



August 30, 2011

**TO:** Donald M. Berwick, M.D.  
Administrator  
Centers for Medicaid & Medicare Services

**FROM:** /Lori S. Pilcher/  
Acting Deputy Inspector General for Audit Services

**SUBJECT:** Audit of Oregon's Medicaid Management Information System Expenditures for the Period October 1, 2007, Through September 30, 2009 (A-09-10-02017)

Attached, for your information, is an advance copy of our final report on Oregon's Medicaid Management Information System expenditures for the period October 1, 2007, through September 30, 2009. We will issue this report to the Oregon Health Authority within 5 business days.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Brian P. Ritchie, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through email at [Brian.Ritchie@oig.hhs.gov](mailto:Brian.Ritchie@oig.hhs.gov) or Lori A. Ahlstrand, Regional Inspector General for Audit Services, Region IX, at (415) 437-8360 or through email at [Lori.Ahlstrand@oig.hhs.gov](mailto:Lori.Ahlstrand@oig.hhs.gov). Please refer to report number A-09-10-02017.

Attachment



August 31, 2011

Report Number: A-09-10-02017

Bruce Goldberg, M.D.  
Director  
Oregon Health Authority  
500 Summer Street, NE E-20  
Salem, OR 97301

Dear Dr. Goldberg:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Audit of Oregon's Medicaid Management Information System Expenditures for the Period October 1, 2007, Through September 30, 2009*. 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., requires 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, or contact Gerald Illies, Audit Manager, at (206) 615-2252 or through email at [Gerald.Illies@oig.hhs.gov](mailto:Gerald.Illies@oig.hhs.gov). Please refer to report number A-09-10-02017 in all correspondence.

Sincerely,

/Lori A. Ahlstrand/  
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**

**AUDIT OF OREGON'S MEDICAID  
MANAGEMENT INFORMATION  
SYSTEM EXPENDITURES FOR THE  
PERIOD OCTOBER 1, 2007, THROUGH  
SEPTEMBER 30, 2009**



Daniel R. Levinson  
Inspector General

August 2011  
A-09-10-02017

# *Office of Inspector General*

<http://oig.hhs.gov>

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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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The Office of Audit Services (OAS) provides 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. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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# *Notices*

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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

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. An MMIS may be operated by a State agency and/or a fiscal agent, which is a private contractor hired by the State.

Section 1903(a)(3)(A)(i) of the Social Security Act (the Act) authorizes Federal reimbursement at an enhanced rate of 90 percent (90-percent rate) for the design, development, or installation of an MMIS. Section 1903(a)(3)(B) of the Act authorizes Federal reimbursement at an enhanced rate of 75 percent (75-percent rate) for the operation of an MMIS. Section 1903(a)(7) of the Act authorizes Federal reimbursement at a standard rate of 50 percent (50-percent rate) for Medicaid administrative expenditures. The Centers for Medicare & Medicaid Services (CMS) *State Medicaid Manual* (the Manual), part 11, identifies the specific types of MMIS expenditures that are allowable for Federal reimbursement and the reimbursement rates that apply.

In Oregon, the Department of Human Services (State agency) administers the Medicaid program. During our audit period (October 1, 2007, through September 30, 2009), the State agency used contractors to assist with the administration of the Medicaid program, operate and maintain its MMIS, and develop a replacement MMIS. The State agency began using the replacement MMIS in December 2008.

For the audit period, the State agency claimed at enhanced Federal reimbursement rates expenditures totaling \$44,209,420 (\$37,971,070 Federal share) for the design, development, installation, and operation of its MMIS. Of this amount, we reviewed \$30,956,274 (\$27,103,971 Federal share).

### OBJECTIVE

Our objective was to determine whether the State agency claimed enhanced Federal Medicaid reimbursement for MMIS expenditures in compliance with Federal requirements.

