



OCT 17 2007

TO: Kerry Weems
Acting Administrator
Centers for Medicare & Medicaid Services

FROM: Daniel R. Levinson *Daniel R. Levinson*
Inspector General

SUBJECT: Medicaid School-Based Services in Utah – Review of Payment Rates
(A-07-06-04069)

Attached is an advance copy of our final report on payment rates for Medicaid school-based services in Utah. We will issue this report to the Utah Department of Health, Division of Health Care Financing (State agency), within 5 business days.

The Federal share of Medicaid reimbursement for school-based services in Utah ranged from 70 to 74.67 percent of the amounts claimed by school districts for Federal fiscal years 2001 through 2005. During that period, the Federal share of the amounts claimed totaled approximately \$37.9 million.

Our objective was to determine whether the State agency claimed Medicaid reimbursement for school-based health services in accordance with Federal requirements and the State plan.

The State agency's claims for Medicaid reimbursement for school-based services generally were not in accordance with Federal requirements or the State plan. We were unable to determine what portion of \$36.8 million of the \$37.9 million claimed was allowable as final payments. The State agency based its claims on interim payments but did not comply with the State plan, which requires that the State agency perform a cost settlement reconciling interim payments to actual costs to determine final payments. The State agency did not perform the reconciliations because it considered payments made to school districts to be final payments. The State agency's claims for the remaining \$1.1 million, which were for nursing services that were paid based on the Medicaid fee-for-service schedule, were allowable.

We recommend that the State agency:

- work with the Centers for Medicare & Medicaid Services to determine what portion of the \$36.8 million claimed based on interim payments is allowable and

- perform cost settlements to ensure that future final payments for school-based services are based on actual costs.

In written comments on our draft report, the State agency concurred with our 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 through e-mail at George.Reeb@oig.hhs.gov or Patrick J. Cogley, Regional Inspector General for Audit Services, at (816) 426-3591 or through e-mail at Patrick.Cogley@oig.hhs.gov. Please refer to report number A-07-06-04069.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**MEDICAID SCHOOL-BASED
SERVICES IN UTAH – REVIEW OF
PAYMENT RATES**



Daniel R. Levinson
Inspector General

October 2007
A-07-06-04069

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.





DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

OCT 19 2007

Report Number: A-07-06-04069

Mr. Michael Hales
Director
Utah Division of Health Care Financing
P.O. Box 144102
Salt Lake City, Utah 84114-4102

Dear Mr. Hales:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Medicaid School-Based Services in Utah – Review of Payment Rates." 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.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, within 10 business days after the final report is issued, it will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact James Korn, Audit Manager, at (303) 844-7153 or through e-mail at James.Korn@oig.hhs.gov. Please refer to report number A-07-06-04069 in all correspondence.

Sincerely,

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Mr. Mark Gilbert
Regional Administrator, Region VIII
Centers for Medicare & Medicaid Services
Colorado State Bank Building
1600 Broadway, Suite 700
Denver, Colorado 80202

EXECUTIVE SUMMARY

BACKGROUND

The 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 Coverage of School Health Services

Section 411(k)(13) of the Medicare Catastrophic Coverage Act of 1988 (Public Law 100-360) amended section 1903(c) of the Act to permit Medicaid payment for medical services provided to children under the Individuals with Disabilities Education Act (originally enacted as Public Law 91-230 in 1970) through a child's individualized education plan.

Utah's Medicaid School-Based Program

In Utah, the Department of Health, Division of Health Care Financing (State agency), administers the Medicaid school-based program. Local education agencies (school districts) provide or arrange school-based health services for children with special needs identified in their individualized education plans. Pursuant to the State plan, the State agency makes interim payments, based on several different sources of data, to participating school districts for health-related services. The State plan also requires that the State agency perform cost settlements reconciling interim payments to actual costs to determine final payments.

The Federal share of Medicaid reimbursement for school-based services in Utah ranged from 70 to 74.67 percent of the amounts claimed by school districts for Federal fiscal years 2001 through 2005. During that period, the Federal share of the amounts claimed totaled approximately \$37.9 million.

