



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION VII
601 EAST 12TH STREET, ROOM 0429
KANSAS CITY, MO 64106

March 12, 2012

Report Number: A-07-11-02758

Ms. Susan E. Birch
Executive Director
Department of Health Care Policy and Financing
1570 Grant Street
Denver, CO 80203-1818

Dear Ms. Birch:

Enclosed is the U.S. Department of Health and Human Services, Office of Inspector General (OIG), final report entitled *Review of the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program in Colorado*. 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.

Section 8L of the Inspector General Act, 5 U.S. C. App., required that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted 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 James Korn, Audit Manager, at (303) 844-7153 or through email at James.Korn@oig.hhs.gov. Please refer to report number A-07-11-02758 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, IL 60601

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE
QUARTERLY MEDICAID STATEMENT
OF EXPENDITURES FOR THE
MEDICAL ASSISTANCE PROGRAM
IN COLORADO**



Daniel R. Levinson
Inspector General

March 2012
A-07-11-02758

Office of Inspector General

<http://oig.hhs.gov>

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

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

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. In Colorado, the Department of Health Care Policy and Financing (the State agency) administers 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.

The standard Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64 report), summarizes, by category of service, actual Medicaid expenditures for each quarter and is used by CMS to reimburse States for the Federal share of Medicaid expenditures. The amounts reported on the CMS-64 report and its attachments must be actual expenditures with supporting documentation.

Section 1927(b)(2) of the Act requires States to provide drug utilization data to CMS and the manufacturer. Pursuant to CMS guidance, States also report drug rebate accounts-receivable data on the Medicaid Drug Rebate Schedule (Form CMS-64.9R).

State Medicaid programs must provide certain medical services, including inpatient and outpatient hospital services and physician services. States also may offer certain optional services, such as Colorado's Medicaid managed care program, as long as the services are included in their approved State plans.

OBJECTIVE

Our objective was to determine whether the State agency's claim for Federal reimbursement of Medicaid expenditures was adequately supported by actual recorded expenditures.

SUMMARY OF FINDINGS

For the quarter ended March 31, 2009, the majority of the Medicaid costs that the State agency claimed which totaled approximately \$827 million (approximately \$487 million Federal share) was adequately supported by actual recorded expenditures. However, the State agency did not have sufficient controls regarding interest, accrual, collections, and reporting of drug rebate interest. As a result, the State agency did not account for the collection of interest due or report \$9,719 (Federal share) in drug rebate interest on the CMS-64 report for that quarter.

In addition, the State agency had inadequate controls related to its financial and accounting policies and procedures, including vulnerabilities that could occur through adjustments being reported in an incorrect period rather than as a prior period adjustment on the CMS-64 report, the use of manual spreadsheets, and the use of more than one data processing system.

Although the State agency's internal controls were adequate to ensure that the majority of the Medicaid costs that the State agency claimed and that we reviewed for this quarter were claimed correctly, some policies and procedures, as well as some internal controls, could be strengthened. Internal control weaknesses could result in the State agency's reporting incorrect expenditures for Federal reimbursement.

RECOMMENDATIONS

We recommend that the State agency:

- report \$9,719 (Federal share) in drug rebate interest as a prior period adjustment on its next CMS-64 report;
- determine the drug rebate interest that should have been reported in previous quarters and report those amounts as prior period adjustments on its next CMS-64 report;
- ensure that drug rebate interest was correctly reported in subsequently filed CMS-64 reports, and if not, determine the correct amounts and report them as prior period adjustments on its next CMS-64 report; and
- strengthen internal controls to ensure that drug interest rebates are correctly reported during the quarter in which the interest on the rebates accrued, and that in all other respects Medicaid expenditures are correctly calculated, assigned, and claimed in accordance with the approved State plan.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State agency partially agreed with our recommendations and described corrective actions that it implemented or planned to implement. However, the State agency took exception to the wording of our fourth recommendation in our draft report, which the State agency described as a "blanket statement that it [i.e., the State agency] has inadequate controls related to its financial and accounting policies and procedures."

