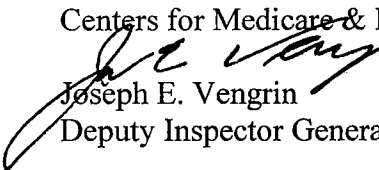




JAN 30 2006

TO: Dennis G. Smith
Director, Center for Medicaid and State Operations
Centers for Medicare & Medicaid Services

FROM: 
Joseph E. Vengrin
Deputy Inspector General for Audit Services

SUBJECT: Review of Medicaid School-Based Services in Kansas—Application of Bundled Rates (A-07-04-01003)

Attached is an advance copy of our final report on Medicaid school-based health services in Kansas. We will issue this report to Kansas within 5 business days. We conducted the audit as part of a multistate initiative requested by the Centers for Medicare & Medicaid Services.

The Medicaid school-based health services program allows Medicaid reimbursement for health-related services in a school setting. Local education agencies (school districts) provide or arrange such services for children with special needs identified in their individualized education plans. Kansas uses bundled payment rates to reimburse all participating school districts each month for health-related services. Kansas reimburses school districts when students eligible for Medicaid attend school at least once during the service month. During fiscal years (FYs) 1998-2003, the Federal share of such reimbursement was approximately \$135.2 million.

Our objective was to determine whether Kansas claimed costs for Medicaid school-based health services consistent with the design of the bundled payment rates and pursuant to Federal regulations and the State plan.

Kansas did not reimburse school districts consistent with the payment rates' design or pursuant to Federal regulations and the State plan. Kansas designed the monthly payment rates to reimburse school districts for a full year's costs over 9 school months. However, Kansas used these rates to reimburse the school districts for 12 months. The reimbursements for service months outside the traditional school year represented payments in excess of costs.

For FYs 1998-2003, the Federal share of the excessive reimbursement was \$13.9 million. According to Kansas officials, the problem occurred because Kansas inadvertently advised school districts to claim costs outside the traditional school year.

We recommend that Kansas refund \$13.9 million to the Federal Government and ensure that future claims for Medicaid reimbursement for school-based services are submitted pursuant to Federal regulations and the State plan.

In its comments on our draft report, Kansas agreed with the findings and recommendations.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or Patrick J. Cogley, Regional Inspector General for Audit Services, Region VII, at (816) 426-3591. Please refer to report number A-07-04-01003.

Attachment



JAN 31 2006

Office of Audit Services
Region VII
601 East 12th Street, Room 284A
Kansas City, MO 64106
(816) 426-3591

Report Number: A-07-04-01003

Mr. Scott Brunner
Director of Medical Policy
Department of Social and Rehabilitation Services
915 SW. Harrison Avenue, Room 651-South
Topeka, Kansas 66612-1570

Dear Mr. Brunner:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Medicaid School-Based Services in Kansas—Application of Bundled Rates." The report covers Medicaid reimbursement that Kansas received for school-based health services for fiscal years 1998-2003. 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 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 the 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-07-04-01003 in all correspondence.

Sincerely,

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Thomas Lenz
Regional Administrator, Region VII
Centers for Medicare & Medicaid Services
Richard Bolling Federal Building, Room 227
601 East 12th Street
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MEDICAID
SCHOOL-BASED SERVICES IN
KANSAS—APPLICATION OF
BUNDLED RATES**



**Daniel R. Levinson
Inspector General**

**JANUARY 2006
A-07-04-01003**

Office of Inspector General

<http://oig.hhs.gov>

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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

The Medicaid school-based health services program allows Medicaid reimbursement for health-related services in a school setting. Local education agencies (school districts) provide or arrange such services for children with special needs identified in their individualized education plans. Kansas uses bundled payment rates to reimburse all participating school districts each month for health-related services. Kansas reimburses school districts when students eligible for Medicaid attend school at least once during the service month.

The Federal share of Medicaid reimbursement for school-based services in Kansas ranged from 59.71 to 63.15 percent of the amounts claimed by school districts for fiscal years (FYs) 1998-2003. During that period, the Federal share was approximately \$135.2 million.