### SUMMARY OF FINDINGS

The State agency did not always claim enhanced Federal Medicaid reimbursement for MMIS expenditures in compliance with Federal requirements. Of the \$30,956,274 that we reviewed, \$27,430,479 was claimed correctly. For the remaining \$3,525,795, we determined the following:

- The State agency claimed \$655,322 for employee salaries and fringe benefits and contractor and postage expenditures at incorrect Federal reimbursement rates. We determined that the State agency was overpaid \$154,729, the difference between what the State agency claimed at the 90-percent and 75-percent rates and what it should have claimed at the 75-percent and 50-percent rates, respectively.

- The State agency claimed \$547,997 for (1) contractor expenditures that were incurred under a contract extension for which the State agency did not obtain CMS's approval and (2) salary and fringe benefits for a State agency employee who did not perform Medicaid activities. The Federal share of the unallowable expenditures was \$410,998.
- The State agency claimed \$2,322,476 for contractor expenditures and employee salaries and fringe benefits that, based on the activities performed, included some amounts that were not claimed at correct reimbursement rates or were not allowable for Medicaid reimbursement. Because the State agency's records for the \$2,322,476 claimed did not identify the amount of time spent on allowable activities eligible for reimbursement at different reimbursement rates or on unallowable activities, we have set aside the Federal share of \$1,741,857 for resolution by CMS and the State agency.

The State agency did not properly claim these expenditures for Federal reimbursement because it did not have adequate internal controls to ensure that all of its MMIS expenditures were claimed at the correct reimbursement rates and were allowable for Medicaid reimbursement.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund \$565,727 to the Federal Government for expenditures claimed at incorrect reimbursement rates (\$154,729 Federal share) and for expenditures not allowable for Medicaid reimbursement (\$410,998 Federal share),
- work with CMS to determine which portions of the \$1,741,857 that we set aside were calculated using correct reimbursement rates and were for allowable Medicaid activities and refund to the Federal Government the amounts that were overpaid, and
- strengthen internal controls to ensure that its MMIS expenditures are claimed at correct reimbursement rates and are allowable for Medicaid reimbursement.

## **STATE AGENCY COMMENTS**

In written comments on our draft report (included in their entirety as the Appendix), the State agency partially concurred with our first recommendation. The State agency concurred with our second and third recommendations and provided information on actions that it planned to take to address them.

Regarding our first recommendation, the State agency disagreed with our finding related to contractor expenditures that were incurred under a contract extension. The State agency said that it was not required to obtain CMS's approval for the extension because the expenditures were incurred as MMIS operations and maintenance, and it had not requested enhanced reimbursement. The State agency said that it agreed that, in the future, it should work more closely with CMS when extending contracts over \$100,000 to ensure that CMS is aware of contract changes.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

The State agency claimed contractor expenditures under a contract extension at the 75-percent rate without obtaining CMS's approval. Section 11275 of the Manual requires the State agency to obtain CMS's approval for claiming Federal reimbursement at the 75-percent rate for system maintenance expenditures if the thresholds in 45 CFR § 95.611 are exceeded. Section 11110 J. of the Manual states that Federal reimbursement of "... 75 percent ... is provided as enhanced funding for MMIS expenditures ...."

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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 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.

#### Medicaid Management Information System

Section 1903(r)(1) of the Act states that, to receive Federal funding for use of automated data systems in administration of the Medicaid program, the State must have a mechanized claims processing and information retrieval system that meets the requirements of the Act. The CMS *State Medicaid Manual* (the Manual), part 11, section 11110(O), 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. Section 11310 of the Manual states that an MMIS consists of six core subsystems: Recipient, Provider, Claims Processing, Reference File, Surveillance and Utilization Review, and Management and Administrative Reporting. An MMIS may be operated by a State agency and/or a fiscal agent, which is a private contractor hired by the State.