While we agree with the State agency's point regarding our fourth recommendation and did not identify any specific dollar recoveries other than the drug rebate interest, we identified functional areas for which the internal controls could be strengthened. Accordingly, we continue to maintain that further strengthening of the overall internal controls would enhance the State agency's accurate reporting of Medicaid expenditures in light of the other vulnerabilities in internal controls that we have identified in this report.

The State agency's comments appear in their entirety as the Appendix.

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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 State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements. In Colorado, the Department of Health Care Policy and Financing (the State agency) administers 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. Although FMAPs are adjusted annually for economic changes in the States, Congress may increase FMAPs at any time.

American Recovery and Reinvestment Act of 2009

The American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, enacted February 17, 2009, provides fiscal relief to States to protect and maintain State Medicaid programs in a period of economic downturn. For the recession adjustment period (October 1, 2008, through December 31, 2010), the Recovery Act provided an estimated \$87 billion in additional Medicaid funding based on temporary increases in States' FMAPs.¹ Section 5000 of the Recovery Act provides for these increases to help avert cuts in health care payment rates, benefits, or services and to prevent changes to income eligibility requirements that would reduce the number of individuals eligible for Medicaid. Sections 5001(a), (b), and (c) of the Recovery Act provide that a State's increased FMAP during the recession adjustment period will be no less than its 2008 FMAP increased by 6.2 percentage points and that a State may receive an increase greater than 6.2 percentage points based on increases to its average unemployment rate.

With the Recovery Act funding, Colorado's FMAP for Medicaid expenditures increased from 50.00 percent to 58.78 percent for the quarter ended March 31, 2009.

Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program

The standard Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64 report), summarizes, by category of service, actual Medicaid expenditures for each quarter and is used by CMS to reimburse States for the Federal share of

¹ The Education Jobs and Medicaid Assistance Act (P.L. No. 111-226, section 201) extended the recession adjustment period for the increased FMAP through June 30, 2011.

Medicaid expenditures. The amounts reported on the CMS-64 report and its attachments must be actual expenditures with supporting documentation.

Section 1927(b)(2) of the Act requires States to provide drug utilization data to CMS and the manufacturer. Pursuant to CMS guidance, States also report drug rebate accounts-receivable data on the Medicaid Drug Rebate Schedule (Form CMS-64.9R).

Quarterly Medicaid Statement of Expenditures Oversight

On a quarterly basis, CMS Regional office staff members perform a desk review on the amounts reported on the CMS-64 report, a review that is designed to provide CMS with limited assurance that the report complies with applicable Federal laws, regulations, and policy guidance and is filed in compliance with CMS reporting requirements.

Medicaid Management Information System

Section 1903(r)(1)(a) of the Act states that, to receive Federal funding for the use of automated data systems in administration of the Medicaid program, a State must have a mechanized claims processing and information retrieval system. Pursuant to chapter 11, section 11100, of the *CMS State Medicaid Manual*, this 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. This system may be operated by either a State agency or a fiscal agent, which is a private contractor hired by the State.

Use of Colorado Data Systems to Process Medicaid Payments to Providers

Due to system limitations of Colorado's MMIS, some Medicaid expenditures are also processed through the Colorado Financial Reporting System (COFRS). COFRS is a financial information system that maintains the official accounting records for the State of Colorado government. Most financial transactions for the State government are processed directly in COFRS. All financial activity for the State government is eventually recorded in COFRS, even if it was first processed in a specialized accounting system operated by a State agency.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the State agency's claim for Federal reimbursement of Medicaid expenditures was adequately supported by actual recorded expenditures.