OBJECTIVE

Our objective was to determine whether Kansas claimed costs for Medicaid school-based health services consistent with the design of the bundled payment rates and pursuant to Federal regulations and the State plan.

SUMMARY OF FINDING

Kansas did not reimburse school districts consistent with the payment rates' design or pursuant to Federal regulations and the State plan. Kansas designed the monthly payment rates to reimburse school districts for a full year's costs over 9 school months. However, Kansas used these rates to reimburse the school districts for 12 months. The reimbursements for service months outside the traditional school year represented payments in excess of costs.

For FYs 1998-2003, the Federal share of the excessive reimbursement was \$13.9 million. According to Kansas officials, the problem occurred because Kansas inadvertently advised school districts to claim costs outside the traditional school year.

RECOMMENDATIONS

We recommend that Kansas:

- refund \$13.9 million to the Federal Government and
- ensure that future claims for Medicaid reimbursement for school-based services are submitted pursuant to Federal regulations and the State plan.

AUDITEE'S COMMENTS

Kansas concurred with our findings and recommendations. Kansas's comments are included in their entirety as Appendix B.

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INTRODUCTION

BACKGROUND

We conducted this review at the request of the Centers for Medicare & Medicaid Services (CMS).

Medicaid School-Based Program

Pursuant to Title XIX of the Social Security Act (the Act), Medicaid pays for medical assistance costs for persons with limited income and resources. This program is a jointly funded cooperative venture between the Federal and State Governments. Each State Medicaid program is administered in accordance with a State plan approved by CMS to ensure compliance with Federal requirements.

Congress amended section 1903(c) of the Act in 1988 to allow Medicaid coverage of health-related services provided to children pursuant to Part B of the Individuals with Disabilities Education Act. Medicaid may pay for school-based health services included in a child's individualized education plan, including physical therapy, occupational therapy, speech pathology, and psychological services. CMS issued "Medicaid and School Health: A Technical Assistance Guide" in 1997 to "provide information and technical assistance regarding the specific Federal Medicaid requirements associated with implementing a school health services program and seeking Medicaid funding for school health services." Services must be (1) provided to Medicaid-eligible children, (2) medically necessary, (3) claimed pursuant to Federal and State regulations, and (4) included in the State plan.

The costs claimed for Federal reimbursement must comply with Office of Management and Budget Circular A-87, which contains principles and standards for determining costs reimbursed to State governments.

Kansas School-Based Program

In Kansas, the Department of Social and Rehabilitation Services administers the Medicaid program. Individual school districts provide or arrange health services for students with special needs identified in their individualized education plans. Kansas reimburses school districts for the Federal share of health service costs. In addition, Kansas requires school districts to provide documentation that the remainder of the costs (the State share) has been paid.

Kansas uses bundled payment rates to reimburse school districts. Kansas instructed school districts to submit claims when students eligible for Medicaid attended school at least once during the service month. Kansas developed the rates in 1997 with the assistance of its contractor, Maximus, Inc. Kansas based the payment rates on the use of health services by special education students and the costs for those services at six school districts during the 1995-96 school year.¹

¹We performed a separate review (A-07-05-01018) to examine how Kansas developed the payment rates.

In developing the payment rates, Kansas used a complex calculation to determine the average cost per student per month. (See Appendix A.) However, that calculation produced the same result as a simple calculation that divided the average cost per student per year by 9 (traditional school months). Our analysis demonstrated that Kansas designed the rates so it could reimburse school districts for a full year's costs over 9 school months.

The Federal share of Medicaid reimbursement for school-based health services ranged from 59.71 to 63.15 percent of the amounts claimed by school districts for fiscal years (FYs) 1998-2003. During that period, the Federal share was approximately \$135.2 million.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Kansas claimed costs for Medicaid school-based health services consistent with the design of the bundled payment rates and pursuant to Federal regulations and the State plan.

Scope

We reviewed the accuracy of the calculations that Kansas used to create the payment rates but did not verify the accuracy of the rates themselves. We limited our review of internal controls to the methodology that Kansas employed to develop the payment rates based on data from the 1995-96 school year. Our review also included an analysis of how Kansas implemented the payment rates in Federal FYs 1998-2003.

