

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ALMOST 15 PERCENT OF ARKANSAS'
PRIVATE CONTRACTOR COSTS WERE
EITHER UNALLOWABLE OR CLAIMED AT
HIGHER FEDERAL MATCHING RATES
THAN ELIGIBLE, RESULTING IN
ARKANSAS INAPPROPRIATELY CLAIMING
\$4.4 MILLION IN FEDERAL MEDICAID
FUNDS**

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Amy J. Frontz
Deputy Inspector General
for Audit Services

July 2021
A-06-18-09002

Office of Inspector General

<https://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.

Report in Brief

Date: July 2021

Report No. A-06-18-09002

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Audit

The Medicaid Management Information Systems (MMIS) is an integrated group of procedures and computer processing operations designed to meet principal objectives, such as processing medical claims. States report costs related to private MMIS contract services as administrative costs. Generally, the Federal Government reimburses States 50 percent of their administrative costs; however, for certain approved MMIS costs, the Federal Government reimburses 90 percent or 75 percent. States are required to obtain prior approval in an Advanced Planning Document (APD) to receive the higher reimbursement rates.

For Federal fiscal years 2013 through 2017, 10 States claimed more than 50 percent of the total costs related to private MMIS contract services. Arkansas ranked 8th highest.

Our objective was to determine whether Arkansas followed applicable Federal and State requirements related to procuring private MMIS contractor services and claiming Federal Medicaid reimbursement.

How OIG Did This Audit

We reviewed \$84.5 million (\$74.0 million Federal share) in claimed MMIS private contractor costs. We reviewed Arkansas' APDs, supporting invoices, and select contracts' procurement documents.

Almost 15 Percent of Arkansas' Private Contractor Costs Were Either Unallowable or Claimed at Higher Federal Matching Rates Than Eligible, Resulting in Arkansas Inappropriately Claiming \$4.4 Million in Federal Medicaid Funds

What OIG Found

Arkansas followed applicable Federal and State requirements related to procuring private MMIS contractor services and correctly claimed \$72.1 million (\$69.6 million Federal share) in private MMIS contractor costs. However, Arkansas incorrectly claimed the remaining \$12.4 million, or almost 15 percent of its costs. For those costs, Arkansas inappropriately received \$4.4 million in Federal funds.

Arkansas did not have policies and procedures in place to ensure that MMIS private contractor costs were tracked to the correct APDs. Due to the lack of policies and procedures, Arkansas was not able to prevent or detect when it claimed costs that exceeded funding or time-period limits, contractor costs that were not approved, costs that were for programs other than Medicaid, and costs at incorrect matching rates.

What OIG Recommends and Arkansas Comments

We recommend that Arkansas refund the \$4.4 million Federal share to the Federal Government and establish policies and procedures to track its private MMIS contractor costs to APDs and to ensure that it adheres to the funding and time-period limits established in those APDs.

In written comments on our draft report, Arkansas agreed with both of our recommendations, indicating that it would (1) refund \$4.4 million to the Federal Government and (2) establish policies and procedures that will allow it to effectively track costs associated with APDs and to ensure that it adheres to the funding and time-period limits established in the APDs.

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INTRODUCTION

WHY WE DID THIS AUDIT

The Medicaid Management Information System (MMIS) is an integrated group of procedures and computer processing operations designed to meet Medicaid program objectives, such as processing medical claims. States can contract with private companies to design, develop, install, and operate the MMIS. States report costs related to private MMIS contract services as administrative costs. Generally, the Federal Government reimburses States 50 percent of their administrative costs; however, for certain approved MMIS costs, the Federal Government reimburses 90 percent or 75 percent. States are required to obtain prior approval from the Centers for Medicare & Medicaid Services (CMS) to receive reimbursement rates higher than the 50-percent administrative rate. For Federal fiscal years 2013 through 2017, 53 States and territories claimed \$12.1 billion in total costs related to private MMIS contract services and received \$9.4 billion in Federal funds. Ten States claimed more than 50 percent of those total costs. Arkansas ranked 8th highest in total private MMIS contract services costs claimed during this time period.