Section 1903(a)(3)(A)(i) of the Act authorizes Federal reimbursement at an enhanced rate of 90 percent (90-percent rate) for the design, development, or installation of an MMIS. Section 1903(a)(3)(B) of the Act authorizes Federal reimbursement at an enhanced rate of 75 percent (75-percent rate) for the operation of an MMIS. Section 1903(a)(7) of the Act authorizes Federal reimbursement at a standard rate of 50 percent (50-percent rate) for Medicaid administrative expenditures. Part 11 of the Manual identifies the specific types of MMIS expenditures that are allowable for Federal reimbursement and the reimbursement rates that apply.

States claim MMIS expenditures on the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program, Form CMS-64 (CMS-64).

#### Oregon Medicaid Management Information System

In Oregon, the Department of Human Services (State agency) administers the Medicaid program.<sup>1</sup> During our audit period (October 1, 2007, through September 30, 2009), the State agency used contractors to assist with the administration of the Medicaid program, operate and

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<sup>1</sup> Effective July 1, 2011, the Oregon Health Authority is responsible for administering the Medicaid program.

maintain its MMIS, and develop a replacement MMIS. The State agency began using the replacement MMIS in December 2008. In addition to the MMIS's core subsystems, the State agency operated auxiliary subsystems that interfaced with the MMIS to obtain information necessary for claims processing.

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

### **Objective**

Our objective was to determine whether the State agency claimed enhanced Federal Medicaid reimbursement for MMIS expenditures in compliance with Federal requirements.

### **Scope**

For the 2-year period October 1, 2007, through September 30, 2009, the State agency claimed at enhanced Federal reimbursement rates expenditures totaling \$44,209,420 (\$37,971,070 Federal share) for the design, development, installation, and operation of its MMIS. Of this amount, we reviewed \$30,956,274 (\$27,103,971 Federal share).

We did not perform a detailed review of the State agency's internal controls. We limited our review to obtaining an understanding of the internal controls that the State agency used to accumulate and claim MMIS expenditures for Federal reimbursement.

We conducted our audit from March 2010 to February 2011 and performed fieldwork at the State agency's office in Salem, Oregon.

### **Methodology**

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- interviewed State agency officials to gain an understanding of the State agency's internal controls related to accumulating and claiming MMIS expenditures for Federal reimbursement;
- reviewed the State agency's contract documents related to the design, development, installation, and operation and maintenance of the State agency's previously approved MMIS and replacement MMIS;
- reconciled to supporting schedules the State agency's MMIS expenditures claimed on the CMS-64s for the audit period;
- reviewed a judgmental sample of the State agency's MMIS expenditures claimed on the CMS-64s and traced the expenditures to invoices, State payroll records, and other supporting documentation;

- interviewed State agency employees to obtain an understanding of their job responsibilities during the audit period; and
- consulted with CMS officials on the allowability of the expenditures reviewed.

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**

The State agency did not always claim enhanced Federal Medicaid reimbursement for MMIS expenditures in compliance with Federal requirements. Of the \$30,956,274 that we reviewed, \$27,430,479 was claimed correctly. For the remaining \$3,525,795, we determined the following:

- The State agency claimed \$655,322 for employee salaries and fringe benefits and contractor and postage expenditures at incorrect Federal reimbursement rates. We determined that the State agency was overpaid \$154,729, the difference between what the State agency claimed at the 90-percent and 75-percent rates and what it should have claimed at the 75-percent and 50-percent rates, respectively.
- The State agency claimed \$547,997 for (1) contractor expenditures that were incurred under a contract extension for which the State agency did not obtain CMS's approval and (2) salary and fringe benefits for a State agency employee who did not perform Medicaid activities. The Federal share of the unallowable expenditures was \$410,998.
- The State agency claimed \$2,322,476 for contractor expenditures and employee salaries and fringe benefits that, based on the activities performed, included some amounts that were not claimed at correct reimbursement rates or were not allowable for Medicaid reimbursement. Because the State agency's records for the \$2,322,476 claimed did not identify the amount of time spent on allowable activities eligible for reimbursement at different reimbursement rates or on unallowable activities, we have set aside the Federal share of \$1,741,857 for resolution by CMS and the State agency.

