were included as CPEs.

THE STATE AGENCY DID NOT CALCULATE CERTIFIED PUBLIC EXPENDITURES IN ACCORDANCE WITH ITS STATE PLAN

The State plan is a comprehensive statement the State agency submits to CMS that describes the nature and scope of its Medicaid program and assures that the program will be administered in accordance with the Social Security Act and other applicable official issuances (42 CFR § 430.10 and § 13025 of the Manual). The State plan contains all information necessary for CMS to determine whether the plan can be approved as a basis for Federal financial participation in the State Medicaid program.

We are setting aside \$182,058,627 (\$141,150,054 Federal share) in CPEs because the State agency did not calculate the CPEs in accordance with the CMS-approved State plan. Table 2 compares the State plan requirements with the State agency's procedures.

⁴ TN No. AL-09-005, Attachment 4.19-A, page 20-20.1, Exhibit C, page 1-2, and Attachment 4.19-B, page 15.1, Exhibit A, page 2.

⁵ TN No. AL-09-005, Attachment 4.19-A, Page 3A(r), and Attachment 4.19-B, Page 8.1(6), and Code of Alabama § 40-26B-70.

**Table 2: Comparison of the State Plan Requirements With
the State Agency’s Procedures**

State Plan Requirements	State Agency’s Procedures
Apply a market inflation factor to 2007 outpatient costs and payments to approximate 2010 outpatient costs and payments.	Applied a market inflation factor to <i>both</i> inpatient and outpatient costs. Used 2010 inpatient and outpatient costs and still applied a market inflation factor.
Obtain charges from hospital cost reports to derive costs.	Obtained charges from the Medicaid claims processing system to derive costs.
Perform interim and final reconciliations after initial and final hospital cost reports received, respectively.	Did not perform either the interim or final reconciliation.

The market inflation factor was intended to inflate 2007 costs to approximate 2010 costs. However, the State agency used 2010 costs and still applied a market inflation factor, which increased the costs by \$55,267,326 (\$42,848,758 Federal share). In essence, the State agency inflated 2010 costs to reflect 2013 levels, which was inappropriate.

Further, according to State agency and Myers and Stauffer officials, hospitals did not complete the cost report sections that were essential to the calculation methodologies outlined in the State plan, even though the hospitals were aware of their importance to CPE calculation. The missing data made it impossible for us to recalculate the CPEs according to the State plan methodology. Also, because the cost report sections are essential to the State plan methodology for completing CPE interim and final reconciliations, the State agency will not be able to complete those reconciliations according to the State plan.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government the \$21,302,311 that related to the errors the State agency made when calculating CPEs and
- work with CMS to determine whether any portion of the \$141,150,054 related to CPEs that were not calculated in accordance with the State plan should be refunded to the Federal Government, particularly the \$42,848,758 Federal share associated with the increase from the application of the market inflation factor.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency did not concur with our first recommendation and partially concurred with our second recommendation. In response to both recommendations, the State agency explained that it is working with CMS to reconcile to actual costs for the FY 2010 hospital CPE program. The State agency stated that the reconciliation will or should address the concerns that led to the report's recommendations. The State agency's comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the State agency's comments, we maintain that our findings and recommendations are valid. The State agency did not dispute our findings that it made errors when calculating the FY 2010 hospital CPEs and that it did not calculate CPEs in accordance with its State plan. If the State agency had not made the calculation errors, it would not have claimed the \$21,302,311 in Federal funds that we recommend for refund. The State agency has had those incorrectly claimed funds for more than 5 years.

Further, as we stated above, hospitals did not complete the sections of the cost report that are essential to the State plan methodology for completing CPE reconciliations. As a result, the State agency will not be able to complete reconciliations according to the State plan.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

The State agency calculated \$235,773,693 in CPEs for FY 2010 (i.e., October 1, 2009, through September 30, 2010). However, the State agency claimed only \$209,534,844 (\$162,452,365 Federal share). We reviewed hospital claims data and other supporting documentation the State agency used to calculate the \$235,773,693 in CPEs.

We limited our review to the documentation supporting the State agency's CPEs. Our objective did not require a review of the State agency's overall internal control structure. Therefore, we limited our internal control review to the State agency's procedures for calculating and claiming CPEs.

We conducted fieldwork at the State agency's offices in Montgomery, Alabama.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal and State laws and regulations,
- interviewed State agency and Myers and Stauffer officials to obtain an understanding of the State agency's policies and procedures for calculating and claiming CPEs,
- obtained and analyzed the State agency's CPE calculation,
- compared the State agency's CPE calculation to the methodology approved in its State plan,
- determined whether the amounts the State agency used in its CPE calculation were supported by hospitals' claims data and other supporting documentation,
- recalculated the CPEs and compared them to the amount the State agency claimed, and
- discussed our results with 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 findings and conclusions based on our audit objectives.

APPENDIX B: STATE AGENCY COMMENTS



ROBERT BENTLEY
Governor

Alabama Medicaid Agency

501 Dexter Avenue
P.O. Box 5624
Montgomery, Alabama 36103-5624
www.medicaid.alabama.gov
e-mail: almedicaid@medicaid.alabama.gov

Telecommunication for the Deaf: 1-800-253-0799
334-242-5000 1-800-362-1504



STEPHANIE MCGEE AZAR
Commissioner

April 28, 2016

Patricia Wheeler
Regional Inspector General for Audit Services
Office of Audit Services, Region IV
Office of Inspector General
U.S. Department of Health and Human Services
1100 Commerce Street, Room 632
Dallas, TX 75242

Re: Draft Audit Report Number A-06-15-00004

Dear Ms. Wheeler:

The Alabama Medicaid Agency (Alabama Medicaid) welcomes the opportunity to comment on the recommendations contained in the draft report from the Office of Inspector General (OIG) entitled "Alabama Did Not Comply With Federal and State Requirements for Claiming Medicaid Certified Public Expenditures for Federal Fiscal Year 2010" (Draft Report).

As requested in your letter dated March 29, 2016, Alabama Medicaid is providing a statement of concurrence or nonconcurrence to each of the two recommendations contained in the Draft Report. For each nonconcurrence, specific reasons are provided and, where appropriate, potential options for alternative plans or actions to be taken are noted.

- **OIG Recommendation 1:** Refund \$21,302,311 to the Federal Government.

Alabama Medicaid Comment: Alabama Medicaid respectfully does not concur with OIG's recommendation. Alabama Medicaid is working with CMS to complete a reconciliation to actual costs for the Fiscal Year 2010 Certified Public Expenditure (CPE) program for inpatient and outpatient hospital services. As part of this reconciliation process, Alabama Medicaid is addressing the specific concerns raised by OIG in Recommendation 1 of this Draft Report.

- **OIG Recommendation 2:** Work with CMS to determine whether any portion of the \$141,150,054 related to CPEs that were not calculated in accordance with the State Plan should be refunded to the Federal Government, particularly the \$42,848,758 Federal share associated with the increase from the application of the market inflation factor.

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Alabama Medicaid Comment: Alabama Medicaid concurs, in part, with this recommendation. At this time, Alabama Medicaid is working with CMS to complete a reconciliation to actual costs for the Fiscal Year 2010 CPE program for inpatient and outpatient hospital services. This reconciliation should address the concerns raised by OIG in Recommendation 2 of this Draft Report.

* * *

Thank you again for the opportunity to discuss the recommendations contained in OIG's Draft Report. Please contact Flake Oakley at Flake.Oakley@medicaid.alabama.gov if you have any questions regarding the above comments.

Sincerely,

/Stephanie McGee Azar/

Stephanie McGee Azar
Commissioner