



FEB 17 2006

Office of Audit Services  
Region IX  
50 United Nations Plaza, Room 17  
San Francisco, CA 94102

Report Number: A-09-05-00058

Ms. Lillian B. Koller  
Director  
Department of Human Services  
State of Hawaii  
P.O. Box 339  
Honolulu, Hawaii 96809

Dear Ms. Koller:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Audit of Hawaii's Medicaid Expenditures for Nursing Facility Services for the Period July 1, 2003, Through June 30, 2004." A copy of this report will be forwarded to the HHS action official identified on page 2 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.

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-09-05-00058 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:**

Ms. Linda Minamoto  
Associate Regional Administrator  
Division of Medicaid and Children's Health  
Centers for Medicare & Medicaid Services  
75 Hawthorne Street, Suite 408  
San Francisco, California 94105

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF HAWAII'S  
MEDICAID EXPENDITURES FOR  
NURSING FACILITY SERVICES FOR  
THE PERIOD JULY 1, 2003,  
THROUGH JUNE 30, 2004**



**Daniel R. Levinson  
Inspector General**

**FEBRUARY 2006  
A-09-05-00058**

# ***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:

## ***Office of Audit Services***

The Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout HHS.

## ***Office of Evaluation and Inspections***

The Office of Evaluation and Inspections (OEI) conducts management and program evaluations (called inspections) that focus on issues of concern to HHS, Congress, and the public. The findings and recommendations contained in the inspections generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs. OEI also oversees State Medicaid Fraud Control Units which investigate and prosecute fraud and patient abuse in the Medicaid program.

## ***Office of Investigations***

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties.

## ***Office of Counsel to the Inspector General***

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within HHS. OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF HAWAII'S  
MEDICAID EXPENDITURES FOR  
NURSING FACILITY SERVICES FOR  
THE PERIOD JULY 1, 2003,  
THROUGH JUNE 30, 2004**



**Daniel R. Levinson  
Inspector General**

**FEBRUARY 2006  
A-09-05-00058**

# *Notices*

---

## **THIS REPORT IS AVAILABLE TO THE PUBLIC** at <http://oig.hhs.gov>

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

## **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**

This audit focused on Medicaid payments for services provided to beneficiaries in nursing facilities in the State of Hawaii. In Hawaii, the Med-QUEST Division of the Department of Human Services (Hawaii) administers the Medicaid program, with Federal oversight from the Centers for Medicare & Medicaid Services (CMS). CMS requested this audit.

The Hawaii State plan, Attachment 4.19-D, section II, describes the methodology for establishing Medicaid payment rates for medical care provided to beneficiaries in long-term-care (nursing) facilities. Pursuant to the State plan, the State reimburses a provider based on the number of days of care, the acuity level, and the provider's prospective payment system (PPS) rate. The four acuity levels, A through D, represent the different levels of care provided to residents. Level D represents the subacute level of care, which is relatively higher than level C but less than the acute level of care.

The Hawaii State plan, Attachment 4.19-D, section VI. D. 2., states that payment for subacute services is based on the facility's reasonable projected allowable costs under Medicare reasonable cost principles of reimbursement as defined in Federal regulations. Further, the Hawaii Administrative Rules require facilities to account for subacute care costs separately on their cost reports.

### **OBJECTIVE**

Our objective was to determine whether Hawaii's reported Medicaid expenditures for services provided to beneficiaries in nursing facilities complied with Federal and State requirements for the period July 1, 2003, through June 30, 2004.

