



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services
Region IX
50 United Nations Plaza, Room 171
San Francisco, CA 94102

Report Number: A-09-05-00052

OCT 26 2005

Ms. Lillian B. Koller
Director
Hawaii Department of Human Services
1390 Miller Street
Honolulu, Hawaii 96813

Dear Ms. Koller:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Hawaii's Medicaid Management Information System Expenditures for the Period July 1, 2002, Through December 31, 2004." If you have any questions or comments concerning the matters commented on in this report, please direct them to the HHS action official named below.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please refer to report number A-09-05-00052 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori A. Ahlstrand".

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Linda Minamoto
Associate Regional Administrator
Division of Medicaid & Children's Health
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Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF HAWAII'S MEDICAID
MANAGEMENT INFORMATION
SYSTEM EXPENDITURES
FOR THE PERIOD
JULY 1, 2002, THROUGH
DECEMBER 31, 2004**



**Daniel R. Levinson
Inspector General**

**OCTOBER 2005
A-09-05-0052**

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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Notices

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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

In 1965, Congress established Medicaid as a jointly funded State and Federal program that provides medical assistance to low-income people who qualify under Title XIX of the Social Security Act. Within a broad legal framework, each State designs and administers its own Medicaid program. In the State of Hawaii, the Department of Human Services, Med-QUEST Division (Hawaii) administers the Medicaid program.

Hawaii processes and pays Medicaid claims through its Medicaid management information system (MMIS). Federal regulations (42 CFR § 433.15) authorize Federal matching funds for the operation of an MMIS at an enhanced rate of 75 percent (the standard Medicaid matching rate for administration is 50 percent).

OBJECTIVE

Our objective was to determine whether the MMIS costs claimed by Hawaii at the enhanced rate of 75 percent were allowable, allocable, and reasonable pursuant to Federal regulations. Our audit covered the period July 1, 2002, through December 31, 2004.

RESULTS OF AUDIT

The \$47,872,913 (\$35,904,686 Federal share) of MMIS costs that Hawaii claimed at the enhanced rate of 75 percent were allowable, allocable, and reasonable pursuant to Federal regulations.

INTRODUCTION

BACKGROUND

Medicaid Program

In 1965, Congress established Medicaid as a jointly funded State and Federal program that provides medical assistance to low-income people who qualify under Title XIX of the Social Security Act. Within a broad legal framework, each State designs and administers its own Medicaid program. States report Medicaid expenditures on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64). In the State of Hawaii, the Department of Human Services, Med-QUEST Division (Hawaii) administers the Medicaid program.

Hawaii Medicaid Management Information System

Hawaii processes and pays Medicaid claims through its Medicaid management information system (MMIS). The MMIS enables Hawaii to efficiently process claims, control program expenditures, monitor service utilization, stay informed on program trends, and provide data for Federal reporting needs.

Hawaii contracted with several private companies to operate the MMIS and provide fiscal agent services. The Arizona Health Care Cost Containment System (Arizona) operated and maintained the MMIS system hardware and software beginning in late 2000. Affiliated Computer Services (ACS) provided fiscal agent services beginning in July 2002. The Hawaii Medical Service Association (HMSA) provided fiscal agent services before this date. ACS also provided pharmacy benefit management services to Hawaii beginning in August 2001.

Federal Requirements

Federal regulations (42 CFR § 433.15) authorize Federal matching funds for the operation of an MMIS at an enhanced rate of 75 percent (the standard Medicaid matching rate for administration is 50 percent).

Part 11 of the State Medicaid Manual provides instructions, regulatory citations, and information needed by States to administer the Medicaid program. Part 11 of the manual also identifies which MMIS costs are allowable for Federal matching funds. 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.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the MMIS costs claimed by Hawaii at the enhanced rate of 75 percent were allowable, allocable, and reasonable pursuant to Federal regulations.

Scope

We reviewed MMIS expenditures reported on line 4B of the CMS-64s for 10 quarters (July 1, 2002, through December 31, 2004). Line 4B included expenditures for private contractors operating an approved MMIS system. The total amount that Hawaii reported on line 4B of the CMS-64s during our audit period was \$47,872,913 (\$35,904,686 Federal share). We limited our review of internal controls to those controls relating to the costs claimed on line 4B of the CMS-64s.

We performed our fieldwork from March through July 2005 at the Hawaii offices in Kapolei, HI.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations;
- reviewed policies and procedures relevant to ensuring that invoices submitted by contractors were valid;
- compared line 4B – Private Sector of the CMS-64s with supporting spreadsheets for the period July 1, 2002, through December 31, 2004;
- traced amounts on the supporting spreadsheets to contractor invoices;
- verified that contractor charges were allowable, allocable, and reasonable;
- verified that the Federal matching rates were properly applied to the Arizona invoices; and
- obtained and reviewed Hawaii contracts with Arizona, ACS, and HMSA.

We performed our review in accordance with generally accepted government auditing standards.

RESULTS OF AUDIT

The \$47,872,913 (\$35,904,686 Federal share) of MMIS costs that Hawaii claimed at the enhanced rate of 75 percent were allowable, allocable, and reasonable pursuant to Federal regulations.