



MAR 25 2009

Region VII
601 East 12th Street
Room 429
Kansas City, Missouri 64106

Report Number: A-07-08-04122

Mr. Ronald J. Levy
Director
Department of Social Services
Broadway State Office Building
P.O. Box 1527
Jefferson City, Missouri 65102-1527

Dear Mr. Levy:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Missouri's Medicaid Management Information System Expenditures for the Period October 1, 2004, Through September 30, 2007." 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 Freedom of Information Act, 5 U.S.C. § 552, OIG reports generally are made available to the public to the extent that information in the report is not subject to exemptions in the Act. 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 at (816) 426-3591, or contact Chris Bresette, Audit Manager, at (816) 426-3591 or through e-mail at Chris.Bresette@oig.hhs.gov. Please refer to report number A-07-08-04122 in all correspondence.

Sincerely,

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. 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 MISSOURI'S
MEDICAID MANAGEMENT
INFORMATION SYSTEM
EXPENDITURES FOR THE
PERIOD OCTOBER 1, 2004,
THROUGH SEPTEMBER 30, 2007**



Daniel R. Levinson
Inspector General

March 2009
A-07-08-04122

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

A Medicaid management information system (MMIS) is a system of software and hardware used to process Medicaid claims and manage information about Medicaid beneficiaries and services. Section 1903(a) of the Social Security Act authorizes Federal reimbursement for the operation of an MMIS at an enhanced rate of 75 percent. The Centers for Medicare & Medicaid Services (CMS) “State Medicaid Manual” identifies the specific types of MMIS costs that are allowable for Federal reimbursement. For such costs to be allowable at the enhanced rate of 75 percent, they must be directly related to the operations of the MMIS for ongoing automated processing of claims, payments, and reports.

In Missouri, the Department of Social Services (the State agency) administers the Medicaid program with Federal oversight from CMS. Currently, Missouri’s MMIS processes both Medicaid and non-Medicaid claims. However, prior to January 2006, Missouri’s MMIS processed only Medicaid claims.

The State agency contracted with a fiscal agent, Infocrossing Healthcare Systems, Inc., to process claims through the MMIS. During the 3-year period October 1, 2004, through September 30, 2007, the State agency claimed \$82,212,209 (\$61,806,693 Federal share) as MMIS costs for reimbursement under the Medicaid program.

OBJECTIVE

Our objective was to determine whether the State agency’s claims for MMIS costs for the period October 1, 2004, through September 30, 2007, were (1) allowable and equitably allocated and (2) claimed at the correct Federal reimbursement rate.

SUMMARY OF FINDINGS

Of the \$82,212,209 (\$61,806,693 Federal share) of MMIS costs that the State agency claimed at the enhanced rate, \$67,199 (Federal share) was unallowable because the State agency claimed these costs at incorrect reimbursement rates. The \$67,199 consisted of incorrectly claimed administrative (\$54,480) and postage (\$12,719) costs. The remaining \$61,739,494 (Federal share) in claimed costs were allowable and equitably allocated.

The State agency incorrectly claimed these costs for Federal reimbursement because it did not have adequate internal controls and procedures to ensure that it claimed all of its MMIS costs at the correct reimbursement rate.

RECOMMENDATION:

We recommend that the State agency:

- refund \$67,199 to the Federal Government;

- strengthen internal controls to ensure that MMIS costs claimed for Federal reimbursement are claimed at the correct Federal reimbursement rate; and
- review MMIS costs claimed for Federal reimbursement after September 30, 2007, to ensure that all costs were claimed at the correct Federal reimbursement rate.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency agreed with our first and third recommendations and partially agreed with our second recommendation.

With respect to our second recommendation, the State agency said that it considered the current internal controls “. . . to be acceptable and the processing error [involving the unallowable postage costs] to be attributable to human error.” For our finding related to unallowable administrative costs, the State agency commented that it “. . . will expand internal controls to include quarterly reviews of the duties for the MO [Missouri] HealthNet Division staff to ensure the appropriate allocation of time has been claimed at the correct federal reimbursement rate.”

The State agency’s comments are included in their entirety as the appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the State agency’s comments, we continue to support our findings and recommendations.

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.

States report Medicaid expenditures for medical assistance and administrative costs to CMS on the “Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program,” Form CMS-64 (CMS-64 report). The standard Federal reimbursement rate for Medicaid administrative expenditures is 50 percent.

Medicaid Management Information System

Section 1903(r)(1) of the Act states that, to receive Federal funding for the use of automated data systems in administration of the Medicaid program, the State must have a mechanized claims processing and information retrieval system. The CMS “State Medicaid Manual,” Chapter 11, Section 11100, states that, for Medicaid purposes, the mechanized system is the Medicaid management information system (MMIS). An MMIS is a system of software and hardware used to process Medicaid claims and manage information about Medicaid beneficiaries and services. The system may be operated by either a State agency or a fiscal agent, which is a private contractor hired by the State.