OBJECTIVE

Our objective was to determine whether the State agency claimed Medicaid reimbursement for school-based health services in accordance with Federal requirements and the State plan.

SUMMARY OF FINDINGS

The State agency's claims for Medicaid reimbursement for school-based services generally were not in accordance with Federal requirements or the State plan. We were unable to determine what portion of \$36.8 million of the \$37.9 million claimed was allowable as final payments. The

State agency based its claims on interim payments but did not comply with the State plan, which requires that the State agency perform a cost settlement reconciling interim payments to actual costs to determine final payments. The State agency did not perform the reconciliations because it considered payments made to school districts to be final payments. The State agency's claims for the remaining \$1.1 million, which were for nursing services that were paid based on the Medicaid fee-for-service schedule, were allowable.

RECOMMENDATIONS

We recommend that the State agency:

- work with CMS to determine what portion of the \$36.8 million claimed based on interim payments is allowable and
- perform cost settlements to ensure that future final payments for school-based services are based on actual costs.

STATE AGENCY'S COMMENTS

In written comments on our draft report, the State agency concurred with our recommendations. The State agency's comments are included in their entirety as the Appendix.

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INTRODUCTION

BACKGROUND

The Medicaid Program

Pursuant to Title XIX of the Social Security 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 Coverage of School Health Services

Congress amended section 1903(c) of the Medicare Catastrophic Coverage Act of 1988 (Public Law 100-360) in 1988 to permit Medicaid payment for medical services provided to children pursuant to Part B of the Individuals with Disabilities Education Act. Medicaid may reimburse States for school-based health services included in children's individualized education plans (IEP), including physical therapy, occupational therapy, speech pathology, and psychological services. CMS issued "Medicaid and School Health: A Technical Assistance Guide" in 1997. It states that school health-related services included in a child's IEP may be covered if all relevant statutory and regulatory requirements are met. It also states that 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. In establishing payment rates, States may use the rates already established (Medicaid fee for service) or develop unique payment rates for school-based providers using statistically accurate and valid data to justify the rate amounts.

Utah's School-Based Program

In Utah, the Department of Health, Division of Health Care Financing (State agency), administers the Medicaid school-based program. In the State plan, school-based services are covered under "Skills Development Services," which are medically necessary services available to those eligible for the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program. The EPSDT program is designed to ensure that Medicaid-eligible recipients from birth through age 20 have access to needed medical care. The school-based services are provided or arranged by school districts that have contractual and provider agreements with the State agency.

With the exception of nursing services, which are funded according to the Medicaid fee-for-service schedule, the State agency is supposed to make interim payments to school districts based on an average cost per day using historical costs. These interim payments are specific to each school district and can derive from several different sources of data.¹ The State agency receives these data from the school districts to determine the rates. After coordination with the school districts, the State agency approves the rates that serve as the basis for the interim

¹These sources are specified in the "Utah Medicaid Provider Manual."

payments. The State plan requires that the State agency perform a cost settlement reconciling interim payments to actual costs to determine final payments.

Twenty school districts in Utah provided Medicaid school-based health services during Federal fiscal years (FY) 2001 through 2005. During that period, the Federal share of Medicaid reimbursement for school-based services in Utah ranged from 70 to 74.67 percent of the amounts claimed by school districts.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the State agency claimed Medicaid reimbursement for school-based health services in accordance with Federal requirements and the State plan.

Scope

We reviewed payments made by the State agency to school districts for Medicaid school-based services provided during FYs 2001 through 2005. These payments included interim payments and payments based on Medicaid fee-for-service schedules. We also reviewed the State agency's claims for Medicaid reimbursement of school-based health services totaling \$37.9 million (Federal share). The interim payments accounted for \$36.8 million of that total, and the payments based on Medicaid fee-for-service schedules (nursing services) accounted for \$1.1 million. We reviewed internal controls to the extent necessary to accomplish the audit objective.