### **SUMMARY OF FINDINGS**

In general, Hawaii's reported Medicaid expenditures for services provided to beneficiaries in nursing facilities complied with Federal and State requirements. However, Hawaii overpaid nursing facilities for a small number of ancillary services and could not support the reasonableness of its negotiated PPS rates for subacute care:

- Hawaii did not properly pay for a small number of ancillary services based on the established fee schedule rates, as required by the Hawaii State plan, Attachment 4.19-D, section II. C. 7. This occurred because of a programming error in Hawaii's computerized payment system. As a result, Hawaii made overpayments to nursing facilities totaling \$15,523 (\$9,532 Federal share).
- Hawaii was unable to demonstrate that the PPS rates it negotiated for subacute care were based on the facilities' reasonable projected allowable costs pursuant to the Hawaii State plan. This occurred because Hawaii did not enforce the Hawaii Administrative Rules, which require facilities to account for subacute care costs

separately on their cost reports. Without the availability of this cost data, Hawaii cannot support the reasonableness of its negotiated PPS rates for subacute care. As a result, Hawaii may be paying more than is reasonable for subacute care.

## **RECOMMENDATIONS**

We recommend that Hawaii:

- refund \$9,532 to the Federal Government, representing the Federal share of the overpayments related to ancillary services, and
- enforce the Hawaii Administrative Rules to require nursing facilities to separately account for subacute care costs on their cost reports so that Hawaii can ensure that its negotiated PPS rates are reasonable.

## **HAWAII'S COMMENTS**

Hawaii officials agreed with our findings and recommendations. The full text of Hawaii's comments is included as an appendix to this report.

## **INTRODUCTION**

### **BACKGROUND**

#### **Medicaid Overview**

Title XIX of the Social Security Act (the Act) authorizes Federal grants to States for Medicaid programs that provide medical assistance to needy persons. Each State Medicaid program is jointly financed by the Federal and State Governments and administered by the State pursuant to a State plan approved by the Centers for Medicare & Medicaid Services (CMS). While the State has considerable flexibility in designing its plan and operating its Medicaid program, it must comply with Federal requirements. In Hawaii, the Med-QUEST Division of the Department of Human Services (Hawaii) administers the Medicaid program, with Federal oversight from CMS.

CMS requires States to report their Medicaid expenditures, both for medical assistance and administration, on Form CMS-64. The Federal Government pays its share of medical assistance expenditures according to a formula defined in section 1905(b) of the Act. That share is known as the Federal medical assistance percentage (FMAP) and ranges from 50 percent to 83 percent depending upon each State's relative per capita income. The FMAP rate in Hawaii was about 62 percent for nursing facility services during the period July 1, 2003, through June 30, 2004.

#### **Reimbursement Rates for Nursing Facilities**

The Hawaii State plan, Attachment 4.19-D, section II, describes the methodology for establishing Medicaid payment rates for medical care provided to beneficiaries in long-term-care (nursing) facilities. Pursuant to the State plan, Hawaii reimburses a provider based on the number of days of care, the acuity level, and the provider's prospective payment system (PPS) rate. Cost and census day data used in the development of the PPS rates are derived from each provider's annual cost report submitted to Hawaii.

The four acuity levels, A through D, represent the different levels of care provided to nursing facility residents:

- Level A represents the lowest level of medical care provided to a resident.
- Level B represents the level of medical care and special services provided to a resident in an intermediate care facility for the mentally retarded.
- Level C represents the level of medical care provided by a nursing facility relatively higher than level A.
- Level D represents the subacute level of care, which is relatively higher than level C but less than the acute level of care.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine whether Hawaii's reported Medicaid expenditures for services provided to beneficiaries in nursing facilities complied with Federal and State requirements for the period July 1, 2003, through June 30, 2004.

### **Scope**

We reviewed Nursing Facility Services expenditures reported on line 3 of the CMS-64.9 forms for the four quarters in the period July 1, 2003, through June 30, 2004. The total expenditures reported by Hawaii during our audit period were \$184,296,837 (\$113,985,088 Federal share). We limited our review of internal controls to those controls relating to the costs claimed on line 3 of the CMS-64.9s.

We conducted our fieldwork from April through November 2005, which included visits to the Hawaii offices in Kapolei, HI.