OBJECTIVE

Our objective was to determine whether the Arkansas Department of Human Services (State agency) followed applicable Federal and State requirements related to procuring private MMIS contractor services and claiming Federal Medicaid reimbursement.

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, CMS administers the program. In Arkansas, 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.

States use the Form CMS-64, Quarterly Medicaid Statement of Expenditures (CMS-64 report) to show actual Medicaid expenditures for each quarter. States report expenditures associated with medical services, such as claims for doctor visits and administrative costs, including the cost of processing claims for medical services. The CMS-64 report contains lines for different types of medical expenditures and administrative costs.

Medicaid Management Information System Private Contractor Costs

The administrative cost lines 2B and 4B of the CMS-64 report are reserved for reporting the costs of private MMIS contract services. Generally, the Federal Government reimburses States 50 percent of their administrative costs. However, the Federal Government reimburses private MMIS contractor costs on:

- line 2B, up to 90 percent, for design, development, installation, or enhancement of an MMIS, and
- line 4B, up to 75 percent, for operation.

States are required to obtain prior approval from CMS to receive Federal Medicaid funds for acquiring automated data processing equipment or services, which includes MMIS services, when:

- acquisition costs to be claimed at the regular 50-percent rate meet or exceed \$5 million,
- the State plans to claim costs at enhanced matching rates (e.g., the 75- or 90-percent rate) and the contract is anticipated to or will exceed \$500,000, or
- acquisition costs for a sole source/non-competitive contract meet or exceed \$1 million.¹

Contract Procurement and Approval Process

The procurement process starts with the State agency requesting sealed bids or proposals for competitive contracts or solicitations of a proposal for sole-source contracts. Federal regulations state that the State must follow the same policies and procedures it uses for procurements from its non-Federal funds,² and the State agency uses competitive sealed bidding whenever possible for any purchases over \$25,000.

Once the contract is awarded, the contractor writes and submits an Advanced Planning Document (APD) to the State. An APD is a planning document that provides a recorded plan of action to request funding approval for a project that will require the use of automated data processing services or equipment.³ Further, the APD includes the period during which the State agency will incur the private MMIS contractor costs and the Federal matching percentages at which those costs will be claimed. The State agency sends the APD to CMS for approval. If CMS approves the APD, then the contractor may begin work on the project.

¹ 45 CFR §§ 95.611(a)(1), (a)(2), (a)(3), and (b)(2)(iii).

² 45 CFR § 75.326.

³ 45 CFR § 95.610.

HOW WE CONDUCTED THIS AUDIT

Our audit covered \$84.5 million (\$74.0 million Federal share) in MMIS private contractor costs. Of the \$84.5 million, \$78.9 million (\$69.0 million Federal share) was claimed from October 1, 2014, through March 30, 2016, on the CMS-64 report administrative cost line 2B. However, in auditing costs claimed during that timeframe, we identified systemic issues that affected \$5.6 million (\$5.0 million Federal share) in costs claimed in later periods and on administrative cost line 4B. We traced costs charged to APDs to supporting documentation and reviewed whether the State agency's procurement practices met Federal requirements.

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 followed applicable Federal and State requirements related to procuring private MMIS contractor services and correctly claimed \$72.1 million (\$69.6 million Federal share) in private MMIS contractor costs. However, the State agency incorrectly claimed the remaining \$12.4 million (\$4.4 million Federal share), or almost 15 percent of its costs:⁴

- \$5.2 million (\$2.1 million Federal share) for costs that exceeded limits CMS had approved at the 90-percent rate,
- \$2.6 million (\$979,831 Federal share) for costs associated with contractors that were not approved in the APDs,
- \$793,456 (\$714,110 Federal share) for costs that supported programs other than Medicaid, and
- \$3.8 million (\$570,909 Federal share) for costs that CMS approved for the 75-percent rate but the State agency claimed at the 90-percent rate.

