



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

MAR 14 2007

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

Report Number: A-07-06-01020

Michael Hales, Director
Division of Health Care Financing
Utah Department of Health
P.O. Box 143101
Salt Lake City, Utah 84114-3101

Dear Mr. Hales:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Non-Risk Managed Care Contract Administrative Costs in Utah." The report covers contract administrative costs claimed for the period of July 1, 2002 to September 30, 2005. A copy of this report will be forwarded 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 the HHS action 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.

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If you have any questions or comments about this report, please do not hesitate to call me or Chris Bresette, Audit Manager, at (816) 426-3591. You may also contact Mr. Bresette through e-mail at Chris.Bresette@oig.hhs.gov. Please refer to report number A-07-06-01020 in all correspondence.

Sincerely,

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Mark Gilbert
Regional Administrator (Acting), Region VIII
Centers for Medicare & Medicaid Services
Colorado State Bank Building
1600 Broadway, Suite 700
Denver, Colorado 80202

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF NON-RISK
MANAGED CARE CONTRACT
ADMINISTRATIVE COSTS
IN UTAH**



Daniel R. Levinson
Inspector General

March 2007
A-07-06-01020

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

Congress established the Medicaid program under Title XIX of the Social Security Act to pay the medical assistance costs for persons with limited income and resources. Each State administers its Medicaid program in accordance with a State plan approved by the Centers for Medicare & Medicaid Services (CMS) to ensure compliance with Federal requirements. The Medicaid program provides for Federal reimbursement to States for various aspects of program administration, but these aspects are reimbursed at different rates. In general, these rates fall into two overall categories: medical services and administrative services.

For the actual medical services that States provide to qualified recipients, Federal reimbursement is set at the Federal Medical Assistance Percentage rate (medical rate), which can range from 50-83 percent. This rate differs from State to State, and is recomputed on an annual basis. The Federal Government generally reimburses the costs of administrative services at a 50-percent matching rate. Federal regulations also provide that some administrative activities can be reimbursed at a rate higher than 50 percent, if specific requirements are met. However, the Federal Government does not reimburse administrative costs for non-risk managed care organizations at the medical rate.

In July 2002, the Utah Department of Health (Utah) contracted with two non-risk managed care organizations (contractor) to provide medical services to eligible Medicaid recipients. The contracts specified that Utah would reimburse each contractor for both its submitted paid claims and the associated administrative fees.

For the period July 2002 through September 2005, the medical rates ranged from 70-74.19 percent for Utah. For this same period, Utah reported total administrative costs of approximately \$31.0 million, for which it claimed \$15.5 million for Federal reimbursement.

OBJECTIVE

Our objective was to determine whether, for the period July 1, 2002 through September 30, 2005, Utah claimed administrative costs for its non-risk managed care contracts pursuant to Federal regulations.

SUMMARY OF FINDING

Utah claimed some administrative costs for its non-risk managed care contracts that were not in accordance with Federal regulations. Specifically, Utah incorrectly claimed administrative costs at the medical rates (between 70 and 74.19 percent) instead of at the 50-percent administrative rate. For July 2002 through September 2005, Utah reported \$31.0 million of administrative costs for which it claimed \$22.7 million in Federal reimbursement, at medical rates rather than at administrative rates. Prior to our audit, Utah recognized that its initial claim was incorrect.

Accordingly, it attempted to adjust and lower its claim of the Federal share to the 50-percent administrative rate, which reduced its reimbursement from \$22.7 to \$15.5 million. However, our review of the records indicated that Utah did not identify all of the overpayments before making that adjustment.

These overpayments occurred because Utah did not have adequate policies and procedures to ensure that its claims for administrative costs of non-risk managed care contracts complied with Federal regulations. As a result, Utah received \$625,000 in excessive Federal reimbursement that is unallowable.

RECOMMENDATIONS

We recommend that Utah:

- refund \$625,489 to the Federal Government and
- develop adequate policies and procedures to ensure that future claims for administrative costs for non-risk managed care contracts comply fully with Federal regulations.

AUDITEE'S COMMENTS

In written comments on our draft report, Utah concurred with our findings and recommendations. Utah's comments are included in their entirety as the Appendix.

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INTRODUCTION

BACKGROUND

Medicaid Reimbursement for Administrative Expenditures

Congress established the Medicaid program under Title XIX of the Social Security Act to pay the medical assistance costs for persons with limited income and resources. Each State administers its Medicaid program in accordance with a State plan approved by the Centers for Medicare & Medicaid Services (CMS) to ensure compliance with Federal requirements. The Medicaid program provides for Federal reimbursement to States for various aspects of program administration, but these aspects are reimbursed at different rates. In general, these rates fall into two overall categories: medical services and administrative services.