### **Methodology**

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations;
- reviewed applicable policies and procedures in the Hawaii State plan, Hawaii Administrative Rules, and Hawaii Medicaid Provider Manual;
- interviewed Hawaii officials;
- interviewed officials at United Government Services, LLC, Hawaii's Medicaid audit and reimbursement contractor;
- reconciled line 3, Nursing Facility Services expenditures, of the CMS-64.9s to Hawaii's fiscal year 2004 paid claims database;
- traced line 3 of the CMS-64.9s to supporting worksheet schedules for the period July 1, 2003, through June 30, 2004;
- verified that the PPS rates used in reimbursing nursing facilities were properly calculated and agreed with the requirements of the State plan;
- analyzed ancillary service expenditures to ensure that they were (1) associated with a related room-and-board stay and (2) reimbursed pursuant to the Hawaii State plan;

- conducted computer database analyses comparing expenditures for Laboratory and Radiological Services and Other Care Services shown on lines 11 and 29 of the CMS-64.9s, respectively, with line 3 to identify any potential duplicative billings; and
- performed computer database analyses to determine whether Hawaii complied with the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 to deny Medicaid coverage to aliens from the Compact of Free Association states (the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau).

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

## **FINDINGS AND RECOMMENDATIONS**

In general, Hawaii's reported Medicaid expenditures for services provided to beneficiaries in nursing facilities complied with Federal and State requirements. However, Hawaii overpaid nursing facilities for a small number of ancillary services and could not support the reasonableness of its negotiated PPS rates for subacute care.

### **ANCILLARY PAYMENTS EXCEEDED FEE SCHEDULE RATES**

Hawaii overpaid nursing facilities for a small number of ancillary services. Specifically, Hawaii paid 45 ancillary-claim line items at rates that exceeded its established payment amounts. The Hawaii State plan, Attachment 4.19-D, section II. C. 7., allows Hawaii to pay providers separately for ancillary services, such as laboratory services and non-maintenance physical therapy, based on a fee schedule. The overpayment occurred because of a programming error in Hawaii's computerized payment system, which did not properly pay for some ancillary services based on the established fee schedule rates. As a result, Hawaii overpaid nursing facility expenditures by \$15,523 (\$9,532 Federal share).

### **REASONABLENESS OF PAYMENT RATES FOR SUBACUTE CARE NOT SUPPORTED**

Hawaii was unable to demonstrate that the PPS rates it negotiated for subacute care were based on the facilities' reasonable projected allowable costs. The Hawaii State plan, Attachment 4.19-D, section VI. D. 2., states that the payment for subacute services is based on the facility's reasonable projected allowable costs under Medicare principles of reasonable cost reimbursement as defined in Federal regulations. Pursuant to 42 CFR § 413.9(a), all payments to providers of services must be based on the reasonable cost of services covered under Medicare and related to the care of the beneficiaries. In addition, pursuant to 42 CFR § 413.9(c)(3), facilities are reimbursed for the actual costs of providing quality care.

Hawaii did not enforce section 17-1737-117(a) of the Hawaii Administrative Rules, which requires providers to account for subacute care costs separately on their cost reports.<sup>1</sup> Without the availability of this cost data, Hawaii cannot support the reasonableness of its negotiated PPS rates for subacute care. As a result, it may be paying more than is reasonable for subacute care.

## **RECOMMENDATIONS**

We recommend that Hawaii:

- refund \$9,532 to the Federal Government, representing the Federal share of the overpayments related to ancillary services, and
- enforce the Hawaii Administrative Rules to require nursing facilities to separately account for subacute care costs on their cost reports so that Hawaii can ensure that its negotiated PPS rates are reasonable.

## **HAWAII'S COMMENTS**

Hawaii officials agreed with our findings and recommendations. The full text of Hawaii's comments is included as an appendix to this report.

## **OTHER MATTERS**

For rate periods starting September 1, 2003, Hawaii implemented a transition from payment at the PPS rates to an acuity reimbursement system for acuity levels A and C. Hawaii hired a consultant to help establish the new system. Because the nursing facilities did not separately account for subacute care costs, the new reimbursement rates for acuity levels A and C may be inaccurate.