The State agency did not properly claim these expenditures for Federal reimbursement because it did not have adequate internal controls to ensure that all of its MMIS expenditures were claimed at correct reimbursement rates and were allowable for Medicaid reimbursement.

### **EXPENDITURES CLAIMED AT INCORRECT REIMBURSEMENT RATES**

The State agency claimed \$655,322 for employee salaries and fringe benefits and contractor and postage expenditures at incorrect Federal reimbursement rates, resulting in an overpayment of \$154,729.

## **Federal Requirements Related to Reimbursement Rate Categories for Medicaid Management Information System Expenditures**

Section 1903(a)(3)(A)(i) of the Act authorizes Federal reimbursement at the 90-percent rate for the design, development, or installation of an MMIS. Similarly, section 11276.2 of the Manual states that for MMIS expenditures to be allowable at the 90-percent rate, they must be “directly attributable to the Medicaid program for the design, development, installation, and enhancement of [the MMIS].”

Section 1903(a)(3)(B) of the Act authorizes Federal reimbursement at the 75-percent rate for the operation of an MMIS, whether such a system is operated directly by the State or by another person under a contract with the State. “Operation” is defined in 45 CFR § 95.605 as the automated processing of data used in administering the Medicaid program and includes the use of supplies, software, hardware, and personnel directly associated with the functioning of the MMIS. Section 11276.3(A) of the Manual states that for MMIS expenditures to be allowable at the 75-percent rate, the expenditures must be “directly attributable to the Medicaid program for ongoing automated processing of claims, payments, and reports.”

Section 1903(a)(7) of the Act authorizes the 50-percent rate for Medicaid administrative expenditures that are necessary for proper and efficient administration of the State plan.

### **Salaries and Fringe Benefits**

The State agency claimed \$452,979 for employee salaries and fringe benefits at incorrect Federal reimbursement rates, resulting in an overpayment of \$104,143.

#### *Federal Requirements Related to Allowability of Program Management, Eligibility Determination System, and Training Costs at Enhanced Rates*

Section 11276.7(A) of the Manual states: “Although required to operate a Medicaid program, ... [program management] is not reimbursable at the [75-percent] rate unless directly related to claims processing or information retrieval. ... [D]evelopment and issuance of overall policy is excluded.” Pursuant to 42 CFR § 433.112(c), eligibility determination systems are not eligible for enhanced funding at the 75-percent or 90-percent rate. Section 11280.2 of the Manual states that Federal reimbursement at the 50-percent rate is available for expenditures associated with the operation of an eligibility determination system.

Pursuant to 42 CFR § 432.50(a) and (b)(2), Federal reimbursement is available at the 75-percent rate for training expenditures “[f]or personnel engaged directly in the operation of [the MMIS].” Section 11276.11(B)(2) of the Manual specifies that the training of personnel directly engaged in the operation of an MMIS is reimbursed at the 75-percent rate.

#### *Salaries and Fringe Benefits Incorrectly Claimed at 75-Percent Rate*

The State agency claimed at the 75-percent rate \$361,964 for salaries and fringe benefits of 10 employees whose functions (1) included program management activities that were not

directly related to claims processing or information retrieval; (2) related to operation of an eligibility determination system; or (3) were not directly attributable to the ongoing automated processing of claims, payments, and reports.<sup>2</sup> For example, the State agency claimed two employees' salaries and fringe benefits as operation of the MMIS, even though their duties were to file paper claims, which was not directly attributable to the automated processing of claims or payments. The State agency claimed the expenditures for the 10 employees at the 75-percent rate rather than the 50-percent rate, resulting in an overpayment of \$90,491.

#### *Salary and Fringe Benefits Incorrectly Claimed at 90-Percent Rate*

The State agency claimed at the 90-percent rate rather than the 75-percent rate \$91,015 for the salary and fringe benefits of one employee who oversaw the development of and facilitated training for employees engaged in the operation of the MMIS, resulting in an overpayment of \$13,652.