We conducted this audit in conjunction with our review of the costs that Kansas claimed for school-based health services (A-07-03-00155) and our review of the accuracy of the payment rates (A-07-05-01018). We used the information obtained and reviewed during those audits in performing this review. When we calculated the overpayments, we excluded payments made on behalf of the school districts reviewed in A-07-03-00155.

We performed our fieldwork at the Department of Social and Rehabilitation Services main office in Topeka, KS.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal Medicaid regulations and guidance and Kansas's State Medicaid plan,
- interviewed Kansas officials and reviewed Kansas's policies and procedures to obtain an understanding of how Kansas processed claims,
- analyzed the methodology that Kansas used to develop the payment rates, and

- utilized the data in the Medicaid Management Information System to:
 - determine the service months for which Kansas used the rates to reimburse school districts and
 - identify the Federal Medicaid reimbursement made to Kansas for Federal FYs 1998-2003.

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

FINDING AND RECOMMENDATIONS

Kansas did not reimburse school districts consistent with the payment rates' design or pursuant to Federal regulations and the State plan. Kansas designed the monthly payment rates to reimburse school districts for a full year's costs over 9 school months. However, Kansas used these rates to reimburse the school districts for 12 months. The reimbursements for service months outside the traditional school year represented payments in excess of costs. For FYs 1998-2003, the Federal share of the excessive reimbursement was \$13.9 million.

FEDERAL AND STATE REQUIREMENTS AND PAYMENT RATE DESIGN

Pursuant to 45 CFR part 95, profit is unallowable. The State plan required Kansas to use “[a]ppropriate rate setting practices . . . [to] . . . ensure . . . appropriate financial reimbursement.” Kansas designed the payment rates using actual costs and historical utilization factors to reimburse providers for the costs of providing medically necessary services.

INCORRECT MEDICAID REIMBURSEMENT

Kansas did not reimburse school districts for school-based health service costs consistent with the design of the payment rates. Our analysis demonstrated that the rates were designed to allow Kansas to reimburse school districts for a full year's costs over 9 school months. However, Kansas used the rates to reimburse school districts for 12 months. Although some students receive services during the summer months, Kansas elected to pay school districts over a 9-month period. The reimbursements for service months outside the traditional school year (June, July, and August) represented payments in excess of costs (profit).

According to Kansas officials, this problem occurred because Kansas inadvertently advised school districts to submit claims outside the traditional school year.

FEDERAL OVERPAYMENTS

For FYs 1998-2003, Kansas received Federal Medicaid reimbursements of approximately \$13.9 million² for services performed outside the traditional school year. We consider the reimbursements to be overpayments.

²The \$13.9 million excludes payments made on behalf of the school districts reviewed in A-07-03-00155.

RECOMMENDATIONS

We recommend that Kansas:

- refund \$13.9 million to the Federal Government and
- ensure that future claims for Medicaid reimbursement for school-based services are submitted pursuant to Federal regulations and the State plan.

AUDITEE'S COMMENTS

Kansas concurred with our findings and recommendations. Specifically, Kansas stated that it would discuss with CMS the return of the \$13.9 million. Kansas stated that it had taken several steps to ensure that future claims are correctly submitted, including notifying school districts that Federal reimbursement is available only for services performed during the traditional 9-month school year and updating the instructions provided to school districts. Kansas also stated that it “expect[s] the corrective action steps taken and those yet to be implemented will ensure future compliance with both federal and state policy and program regulations.”

Kansas’s comments are included in their entirety as Appendix B.

APPENDIXES

**DEVELOPMENT OF PAYMENT RATES:
AVERAGE COST OF HEALTH-RELATED SERVICES PER STUDENT PER MONTH**

Kansas used several complex calculations to create the payment rates. This appendix relates to the calculation of the average cost of health-related services per student per month.

Kansas separated the health-related costs for the base period into nine medical categories and then:

1. divided the total annual (12 months) costs by the total number of school days in a school year to determine the average cost per day,¹
2. divided the average cost per day by the total number of authorized students who received the specific services to determine the average cost per student per day, and
3. multiplied the average cost per student per day by the average number of school days in a month to determine the average cost per student per traditional school month.