The State agency did not have policies and procedures in place to ensure that MMIS private contractor costs were tracked to the correct APDs. Additionally, the State agency's high rate of employee turnover in contract management may have contributed to the situation. Having policies and procedures in place would have helped the State agency ensure that new

⁴ The exact amount of inappropriate Federal funds was \$4,361,850.

employees had the knowledge needed to comply with Federal regulations and for the continuity of operations. Without policies and procedures, the State agency was not able to prevent or detect when it claimed (1) costs that exceeded funding or time-period limits, (2) costs associated with contractors that were not approved, (3) costs that were for programs other than Medicaid, and (4) costs at incorrect matching rates. As a result, 81 percent of the MMIS private contractor costs we reviewed in detail were charged to incorrect APDs.

FEDERAL REQUIREMENTS FOR CLAIMING PRIVATE CONTRACTOR COSTS

The Social Security Act allows for a 90-percent Federal matching rate for costs for designing, developing, or installing mechanized claims systems and a 75-percent rate for costs for operating those systems.⁵

Federal regulations state that a Federal matching rate of 90-percent is available for designing, developing, installing, or enhancing a mechanized claims processing and information retrieval system only if the APD is approved by CMS prior to the State's expenditure of funds for these purposes.⁶ Federal regulations also allow for a Federal matching rate of 75-percent of expenditures for operating a mechanized claims processing and information retrieval system approved by CMS.⁷

For costs to be allowable under Federal awards, they must be allocable to the Federal award. A cost is allocable to a Federal award if the goods or services involved are chargeable or assignable to that Federal award in accordance with the relative benefits received. This standard is met if the cost benefits both the Federal award and other work of the State agency and can be distributed in proportions that may be approximated using reasonable methods.⁸

THE STATE AGENCY'S COSTS WERE UNALLOWABLE OR CLAIMED AT HIGHER FEDERAL MATCHING RATES THAN ELIGIBLE

The State Agency Claimed Costs That Exceeded Amounts Approved at the 90-Percent Rate

The State agency exceeded the CMS-approved limits that the State agency could claim at the 90-percent rate by \$5.2 million for four types of private MMIS contractor costs, including one type of service for which the State agency exceeded the service period outlined and approved in the APD. The excess costs were eligible to be claimed only at the regular 50-percent rate.

⁵ Social Security Act §§ 1903(a)(3)(A) and (B).

⁶ 42 CFR § 433.112(a).

⁷ 42 CFR § 433.116(a).

⁸ 45 CFR §§ 75.403(a) and 75.405(a)(2).

The State agency did not have policies and procedures in place to track its private MMIS contractor costs to its APDs in accordance with the funding and time-period limits established in those APDs and did not detect when it exceeded those limits. As a result, the State agency inappropriately received \$2.1 million in Federal funds (i.e., the difference in Federal funding between the 90-percent rate and the regular 50-percent rate).

The State Agency Claimed Unapproved Contractor Costs

The State agency claimed \$2.6 million in costs associated with contractors that were not approved in any APD. The State agency claimed the costs at either the 90-percent rate or the 75-percent rate. The costs were eligible to be claimed only at the regular 50-percent rate.

The State agency did not have policies and procedures in place to track its private MMIS contractor costs to APDs, so the State agency did not detect when it claimed costs for contractors that had not been approved through an APD. As a result, the State agency inappropriately received \$979,831 in Federal funds (i.e., the difference in Federal funding between the enhanced rates and the regular 50-percent rate).

The State Agency Claimed Costs That Supported Programs Other Than Medicaid

In the APDs for its Project Management Office (PMO), the State agency told CMS the PMO would support both Medicaid and non-Medicaid projects and that it would track 87 percent of the PMO's costs to Medicaid and the other 13 percent to programs other than Medicaid. Instead, the State agency tracked 100 percent of the PMO's costs to Medicaid, which it claimed at the 90-percent rate, inappropriately claiming \$793,456 in PMO costs that supported programs other than Medicaid.