#### **Contractor Expenditures for Operating a Help Desk**

##### *Federal Requirements Related to Allowability of Costs for Prior Authorization of Services at Enhanced Rates*

Section 11276.7(B) of the Manual states: "... [P]rior authorization of a [medical assistance] service ... before the service is delivered is not allowable [at the 75-percent rate]. Such a decision is ... not directly related to the [MMIS]."

##### *Contractor Expenditures Incorrectly Claimed at 75-Percent Rate*

The State agency claimed at the 75-percent rate \$184,387 for contractor expenditures that were not directly attributable to the ongoing automated processing of claims, payments, and reports or were related to prior authorization of services. The State agency contracted with First Health Services Corporation to administer its pharmaceutical services, including operating a help desk to provide drug information and advice to pharmacists at the point of sale (which was not directly attributable to the Medicaid program for the operation of an MMIS) and to approve or deny prior authorization requests. The State agency claimed the expenditures at the 75-percent rate rather than the 50-percent rate, resulting in an overpayment of \$46,097.

#### **Postage Expenditures**

##### *Federal Requirements Related to Allowability of Postage Costs at Enhanced Rates*

Section 11276.8 of the Manual states: "The postage necessary to mail various products stemming from the operation of an MMIS, e.g., checks, remittance advices, is not considered part of the operation of an MMIS as defined in §11110. Consequently, all postage costs associated with the operation of an MMIS are matched at the 50 percent [reimbursement] rate."

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<sup>2</sup> The \$361,964 claimed does not include all of the salaries and fringe benefits paid to these employees during our audit period because some of these employees performed other activities that were claimed at the correct rates.

### *Postage Expenditures Incorrectly Claimed at 75-Percent Rate*

The State agency claimed postage expenditures of \$17,956 at the 75-percent rate rather than the 50-percent rate, resulting in an overpayment of \$4,489. The expenditures included metered postage, postage stamps, rental of post office boxes, and commercial carrier delivery fees.

### **EXPENDITURES NOT ALLOWABLE FOR MEDICAID REIMBURSEMENT**

The State agency claimed at the 75-percent rate \$547,997 for (1) contractor expenditures that were incurred under a contract extension for which the State agency did not obtain CMS's approval and (2) salary and fringe benefit expenditures for a State agency employee who did not perform Medicaid activities. These expenditures were not allowable for Medicaid reimbursement, resulting in an overpayment of \$410,998.

### **Federal Requirements**

Pursuant to Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, § C.1.a, to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards. Pursuant to OMB Circular A-87, Attachment A, § C.1.b., to be allowable under Federal awards, costs must be allocable to Federal awards under the provisions of this Circular.

Pursuant to 45 CFR § 95.611(c)(2)(ii)(A), the State agency must obtain written approval from CMS when a project's cost is increased by more than \$100,000, if the project is a request for enhanced Federal reimbursement.<sup>3</sup> Further, 45 CFR § 95.611(c)(2)(ii) requires the State agency to submit to CMS within 60 days of a project's change an Advanced Planning Document Update, requesting approval for additional funding for the project.

### **Contractor Expenditures Under a Contract Extension**

Contrary to 45 CFR § 95.611(c)(2)(ii)(A), the State agency claimed at the 75-percent rate \$527,485 for contractor expenditures under a contract extension without obtaining CMS's approval through an Advanced Planning Document Update. Before the audit period, the State agency contracted with ACS State Healthcare, LLC (ACS), to develop one of the MMIS's core subsystems, the Surveillance and Utilization Review system, and to maintain the system for 3 years thereafter. During the audit period, the State agency extended its contract with ACS for an additional 1-year period for maintenance of the system, which resulted in a cost increase of more than \$100,000. Because the State agency did not obtain CMS's approval for the contract extension, the contractor expenditures were not allowable for Federal reimbursement, resulting in an overpayment of \$395,614.

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<sup>3</sup> This amount was increased to \$300,000 in October 2010 (75 Fed. Reg. 66338, 66339 (Oct. 28, 2010)).