For the actual medical services that States provide to qualified recipients, Federal reimbursement is set at the Federal Medical Assistance Percentage rate (medical rate), which can range from 50-83 percent. This rate differs from State to State, and is recomputed on an annual basis. The Federal Government generally reimburses the costs of administrative services at a 50-percent matching rate. Federal regulations also provide that some administrative activities can be reimbursed at a rate higher than 50 percent, if specific requirements are met. However, the Federal Government does not reimburse administrative costs for non-risk managed care organizations at the medical rate.

Utah Administrative Claims

In Utah, the Utah Department of Health (Utah) administers the Medicaid program. In July 2002, Utah contracted with two non-risk managed care organizations (contractor) to provide medical services to eligible Medicaid recipients. The contracts specified that Utah would reimburse each contractor for submitted paid claims (medical costs) plus an additional 9 percent of claimed costs as administrative fees.

For the period July 2002 through September 2005, the medical rates ranged from 70-74.19 percent for Utah. For this same period, Utah reported total administrative costs of approximately \$31.0 million (which represents the additional 9 percent as specified in Utah's contracts), for which it received \$22.7 million in Federal reimbursement. For the quarter that ended September 30, 2005, Utah adjusted previous claims for administrative costs, which lowered the Federal reimbursement from the medical rates (70-74.19 percent) to the 50-percent administrative rate. As a result, the Federal reimbursement decreased from approximately \$22.7 million to \$15.5 million.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether, for the period July 1, 2002 through September 30, 2005, Utah claimed administrative costs for its non-risk managed care contracts pursuant to Federal regulations.

Scope

We reviewed the \$31.0 million in administrative costs that Utah reported for its non-risk managed care contracts for the period July 1, 2002, through September 30, 2005, for which it received \$15.5 million in adjusted Federal reimbursement. We did not review the allowability of the medical claims for which Utah claimed administrative cost reimbursement. We limited our review of internal controls to those necessary to achieve our objective.

For the quarter that ended September 30, 2005, Utah attempted to adjust its previous claims to the 50-percent administrative rates. However, in December 2005, subsequent to the completion of our fieldwork, Utah readjusted some of those same claims (for the quarter that ended September 30, 2005), at higher Federal matching rates. Specifically, Utah was now claiming approximately \$1.7 million in additional Federal reimbursement, and all of it at higher rates – either the medical rate (the rate for case management services), 75 percent (the rate for compensation and training of skilled professional medical personnel and their supporting staffs), or 90 percent (the rate for administration of family planning services). CMS has deferred reimbursement of these reclaimed costs. In light of that deferral, and the fact that Utah submitted its amended claim after the completion of our fieldwork, we have not reviewed the allowability of these claimed costs.

We performed our fieldwork at the Department of Health’s office in Salt Lake City, Utah, during December 2005.

Methodology

To meet our objective, we:

- reviewed Federal Medicaid regulations pertaining to administrative cost reimbursement;
- interviewed CMS and Utah officials;
- identified the administrative costs that Utah claimed for its non-risk managed care contracts on the Form CMS-64, “Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program” (CMS-64 report) for the audit period;
- examined the database that Utah used to capture all payments to managed care providers for the two non-risk contracts, in order to determine the accuracy of the adjustments Utah made in identifying administrative costs on the CMS-64 report for the quarter that ended September 30, 2005; and
- reviewed Utah’s accounting records to verify that Utah claimed the correct amount of administrative costs.

We performed the audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

Utah claimed some administrative costs for its non-risk managed care contracts that were not in accordance with Federal regulations. Specifically, Utah incorrectly claimed administrative costs at the medical rates (between 70 and 74.19 percent) instead of at the 50-percent administrative rate. For July 2002 through September 2005, Utah reported \$31.0 million of administrative costs for which it claimed \$22.7 million in Federal reimbursement, at medical rates rather than at administrative rates. Prior to our audit, Utah recognized that its initial claim was incorrect. Accordingly, it attempted to adjust and lower its claim of the Federal share to the 50-percent administrative rate, which reduced its reimbursement from \$22.7 to \$15.5 million. However, our review of the records indicated that Utah did not identify all of the overpayments before making that adjustment.

These overpayments occurred because Utah did not have adequate policies and procedures to ensure that its claims for administrative costs of non-risk managed care contracts complied with Federal regulations. As a result, Utah received \$625,000 in excessive Federal reimbursement that is unallowable.

FEDERAL GOVERNMENT GENERALLY REIMBURSES 50 PERCENT OF ADMINISTRATIVE COSTS FOR NON-RISK MANAGED CARE CONTRACTS

According to 42 CFR § 438.812(b)(2), under a non-risk contract: “The amount the State agency pays for the contractor’s performance of other functions is an administrative cost.” The Federal Government will reimburse specific administrative activities at higher Federal matching rates, such as 75 percent and 90 percent, in accordance with 42 CFR § 433.15(b). Apart from these specific – and properly documented – activities, though, the Federal regulations for non-risk managed care contracts do not permit reimbursement of administrative costs at medical rates.