Section 1903(a) of the Act authorizes a 90-percent Federal reimbursement rate for design, development, or installation of an MMIS. These costs must be approved by CMS prior to the expenditure of funds. The Act also authorizes a 75-percent Federal reimbursement rate for operation of an MMIS. The CMS “State Medicaid Manual” identifies the specific types of MMIS costs that are allowable for Federal reimbursement. For such costs to be allowable at the enhanced rate of 75 percent, they must be related to the operations of the MMIS for ongoing automated processing of claims, payments, and reports.

Missouri Medicaid Management Information System

In Missouri, the Department of Social Services (the State Agency) administers the Medicaid program with Federal oversight from CMS. Currently, Missouri’s MMIS processes both Medicaid and non-Medicaid claims. However, prior to January 2006, Missouri’s MMIS

processed only Medicaid claims. Federal regulations require that MMIS costs be equitably allocated to all benefiting programs.¹

During our audit period, the State agency contracted with a fiscal agent, Infocrossing Healthcare Services, Inc. (IFOX), to process claims through the MMIS. During the 3-year period October 1, 2004, through September 30, 2007, the State agency claimed \$82,212,209 (\$61,806,693 Federal share) at the enhanced rates as MMIS costs for reimbursement under the Medicaid program. During this period, the MMIS processed over 235 million Medicaid and non-Medicaid claims (an average of over 6.5 million claims per month).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the State agency's claims for MMIS costs for the period October 1, 2004, through September 30, 2007, were (1) allowable and equitably allocated and (2) claimed at the correct Federal reimbursement rate.

Scope

We limited our review to \$82,212,209 (\$61,806,693 Federal share) the State agency claimed as MMIS costs for reimbursement at the enhanced rates under the Medicaid program during the 3-year period October 1, 2004, through September 30, 2007.

The State agency also claimed \$138,915 (\$125,024 Federal share) that was not included in our review. We excluded these costs because, prior to our review, CMS had determined that these costs did not qualify for funding at the 90-percent rate because the State agency did not obtain the required prior approval from CMS for these expenditures. CMS had disallowed enhanced funding, but it allowed the State agency funding at the 50-percent rate.

We did not perform a detailed review of the State agency's internal controls. We limited our review to obtaining an understanding of the procedures used to (1) receive, review, and process claims for reimbursement and (2) calculate and claim the Federal share for MMIS expenditures.

We performed fieldwork at State agency's offices located in Jefferson City, Missouri, and at the CMS regional office in Kansas City, Missouri.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations and CMS guidance;

¹2 CFR part 225, Office of Management and Budget Circular (OMB) A-87, "Cost Principles for State, Local, and Indian Tribal Governments."

- reviewed the State agency’s policies, procedures, and cost reimbursement guidance for ensuring that MMIS costs were allowable, equitably allocated, and claimed at the correct Federal reimbursement rate;
- reviewed the State agency’s contracts with IFOX and other vendors;
- compared amounts claimed by the State agency on the CMS-64 reports to supporting spreadsheets and invoices for the period October 1, 2004, through September 30, 2007;
- traced amounts on the supporting spreadsheets to vendor invoices, State payroll records, and other supporting documentation;
- interviewed State agency employees to develop our findings regarding the percentages of job time devoted to MMIS-related activities, and validated these percentages in follow-on communications with State agency officials; and
- discussed the details of our findings 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 objective.

FINDINGS AND RECOMMENDATIONS

Of the \$82,212,209 (\$61,806,693 Federal share) of MMIS costs that the State agency claimed at the enhanced rate, \$67,199 (Federal share) was unallowable because the State agency claimed these costs at incorrect reimbursement rates. The \$67,199 consisted of incorrectly claimed administrative (\$54,480) and postage (\$12,719) costs. The remaining \$61,739,494 (Federal share) in claimed costs were allowable and equitably allocated.

The State agency incorrectly claimed these costs for Federal reimbursement because it did not have adequate internal controls and procedures to ensure that it claimed all of its MMIS costs at the correct reimbursement rate.

UNALLOWABLE COSTS

Administrative Costs

OMB Circular A-87, Attachment A, section C.1.a, states that, to be allowable, a cost must “[b]e necessary and reasonable for proper and efficient performance and administration of Federal awards.”

The CMS “State Medicaid Manual,” Part 11, Chapter 2, provides for various levels of Federal reimbursement depending on the relationship of the activity to the MMIS:

- Section 11276.3 provides for a 75 percent Federal reimbursement rate for direct costs directly attributable to the Medicaid program for ongoing automated processing of claims.
- Section 11276.1 provides for a 50 percent Federal reimbursement rate for other functions, even if those functions are performed by the same unit or individuals.

For the period October 1, 2004, through September 30, 2007, the State agency incorrectly claimed administrative salary and fringe benefit costs as MMIS costs at the 75-percent rate instead of at the 50-percent rate, resulting in an overclaim of \$54,480 (Federal share). Based on our interviews with State agency employees, we identified four individuals for whom the percentages of time spent performing MMIS-related activities were less than the percentages conveyed in the salary allocations that the State agency used to claim Federal reimbursement. Although the costs claimed were allowable under Medicaid, the portions of the four employees’ duties that were unrelated to MMIS activities were not directly attributable to the ongoing automated processing of claims. Costs associated with those non-MMIS-related activities should therefore have been claimed at only the 50-percent rate.