## **Salary and Fringe Benefits**

The State agency claimed at the 75-percent rate \$20,512 for the salary and fringe benefits of one employee who did not perform Medicaid activities. Before the audit period, the employee was transferred from a position in which he performed MMIS activities to a position in which he did not perform any activities related to the MMIS or Medicaid. However, the State agency did not update the payroll accounting code for the employee and continued to claim his salary and fringe benefits at the 75-percent rate until the State discovered the error during the audit period. Because the employee did not perform activities related to Medicaid, the employee's salary and fringe benefits were not allowable for Medicaid reimbursement, resulting in an overpayment of \$15,384.

## **EXPENDITURES SET ASIDE**

The State agency claimed \$2,322,476 for contractor expenditures and employee salaries and fringe benefits that, based on the activities performed, included some amounts that were not claimed at correct reimbursement rates or were not allowable for Medicaid reimbursement. Because the State agency's records were not sufficient to enable us to determine the amount overpaid, we have set aside the Federal share of \$1,741,857 for resolution by CMS and the State agency.

## **Federal Requirements**

OMB Circular A-87, Attachment A, § C.3.a., states: "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received." Pursuant to OMB Circular A-87, Attachment A, § C.1.b., to be allowable under Federal awards, costs must be allocable to Federal awards under the provisions of this Circular.

Pursuant to 42 CFR § 433.117(d), Federal reimbursement is available at the 75-percent rate for the operation of a CMS-approved MMIS that is being replaced until the replacement system is in operation and approved. Section 11269 of the Manual states that the 50-percent rate is available for the operation of a replacement MMIS until CMS approves the replacement system, at which time "increased [Federal reimbursement] will be available at 75 percent retroactively to the date [CMS] determined the replacement system meet[s] all conditions of approval."

Section 11276.7(B) of the Manual states: "... [P]rior authorization of a [medical assistance] service ... before the service is delivered is not allowable [at the 75-percent rate]. Such a decision is ... not directly related to the [MMIS]."

Section 11280.2 of the Manual states that Federal reimbursement at the 50-percent rate is available for expenditures associated with the operation of an eligibility determination system.

Section 11276.3(A) of the Manual states that for MMIS expenditures to be allowable at the 75-percent rate, the expenditures must be "directly attributable to the Medicaid program for ongoing automated processing of claims, payments, and reports."

## **Contractor Expenditures for System Operations**

The State agency did not claim at correct reimbursement rates \$1,228,367 of contractor expenditures related to the operation of (1) auxiliary subsystems of the previously approved MMIS and (2) the replacement MMIS. Instead, the State agency claimed all of these expenditures at the 75-percent rate, even though CMS had not approved the replacement MMIS.

The State agency contracted with Area Agencies on Aging (AAA) to administer the Medicaid program at the local level, which included operating the MMIS and its auxiliary subsystems. Because the State agency's records did not identify the amount of time that the AAAs spent operating the auxiliary subsystems of the previously approved MMIS and the amount of time spent operating the replacement MMIS, we have set aside \$921,275 (Federal share) for resolution by CMS and the State agency.

## **Salaries and Fringe Benefits**

The State agency did not claim \$1,094,109 of employee salaries and fringe benefits at the correct reimbursement rates. Instead, the State agency claimed all of the expenditures at the 75-percent rate. In addition to performing activities that were allowable for reimbursement at the 75-percent rate, these employees performed activities that were not allowable for reimbursement at the 75-percent rate or did not relate to the Medicaid program.

The employees spent time performing activities that were eligible for reimbursement at the 75-percent rate pursuant to section 11276.11 of the Manual, such as using the MMIS to process Medicaid claims or enroll clients in the State's Medicaid managed care program. However, these employees also spent time performing activities that were eligible for reimbursement only at the 50-percent rate pursuant to sections 11276.7(B), 11280.2, and 11276.3(A) of the Manual, such as processing prior authorization of services, operating an eligibility determination system, and performing activities that were not directly attributable to the Medicaid program for the ongoing automated processing of claims, payments, and reports. Some of the employees also spent time performing non-Medicaid activities that were unallowable pursuant to OMB Circular A-87, Attachment A, § C.1.b.