An audit of the new acuity reimbursement rates was outside the scope of our audit. However, to gain an overall understanding of the acuity reimbursement system, we reviewed the consultant's written report describing the rate methodology procedures and its recommendations to Hawaii. Hawaii's consultant determined that subacute care costs could not be properly excluded in developing the acuity reimbursement rates because the subacute level of care was not separately accounted for by each subacute facility provider. The consultant recommended that Hawaii develop procedures to identify the subacute data so that the subacute rates can be removed from the acuity-based reimbursement for acuity levels A and C.

---

<sup>1</sup>Cost reports are submitted on an annual basis no later than 5 months after the close of each provider's fiscal year.

# **APPENDIX**

LINDA LINGLE  
GOVERNOR



LILLIAN B. KOLLER, ESQ.  
DIRECTOR

HENRY OLIVA  
DEPUTY DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF HUMAN SERVICES  
P.O. Box 339  
Honolulu, Hawaii 96809-0339

Refer to: 06-0004

February 1, 2006

Ms. Lori A. Ahlstrand  
Regional Inspector General for Audit Services  
Office of Inspector General  
Office of Audit Services, Region IX  
Department of Health and Human Services  
50 United Nations Plaza, Room 17  
San Francisco, California 94102

Dear Ms. Ahlstrand:

The Department of Human Services (DHS) has reviewed the Department of Health and Human Services (DHHS), Office of Inspector General (OIG) draft report entitled "Audit of Hawaii's Medicaid Expenditures for Nursing Facility Services for the Period July 1, 2003, through June 30, 2004, (Report Number: A-09-05-00058)". The DHS offers the following response to the report's findings and recommendations.

**Finding 1:**

Hawaii did not properly pay for a small number of ancillary services based on the established fee schedule rates, as required by the Hawaii State Plan, Attachment 4.19D, section II. C.7. This occurred because of a programming error in Hawaii's computerized payment system. As a result, Hawaii made overpayments to nursing facilities totaling \$15,523 (\$9,532).

**Recommendation:**

Hawaii refund \$9,532 to the Federal Government, representing the Federal share of the overpayment related to ancillary services.

**Response:**

Hawaii concurs with the finding and recommendations. Prior to the audit, Hawaii had identified that there was an error in processing a small number of claims for ancillary services for individuals in skilled nursing facilities. Program changes were made to the Hawaii Prepaid Medical Management Information System (HPMMIS) to ensure that claims would be paid correctly. The claims identified in the audit have been adjusted through the HPMMIS and were

Ms. Lori A. Ahlstrand  
February 1, 2006  
Page 2

reflected appropriately on the quarterly CMS-64 report resulting in an adjustment to the federal share.

**Finding 2:**

Hawaii was unable to demonstrate that the PPS rates it negotiated for subacute care were based on the facilities' reasonable projected allowable costs pursuant to the Hawaii State Plan. This occurred because Hawaii did not enforce the Hawaii Administrative Rules, which require facilities to account for subacute care costs separately on their cost reports. Without the availability of this cost data, Hawaii cannot support the reasonableness of its negotiated PPS rates for subacute care. As a result, Hawaii may be paying more than is reasonable for subacute care.

**Recommendation:**

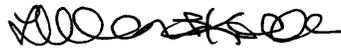
Hawaii should enforce the Hawaii Administrative Rules to require nursing facilities to separately account for subacute care costs on their cost reports so that Hawaii can ensure that its negotiated PPS rates are reasonable.

**Response:**

Hawaii concurs with the findings and recommendations. Hawaii acknowledges that skilled nursing facilities are not reporting their subacute services on a separate cost report due to cost prohibitions. There are only two facilities currently providing subacute services with a maximum of 60 patients affected. Hawaii will work with the facilities to ensure that they provide the separate cost information in the future.

Thank for the opportunity to respond to these audit findings. If you have any questions regarding this response, please contact Ms. Angie Payne, Acting Med-QUEST Division Administrator at (808) 692-8050.

Sincerely,



Lillian B. Koller, Esq.  
Director