When we notified State agency officials of the discrepancies in the percentages used to claim costs for the four employees, those officials agreed with our finding and provided us with revised percentages for the allocation of time that these four individuals spent performing MMIS-related activities. A comparison of these revised percentages with the percentages that the State agency had used to claim Federal reimbursement (for administrative salary and fringe benefit costs as MMIS-related costs) incorrectly at the 75-percent rate identified an overclaim of \$54,480 (Federal share).

Postage Costs

The CMS “State Medicaid Manual,” Part 11, Chapter 2, section 11276.8 states: “. . . all postage costs associated with the operation of an MMIS are matched at the 50 percent FFP rate.” For the quarter ended June 30, 2005, the State agency miscoded two invoices (that is, it incorrectly coded the costs delineated on these invoices at the 75-percent rate of Federal reimbursement, instead of at the 50-percent rate) and then incorrectly claimed postage costs associated with these invoices at the 75-percent rate, resulting in an overclaim of \$12,719 (Federal share).

Internal Controls and Procedures

The State agency incorrectly claimed these costs for Federal reimbursement because it did not have adequate internal controls and procedures to ensure that it claimed all of its MMIS costs at the correct reimbursement rate.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$67,199 to the Federal Government;
- strengthen internal controls to ensure that MMIS costs claimed for Federal reimbursement are claimed at the correct Federal reimbursement rate; and
- review MMIS costs claimed for Federal reimbursement after September 30, 2007, to ensure that all costs were claimed at the correct Federal reimbursement rate.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency agreed with our first and third recommendations and partially agreed with our second recommendation.

With respect to our second recommendation, the State agency said that it considered the current internal controls “. . . to be acceptable and the processing error [involving the unallowable postage costs] to be attributable to human error.” For our finding related to unallowable administrative costs, the State agency commented that it “. . . will expand internal controls to include quarterly reviews of the duties for the MO [Missouri] HealthNet Division staff to ensure the appropriate allocation of time has been claimed at the correct federal reimbursement rate.”

For our third recommendation, the State agency said that its Division of Finance and Administrative Services “will work with the MO HealthNet Division to ensure costs claimed for federal reimbursement after September 30, 2007 were claimed at the correct federal reimbursement rate.”

The State agency’s comments are included in their entirety as the appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the State agency’s comments, we continue to support our findings and recommendations.

APPENDIX



JEREMIAH W. (JAY) NIXON, GOVERNOR • RONALD J. LEVY, DIRECTOR

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March 6, 2009

Patrick J. Cogley
Regional Inspector General for Audit Services
Department of Health and Human Services
601 East 12th Street, Room 284A
Kansas City, MO 64106

Dear Mr. Cogley:

This is in response to your February 11, 2009 request for comment on the U.S. Department of Health and Human Services, Office of Inspector General (OIG) draft report entitled "Review of Missouri's Medicaid Management Information System Expenditures for the Period October 1, 2004 through September 30, 2007," report number A-07-08-04122. For ease of reference, the recommendations have been repeated with the Missouri Department of Social Services response.

Recommendation: We recommend that the State Agency refund \$67,199 to the Federal Government.

Response: The Department of Social Services (DSS) agrees with this recommendation. Based on revised percentages for the allocation of time for four employees, DSS agrees that \$54,480 (federal share) was over-claimed. DSS also agrees that a processing error occurred related to the claiming associated with two invoices for postage costs in the amount of \$12,719 (federal share). Therefore, DSS will make an adjustment on the CMS-64 for the Quarter Ending March 31, 2009 in the amount of \$67,199.

Recommendation: We recommend that the State Agency strengthen internal controls to ensure that MMIS costs claimed for federal reimbursement are claimed at the correct federal reimbursement rate.

Response: DSS partially agrees with this recommendation. DSS considers the internal controls to be acceptable and the processing error to be attributable to human error. However, DSS will expand internal controls to include quarterly reviews of the duties for MO HealthNet Division staff to ensure the appropriate allocation of time has been claimed at the correct federal reimbursement rate.

RELAY MISSOURI

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Patrick J. Cogley
Page Two

Recommendation: We recommend that the State Agency review MMIS costs claimed for federal reimbursement after September 30, 2007 to ensure that all costs were claimed at the correct federal reimbursement rate.

Response: The Division of Finance and Administrative Services will work with the MO HealthNet Division to ensure costs claimed for federal reimbursement after September 30, 2007 were claimed at the correct federal reimbursement rate.

If you have any questions, please do not hesitate to contact Ian McCaslin, M.D., M.P.H., Director, MO HealthNet Division, at (573)751-6922.

Sincerely,



Ronald J. Levy
Director

RJL/jc