Because the State agency's records did not identify the amount of time that the employees spent on allowable activities eligible for reimbursement at different reimbursement rates or on unallowable activities, we have set aside \$820,582 (Federal share) for resolution by CMS and the State agency.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund \$565,727 to the Federal Government for expenditures claimed at incorrect reimbursement rates (\$154,729 Federal share) and for expenditures not allowable for Medicaid reimbursement (\$410,998 Federal share),

- work with CMS to determine which portions of the \$1,741,857 that we set aside were calculated using correct reimbursement rates and were for allowable Medicaid activities and refund to the Federal Government the amounts that were overpaid, and
- strengthen internal controls to ensure that its MMIS expenditures are claimed at correct reimbursement rates and are allowable for Medicaid reimbursement.

## **STATE AGENCY COMMENTS**

In written comments on our draft report (included in their entirety as the Appendix), the State agency partially concurred with our first recommendation. The State agency concurred with our second and third recommendations and provided information on actions that it planned to take to address them.

Regarding our first recommendation, the State agency disagreed with our finding related to contractor expenditures that were incurred under a contract extension. The State agency said that it was not required to obtain CMS's approval for the extension because the expenditures were incurred as MMIS operations and maintenance, and it had not requested enhanced reimbursement. The State agency said that it agreed that, in the future, it should work more closely with CMS when extending contracts over \$100,000 to ensure that CMS is aware of contract changes.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

The State agency claimed contractor expenditures under a contract extension at the 75-percent rate without obtaining CMS's approval. Section 11275 of the Manual requires the State agency to obtain CMS's approval for claiming Federal reimbursement at the 75-percent rate for system maintenance expenditures if the thresholds in 45 CFR § 95.611 are exceeded. Section 11110 J. of the Manual states that Federal reimbursement of "... 75 percent ... is provided as enhanced funding for MMIS expenditures ...."

# **APPENDIX**

**APPENDIX: DEPARTMENT OF HUMAN SERVICES COMMENTS**



Office of the Director



John A. Kitzhaber, MD, Governor

500 Summer St. NE  
Salem, OR 97301

July 14, 2011

Ms. Lori A Ahlstrand  
Regional Inspector General for Audit Services  
Department of Health and Human Services  
Office of the Inspector General, Region IX  
90 - 7<sup>th</sup> Street, Suite 3-650  
San Francisco, CA 94103

RE: Report Number A-09-10-02017

Dear Ms. Ahlstrand:

The Oregon Department of Human Services (DHS) and the Oregon Health Authority (OHA) appreciate the opportunity to respond to the U.S. Department of Health and Human Services, Office of Inspector General, draft report entitled *Audit of Oregon's Medicaid Management Information System Expenditures for the Period October 1, 2007, Through September 30, 2009*.

As you know, the Oregon Department of Human Services has recently reorganized, with a majority of the medical related services now residing in the Oregon Health Authority. Since the findings and recommendations in the draft report now apply to both state agencies, the agencies have prepared the below joint response.

**Recommendation:**

We recommend that the State agency(s) refund \$565,727 to the Federal Government for expenditures claimed at incorrect reimbursement rates (\$154,729 Federal share) and for the expenditures not allowable for Medicaid reimbursement (\$410,998 Federal share).

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**Response:**

The State agencies partially concur with the recommendation.

The agencies agree with the findings related to the employee salaries. We believe the disallowed amount indicated for employee salaries (\$104,143) was a result of differing interpretations of the Medicaid manual, section 11276 (07-98) and in the case of the employee with no Medicaid duties (resulting in the disallowed amount of \$15,384), simple administrative error. Aligning the somewhat dated duties/functions specified in the Medicaid manual to those in the current MMIS operational environment does induce an element of error resulting from individual interpretation. After a thorough review, the agencies agree to refund the disallowed amounts listed above and requests that CMS work with the agencies to develop written definitions and procedures that better align with our current duties/functions contained within each applicable position description.