Scope

The State agency claimed Medicaid costs totaling approximately \$827 million (approximately \$487 million Federal share) for the quarter ended March 31, 2009. Our review period for reviewing internal controls included October 1, 2008, through March 31, 2010, with expenditure

testing conducted on our selected quarter of interest (the quarter ended March 31, 2009). Our review covered six judgmentally selected line items. These six line items totaled approximately \$442 million (approximately \$261 million Federal share), which constituted approximately 54 percent of the State agency's claimed costs for the quarter.² The six line items were for Inpatient Hospital Services, Nursing Facility Services, Physicians' Services, Outpatient Hospital Services, Prescribed Drugs, and Medicaid Managed Care Organization Services.

We limited our review of supporting documentation to records that the State agency maintained; we did not evaluate claims submitted by providers to determine their validity. 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 Medicaid expenditures on the CMS-64 report and reconciling these expenditures to detailed supporting records.

We conducted fieldwork at the State agency in Denver, Colorado, from October 2010 to April 2011.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance, and applicable portions of the Colorado State Medicaid plan;
- interviewed CMS officials responsible for monitoring the CMS-64 report to gain an understanding of the process used by CMS to review the CMS-64 report;
- interviewed State agency officials to gain an understanding of their policies and procedures for reporting Medicaid expenditures on the CMS-64 report and of the systems used by the State agency for reporting Medicaid costs;
- analyzed the State agency's procedures for aggregating Medicaid expenditures for the CMS-64 report to assess whether those procedures would produce a reasonable and accurate claim for Federal reimbursement;
- reviewed the State agency's process for reconciling expenditures reported on the CMS-64 report to supporting accounting records for the period October 1, 2008, through March 31, 2010;
- assessed the overall accuracy of amounts claimed on the CMS-64 report by tracing those amounts to supporting reports from the State agency's accounting system;

² We obtained the costs that the State agency claimed and the judgmentally selected costs that we reviewed from the Form 64.9 Base of the CMS-64 report; however, these amounts did not include adjustments.

- judgmentally selected for review the six line items (discussed above) on the CMS-64 report;
- reviewed the CMS-64 report for the quarter ending March 31, 2009, and compared the amounts claimed for Federal reimbursement to the information in the State agency's MMIS and COFRS and to the State agency's accounting records;
- reviewed the information in the State agency's MMIS to assess whether duplicate payments occurred and to identify any errors in the MMIS data; and
- discussed our results with State agency officials on September 22, 2011.

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

For the quarter ended March 31, 2009, the majority of the Medicaid costs that the State agency claimed which totaled approximately \$827 million (approximately \$487 million Federal share) was adequately supported by actual recorded expenditures. However, the State agency did not have sufficient controls regarding interest, accrual, collections, and reporting of drug rebate interest. As a result, the State agency did not account for the collection of interest due or report \$9,719 (Federal share) in drug rebate interest on the CMS-64 report for that quarter.

In addition, the State agency had inadequate controls related to its financial and accounting policies and procedures, including vulnerabilities that could occur through adjustments being reported in an incorrect period rather than as a prior period adjustment on the CMS-64 report, the use of manual spreadsheets, and the use of more than one data processing system.

Although the State agency's internal controls were adequate to ensure that the majority of the Medicaid costs that the State agency claimed and that we reviewed for this quarter were claimed correctly, some policies and procedures, as well as some internal controls, could be strengthened. Internal control weaknesses could result in the State agency's reporting incorrect expenditures for Federal reimbursement.

REPORTING OF INTEREST RECEIVED ON DRUG REBATE COLLECTIONS

Federal regulations (42 CFR § 433.32(a)) require that the State agency “[m]aintain an accounting system and supporting fiscal records to assure that claims [reported on the CMS-64 report] for Federal funds are in accord with applicable Federal requirements.... Federal regulations (45 CFR § 92.20(a)) also state: “Fiscal control and accounting procedures of the State, as well as its subgrantees ... must be sufficient to ... establish that such [Medicaid] funds have not been used in violation of the restrictions and prohibitions of applicable statutes.”