This calculation is shown below.

Kansas Calculation of Average Cost per Student per Month

Step	Description	Amount
1	Total annual (12 months) category costs	\$900,000
	÷ Total number of school days during 9-month school year	167.8
	= Average cost per day	\$5,363.53
2	÷ Number of authorized students receiving services	1,000
	= Average cost per student per day	\$5.36
3	× Average number of school days per month	18.64
	= Average cost per student per traditional school month	\$100.00

¹The total number of school days in a school year was discounted by an estimated 5.1-percent absenteeism rate to determine the average number of school days per year (167.8).



ROBERT M. DAY, Ph.D, DIRECTOR

K A N S A S

KATHLEEN SEBELIUS, GOVERNOR

DIVISION OF HEALTH POLICY AND FINANCE

December 16, 2005

Mr. Patrick Cogley
Regional Inspector General for Audit Services
Department of Health and Human Services
Region VII
601 East 12th Street
Kansas City, MO 64106

RE: Report Number A-07-04-01003

Dear Mr. Cogley:

The Kansas Department of Administration, Division of Health Policy and Finance (DHPF) has reviewed the draft report entitled "Medicaid School-Based Services in Kansas - Application of Bundled Rates" by the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services (OIG). We appreciate the opportunity to respond to the OIG's findings and recommendations related to this audit.

RECOMMENDATIONS/RESPONSES -

- refund \$13.9 million to the Federal Government

Response: We concur that this amount represents reimbursements provided to School Districts for months outside of the traditional school year. We will discuss the return of this amount with CMS in the Kansas City Regional Office.

- ensure that future claims for Medicaid reimbursement for school-based services are submitted pursuant to Federal regulations and the State plan.

Response: The State concurs that payments made for school-based services were allowed beyond the traditional school year and thus did not comply with Federal regulations and the State plan. To date the following corrective action steps have been taken.

Mr. Patrick Cogley
Department of Health and Human Services
December 16, 2005
Page 2 of 2

- School district staff were notified that Medicaid reimbursement was only available for health services delivered during the traditional nine month school year;
- DHPF updated the billing instructions in the Local Education Agency Provider manual to reflect the traditional school year billing period;
- DHPF conducted on-site visits to the school districts to more closely monitor and ensure compliance;
- DHPF and its contractors provided training for school district staff on the billing instructions;
- DHPF requested a routine system report to identify claims with invalid service dates;
- DHPF began recoupment processes for any claims with invalid service dates and;
- DHPF awarded a service contract on January 1, 2005 to re-evaluate the present Bundled Rate methodology.

Other corrective action steps to be taken include establishing an MMIS system edit to prevent payment of claims with an invalid service date.

In summary, we expect the corrective action steps taken and those yet to be implemented will ensure future compliance with both federal and state policy and program regulations.

Thank you for the opportunity to comment on the draft OIG report. Please contact me if there are additional questions.

Sincerely,



Scott Brunner
Director of Medical Policy

SB/BK/dsw
Enclosure

pc: Robert Day, Director DHPF
Nialson Lee, Administrator DHPF
Brenda Kuder, Benefits Senior Manager, DHPF
Dan Roehler, Chief Operating Officer/DHPF
Kim Sage, State Auditor/DHPF

7010. LOCAL EDUCATION AGENCY BILLING INFORMATION

~~Updated 12/03~~

Updated 11/05

Disability Codes

Only one disability code, which indicates a child's primary disability, can be billed per beneficiary per month. The child's primary disability, disability code billed and the primary disability listed on the child's Individual Education Plan (IEP) must match. Disability codes can only be billed for dates of service that fall within the traditional school year. Refer to Appendix I for a list of procedure codes.

1 unit = 1 month.

Dates of service billed should reflect the entire month (e.g., ~~05/01/97—05/31/97~~ 11/01/05 - 11/30/05).

The only allowable place of service is 03-school or 12-home.

Nursing Attendant Codes

The only allowable place of service is 03-school or 12-home.