Consequently, these regulations (42 CFR § 433.15(b)(7)) state that the Federal Government will reimburse States for 50 percent of the costs of “All other activities the Secretary [of the U.S. Department of Health and Human Services] finds necessary for proper and efficient administration of the State [Medicaid] plan.” Therefore, the Federal share of administrative activities is limited to 50 percent of incurred costs, unless the State meets specific requirements to claim and receive reimbursement at the higher Federal matching rates.

ADMINISTRATIVE COSTS CLAIMED AT MEDICAL RATES

Utah claimed some administrative costs for its non-risk managed care contracts that were not in accordance with Federal regulations. For the period July 2002 through September 2005, Utah claimed its administrative costs at the medical rates. In September 2005, Utah reduced its claim for Federal reimbursement for the previous quarters to 50 percent of incurred costs. However, the corrections did not identify, or adjust reimbursement claims for, all of the costs paid at the higher rate:

- For \$3,586,000 of administrative costs originally claimed for 2003, Utah received \$2,661,000 in Federal reimbursement at the medical rates. Utah should have claimed

\$1,793,000 (50-percent administrative rate), a difference of \$868,000. When Utah made its correcting entries, it returned \$268,000 to the Federal Government. However, \$600,000 remains outstanding because the corrections did not entirely rectify the discrepancies that we had identified in our review. Specifically, Utah:

- did not identify in its reconciliation some administrative costs that it had sustained, and
 - identified some other administrative costs in its reconciliation, but misclassified them as medical claims.
- For \$111,000 of administrative costs originally claimed for 2003, Utah received \$81,000 at the medical rates. Utah should have claimed \$56,000 (50-percent administrative rate), which translated into a \$25,000 overpayment that has not been refunded. These claims were not included in Utah's corrections to its claim for administrative costs.

INADEQUATE POLICIES AND PROCEDURES

Our review concluded that Utah did not have adequate policies and procedures in place to correctly claim administrative costs for non-risk managed care contracts. Although Utah has taken steps to refund overpayments for prior periods, those measures did not identify all of the overpayments.

UNALLOWABLE REIMBURSEMENT TOTALED \$625,000

For the administrative costs claimed at medical rates, Utah did not provide documentation that it met any of the specific Federal requirements to have its administrative costs reimbursed at more than the 50-percent rate. Consequently, the Federal reimbursement for these claims must be assigned at the 50-percent level. These issues combined to create an overpayment of \$625,000.

RECOMMENDATIONS

We recommend that Utah:

- refund \$625,489 to the Federal Government and
- develop adequate policies and procedures to ensure that future claims for administrative costs for non-risk managed care contracts comply fully with Federal regulations.

AUDITEE'S COMMENTS

In written comments on our draft report, Utah concurred with our findings and recommendations. Specifically, Utah agreed with our recommendation to refund \$625,489 to the Federal Government, and stated that it will make that refund in its next CMS-64 report, for the quarter ending March 31, 2007. Utah also agreed with our second recommendation, and stated that it has taken appropriate action to ensure that future claims for administrative costs comply with Federal regulations.

Utah's comments are included in their entirety as the Appendix.

APPENDIX



State of Utah

JON M. HUNTSMAN, JR.
Governor

GARY R. HERBERT
Lieutenant Governor

**Utah Department of Health
Executive Director's Office**

David N. Sundwall, M.D.
Executive Director

A. Richard Melton, Dr. P.H.
Deputy Director

Allen Korhonen
Deputy Director

Health Care Financing

Michael T. Hales
Division Director

March 2, 2007

Report Number: A-07-06-01020

Patrick J. Cogley
Regional Inspector General for Audit Services
Office of Inspector General, Region VII
601 East 12th Street, Room 284A
Kansas City, Missouri 64106

Dear Mr. Cogley:

Listed below is our response to your "Review of Non-Risk Managed Care Contract Administrative Costs in Utah," Report Number A-07-06-01020.

RECOMMENDATIONS:

1. Utah refund \$625,489 to the Federal Government.

We agree with the recommendation and will repay these funds in our next CMS 64 Report for the quarter ending March 31, 2007.

2. Utah develop adequate policies and procedures to ensure that future claims for administrative cost for non-risk managed care contracts comply fully with Federal regulations.

We agree with the recommendation and have taken appropriate action to ensure that administrative costs comply with Federal regulations.

We extend our appreciation to your staff for the professional manner in which they performed their review. If my staff or I can be of further assistance, please contact me at (801) 538-6689.

Sincerely,

Michael Hales, Director
Health Care Financing



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