Federal regulations at 2 CFR pt. 225 (formerly Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*), Attachment A, section A.2.a.(2), state: “Governmental units assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award [i.e., the Medicaid program].”

The CMS *State Medicaid Manual*, section 2500.A, instructs the States to prepare a CMS-64 Summary Sheet reporting the Federal share of interest received on drug rebate collections.

For the quarter ended March 31, 2009, the State agency did not report the interest received on drug rebate collections. Contrary to the provisions of the CMS *State Medicaid Manual*, the State agency did not account for the Federal share of interest earned on drug rebates or report the amount of drug rebate interest for that quarter to CMS. This resulted in the State agency underreporting interest revenue on the CMS-64 report by \$9,719 (Federal share).

Specifically, the State agency:

- did not have a subsidiary account receivables system that detailed all drug rebate transactions, including adjustments;
- did not reconcile the general ledger control account to the subsidiary ledgers and to the CMS-64.9R report;
- did not reconcile the quarterly cash receipts log to the CMS-64.9R report;
- did not accrue interest on all overdue rebate balances; and
- did not report interest collections on the CMS-64 report Summary Sheet.

WEAKNESSES IN INTERNAL CONTROLS

Although the State agency’s internal controls were adequate to ensure that the majority of the Medicaid costs that the State agency claimed and that we reviewed for this quarter were claimed correctly, our finding indicates that some policies and procedures, as well as some internal controls, can be strengthened. Internal control weaknesses could potentially negatively impact the State’s reporting of expenditures on the CMS-64 report.

As mentioned above, we determined that the State agency did not have sufficient controls regarding interest, accrual, collections, and reporting of drug rebate interest.

We also identified inadequate controls related to the State agency’s financial and accounting policies and procedures, including vulnerabilities that could occur through adjustments being reported in an incorrect period rather than as a prior period adjustment on the CMS-64 report, the use of manual spreadsheets, and the use of more than one data processing system.

Specifically, we identified the following inadequacies in the State agency’s financial and accounting policies and procedures:

- The State agency reported payments on the CMS-64 report that were related to a prior time period but were not reported as a prior period adjustment. This incorrect procedure could result in the State agency receiving an incorrect amount of Federal reimbursement.
- The State agency used manual spreadsheet calculations in its preparation of the CMS-64 report for each quarter. Manual calculations increase the likelihood of errors in both payments and reporting.
- The State agency also used more than one data processing system (MMIS and COFRS) for costs claimed on the CMS-64 report because, according to State agency officials, of system limitations in the State agency’s MMIS. The use of more than one data processing system could result in a claim being paid more than once.

RECOMMENDATIONS

We recommend that the State agency:

- report \$9,719 (Federal share) in drug rebate interest as a prior period adjustment on its next CMS-64 report;
- determine the drug rebate interest that should have been reported in previous quarters and report those amounts as prior period adjustments on its next CMS-64 report;
- ensure that drug rebate interest was correctly reported in subsequently filed CMS-64 reports, and if not, determine the correct amounts and report them as prior period adjustments on its next CMS-64 report; and
- strengthen internal controls to ensure that drug interest rebates are correctly reported during the quarter in which the interest on the rebates accrued, and that in all other respects Medicaid expenditures are correctly calculated, assigned, and claimed in accordance with the approved State plan.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State agency partially agreed with our recommendations and described corrective actions that it implemented or planned to implement. For our second recommendation, the State agency said that it would work with CMS to determine a reasonable number of previous quarters to review and would if necessary report drug rebate interest as a prior period adjustment on its next CMS-64 report. The State agency also took exception to the wording of our fourth recommendation in our draft report, which the State agency described as a “blanket statement that it [i.e., the State agency] has inadequate controls related to its financial and accounting policies and procedures.”