The agencies agree with the finding that the incorrect federal match rate was applied to the First Health Services Corporation (PBM Help Desk) operation expenditures. The agencies will make the \$46,097 overpayment adjustment identified in the finding. Going forward, the agencies believe that some of these services with our new contractor will qualify for the 75-percent match rate. We will discuss this issue with CMS. Based on this discussion, we will make any appropriate adjustments to our expenditures going forward. We will also modify our existing contract with HP to reflect the outcome of this discussion.

The agencies also agree with the finding that the incorrect federal match rate was applied to expenditures for postage. The agencies will make the \$4,489 overpayment adjustment for this administrative error.

The agencies disagree with the finding related to the contract extension for the Decision Support/Surveillance and Utilization Review system (DSSURs). The finding notes that the State should have pursued pre-approval for extension of the ACS contract to support the DSSURs. The ACS supported DSSURs was not under an APD for Design, Development and Implementation (DDI), but rather was in Operations and Maintenance (O and M) since December 1, 2003. The State extended the O and M contract for the ACS supported DSSURs during the stabilization phase of

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the new HP provided MMIS which included a new DSSURs. While it's the State's belief that a contract extension under Operations and Maintenance does not require an APD, because we were not requesting enhanced funding, the State agrees that in the future we should work more closely with CMS when extending contracts over \$100,000 to ensure CMS is aware of contract changes even when they are not covered under an open APD.

**Recommendation:**

We recommend that the State agency(s) work with CMS to determine which portions of the \$1,741,857 that we set aside were calculated using correct reimbursement rates and were for allowable Medicaid activities and refund to the Federal Government the amounts that were overpaid.

**Response:**

The State agencies concur with the recommendation.

We are eager to partner with CMS to resolve these questioned charges. In doing so, the agencies anticipate developing and documenting for future reference up-to-date definitions and procedures that better align with our current MMIS operational duties/functions to reduce the element of human-interpretation error while capturing the correct funding amounts now and into the future.

The agencies will also work with our AAA partners and CMS to determine the appropriate ratio of contractor time related to the operation of the auxiliary subsystems of the previously approved MMIS and the replacement MMIS.

**Recommendation:**

We recommend that the State agency(s) strengthen internal controls to ensure that its MMIS expenditures are claimed at correct reimbursement rates and are allowable for Medicaid reimbursement.

**Response:**

The State agencies concur with the recommendation.

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As stated previously, we are eager to collaborate with CMS to clearly define the staff duties/functions that qualify for enhanced rates from the ones who do not. Often, these can be difficult to determine because work performed at the individual level are often comprised of both qualifying and non-qualifying enhanced rate duties/functions. The desired solution would be one that used our current written position descriptions to identify the duties that do qualify for enhanced funding rates and include the percentage of the time the worker performs these duties as part of the calculation. Using this, or a similar methodology, the desired goals of both CMS and the agencies will be achieved.

Using the guidance gained from our discussions with CMS, we will make the necessary adjustments to the staff and contracted expenditures for periods after September 30, 2009. We will also explore opportunities to improve the review and monitoring of our contracted and business related expenditures to better identify match rate and other detailed issues when transitioning to new information technology platforms.

Thank you again for this opportunity to respond to the draft *Audit of Oregon's Medicaid Management Information System Expenditures for the Period October 1, 2007, Through September 30, 2009*. If you have any questions or concerns regarding responses from DHS and OHA, please contact Dave Lyda, Chief Audit Officer at 503-945-6700 or through email at [dave.m.lyda@state.or.us](mailto:dave.m.lyda@state.or.us).

Sincerely,

/Jim Scherzinger/  
Jim Scherzinger  
DHS Chief Operating Officer

/Suzanne Hoffman/  
Suzanne Hoffman  
OHA Chief Operating Officer