When the State agency entered the PMO contract costs into its accounting system, it tracked 100 percent of the cost of the contract to the Medicaid 90-percent rate rather than 87 percent of the costs. After our audit period, the State agency identified and corrected the contract's cost assignment in its accounting system going forward, but the State agency did not make corrections to earlier claimed costs. As a result, the State agency inappropriately received \$714,110 in Federal funds for costs that did not support Medicaid.

The State Agency Claimed Costs Approved for the 75-Percent Rate at the 90-Percent Rate

The State agency claimed, at the 90-percent rate, \$3.8 million that was approved in APDs at only the 75-percent rate, which is the rate used for operating costs.

The State agency did not have policies and procedures in place to track its private MMIS contractor costs to its APDs and did not detect when it claimed costs at incorrect matching rates. As a result, the State agency inappropriately received \$570,909 in Federal funds (i.e., the difference in Federal funding between the 90-percent rate and the 75-percent rate).

RECOMMENDATIONS

We recommend that the Arkansas Department of Human Services (1) refund the \$4,361,850 Federal share to the Federal Government and (2) establish policies and procedures to track its private MMIS contractor costs to APDs and to ensure that it adheres to the funding and time-period limits established in those APDs.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency agreed with both of our recommendations, indicating that it would (1) refund \$4,361,850 to the Federal Government and (2) establish policies and procedures that will allow it to effectively track costs associated with APDs and to ensure that it adheres to the funding and time-period limits established in the APDs.

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

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our audit covered \$84.5 million (\$74.0 million Federal share) in claimed MMIS private contractor costs. Of the \$84.5 million, \$78.9 million (\$69.0 million Federal share) was claimed from October 1, 2014, through March 30, 2016, on the CMS-64 report administrative cost line 2B. However, in auditing costs claimed during that timeframe, we identified systemic issues that affected \$5.6 million (\$5.0 million Federal share) in costs claimed in later periods and on administrative cost line 4B.

We limited our review of the State agency's internal controls to those related to the MMIS private contractor costs because our objective did not require an understanding of the State agency's overall internal control structure.

We conducted our fieldwork at the State agency in Little Rock, Arkansas.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal and State laws and regulations governing MMIS private contractor costs;
- obtained the State agency's CMS-64 report for lines 2B and 4B MMIS costs and tied the costs to its detailed cost information;
- interviewed State agency officials to gain an understanding of the State agency's written policies and procedures related to procuring MMIS private contractors and reviewed those policies and procedures;
- compared costs in the CMS-approved APDs with cost assignments in the State agency's accounting system to determine whether the State agency charged its costs to the correct APDs;
- determined whether the costs the State agency charged to contracts and APDs were supported by invoices and whether the State agency claimed Federal Medicaid reimbursement appropriately;
- selected the top seven contracts and reviewed their procurement documentation to determine whether the State agency followed Federal and State procurement requirements;

- calculated the Federal share the State agency received because of unallowable or incorrectly claimed MMIS private contractor costs; and
- discussed the results of our audit with the State agency.

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



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July 7, 2021

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

Re: Response to Report Number A-06-18-09002

Dear Ms. Wheeler,

The Arkansas Department of Human Services has reviewed the recommendations in the Office of Inspector General draft for Report Number A-06-18-09002 and has the following response.

- 1) DHS concurs with the recommendation. The agency will refund \$4,361,850 in Federal Share that was not allowed to be claimed.
- 2) DHS concurs with the recommendation. The agency is in the process of establishing policies and procedures that will allow it to effectively track costs associated with advanced planning documents (APD) and monitor compliance with limits established in the APD.

Please contact me if you have any questions about the response or stated corrective action plan.

Sincerely,



Chief of Security and Compliance
Arkansas Department of Human Services

Office of Inspector General Note – The deleted text has been redacted from this Appendix because it contains personally identifiable information.

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