While we agree with the State agency's point regarding our fourth recommendation and did not identify any specific dollar recoveries other than the drug rebate interest, we identified functional areas for which the internal controls could be strengthened. We revised the report by removing the references to inadequate controls, but the report continues to address the weaknesses in internal controls that we identified. Accordingly, we continue to maintain that further strengthening of the overall internal controls would enhance the State agency's accurate reporting of Medicaid expenditures in light of the other vulnerabilities in internal controls that we have identified in this report.

The State agency's comments appear in their entirety as the Appendix.

APPENDIX

APPENDIX: STATE AGENCY COMMENTS



COLORADO DEPARTMENT OF HEALTH CARE POLICY & FINANCING

1570 Grant Street, Denver, CO 80203-1818 • (303) 866-2993 • (303) 866-4411 Fax • (303) 866-3883 TTY

John W. Hickenlooper, Governor • Susan E. Birch MBA, BSN, RN, Executive Director

January 25, 2011

Patrick J. Cogley, Regional Inspector General for Audit Services
Office of the Inspector General
Office of Audit Services, Region VII
601 E. 12th St., Room 0429
Kansas City, MO 64106

Mr. Cogley:

Please see the attached document that contains the Department of Health Care Policy and Financing's submission of responses to the draft report entitled *Review of Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program in Colorado* (Report Number A-07-11-02758).

If you have any questions or comments, please contact me at 303-866-6575 or kim.nguyen@state.co.us.

Sincerely:

A handwritten signature in blue ink that reads "John Bartholomew".

John Bartholomew
Financial & Administrative Services Office Director

JB: ktn

cc: Kim Nguyen, Audit Tracker and Analyst, Department of Health Care Policy and Financing
James Korn, Audit Manager, Office of Inspector General

**Department of Health Care Policy and Financing's
Initial Response to the
Department of Health & Human Services
Office of Inspector General
Review of the Quarterly Medicaid Statement of Expenditures for the Medical
Assistance Program in Colorado
Control Number A-07-11-02758
December 2011**

RECOMMENDATIONS

We recommend that the State Agency:

- **report \$9,719 (Federal share) in drug rebate interest as a prior period adjustment on its next CMS-64 report;**
- **determine the drug rebate interest that should have been reported in previous quarters and report those amounts as prior period adjustments on its next CMS-64 report;**
- **ensure that drug rebate interest was correctly reported in subsequently filed CMS-64 reports, and if not, determine the correct amounts and report them as prior period adjustments on the next CMS-64 report; and**
- **strengthen internal controls to ensure that drug rebate interest rebates are correctly reported during the quarter in which the interest on the rebates accrued, and that in all other respects Medicaid expenditures are correctly calculated, assigned, and claimed in accordance with the approved State plan.**

Response: Partially Concur.

The Department agrees to report \$9,719 (Federal Share) in drug rebate interest as a prior period adjustment on its next CMS-64 report

The Department will work with the Centers for Medicare and Medicaid Services to determine a reasonable number of prior quarters to review in order to determine if drug rebate interest should have been reported in these prior quarters. If it is determined that drug rebate interest should have been reported in prior quarters, the amount determined will be reported as a prior period adjustment on the next CMS-64 report.

The Department has recorded all drug rebate interest for Federal Fiscal Year 2009 and 2010 as prior period adjustments on the CMS-64 for the quarter ending December 31, 2011.

Beginning with federal fiscal year 2011, the Department has been reporting drug rebate interest correctly on the CMS-64.

The Department agrees that its internal controls related to calculating, assigning, claiming and reporting of drug rebate interest can always be strengthened. In order to address this recommendation, the Department has updated its CMS-64 policies and procedures to ensure they specifically address the proper reporting of drug rebate interest in the quarter in which the interest on drug rebates accrued.

The Department believes that it has adequate internal controls in place to ensure that Medicaid costs are claimed and reported correctly. The Department disagrees with this audit's blanket statement that it has inadequate controls related to its financial and accounting policies and procedures. There were no other specific audit exceptions disclosed to the Department, other than the Department's claiming and reporting of drug rebate interest, by the audit team performing this audit.