We performed our fieldwork during June and July 2006 at the State agency's office in Salt Lake City, Utah.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal and State Medicaid regulations and guidance, the State plan, school-based contracts and provider agreements, and school-based policies and procedures;
- interviewed State agency officials to obtain an understanding of how the State agency processed school-based claims for Medicaid reimbursement;
- analyzed the methodology and reviewed the accuracy of the calculations the State agency used to develop the approved rates;
- obtained and reviewed documentation for the approved rates to determine whether they were fully supported; and

- obtained Medicaid school-based claim data from the State agency for FYs 2001 through 2005 and:
 - determined actual payments made by the State agency to school districts for FYs 2001 through 2005,
 - reconciled the payments made to school districts to the CMS Form 64.9, “Medical Assistance Expenditures by Type of Service,” submitted each quarter by the State agency for Medicaid reimbursement,
 - determined the service months in which the State agency used the rates to reimburse school districts, and
 - determined whether any school districts were paid without having a provider agreement.

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

FINDINGS AND RECOMMENDATIONS

The State agency’s claims for Medicaid reimbursement for school-based services generally were not in accordance with Federal requirements or the State plan. We were unable to determine what portion of \$36.8 million of the \$37.9 million (Federal share) claimed was allowable as final payments. The State agency based its claim on interim payments but did not comply with the State plan by performing a cost settlement that reconciled interim payments to actual costs to determine final payments. The State agency did not perform these reconciliations because it considered payments made to school districts to be final payments. The State agency’s claims for Medicaid reimbursement for the remaining \$1.1 million, which were for nursing services paid based on the Medicaid fee-for-service schedule, were allowable.

INTERIM PAYMENTS NOT RECONCILED TO ACTUAL COSTS

Federal and State Plan Requirements

Costs claimed for Federal reimbursement must comply with Office of Management and Budget (OMB) Circular A-87, which contains principles and standards for determining costs reimbursed to State and local governments. Specifically, OMB Circular A-87, Attachment A, C.1.c. and d., states that costs must be authorized under State or local laws or regulations and conform to any limitations or exclusions set forth by OMB Circular A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to type or amounts of cost items.

In the State plan, the “Skills Development Services” section (which covers the State agency’s school-based services) states: “Payment is based on the average cost per day for services received. Historical costs are used to establish interim payments. Actual costs are used to

determine final payment. Except for the first period of covered services, the cost settlement will be for a twelve month period.”²

No Cost Settlement Performed

The State agency did not perform a cost settlement to reconcile interim payments and the actual costs of providing school-based services during FYs 2001 through 2005. Those interim payments accounted for \$36.8 million of the total \$37.9 million reimbursed by the Federal Government to the State agency. (The difference of \$1.1 million was payment for nursing services at the school districts, which was paid in accordance with the Medicaid fee-for-service schedule and was allowable.)

The State agency did not perform the required cost settlement because it considered payments based on interim rates to be final. Because the State agency did not comply with the State plan and perform a cost settlement to reconcile interim payments to actual costs, we were unable to determine what portion of the \$36.8 million claimed based on interim rates was allowable as final payments.

RECOMMENDATIONS

We recommend that the State agency:

- work with CMS to determine what portion of the \$36.8 million claimed based on interim payments is allowable and
- perform cost settlements to ensure that future final payments for school-based services are based on actual costs.

STATE AGENCY’S COMMENTS

In written comments on our draft report, the State agency concurred with our recommendations. The State agency added that it would initiate contact with CMS and was in the process of conducting cost settlements to ensure that it bases final payments on actual costs.

The State agency’s comments are included in their entirety as the Appendix.

²Although the relevant section of the State plan refers to “school” (rather than “school district”), our interviews with State agency officials made it clear that they interpret references to “schools” as signifying “school districts.”

**OTHER MATTER: INTERIM PAYMENTS TO SCHOOL DISTRICTS
IN EXCESS OF APPROVED RATES**

During our audit, we identified an internal control issue.

At the start of FY 2004, the State agency switched from using multiple procedure codes tied to school districts' rates in its Medicaid payment system to a single code with the maximum payment based on the highest approved rate in the State. The single code allowed the school districts to submit claims using rates that were higher than their approved rates. We found that a number of school districts submitted such claims, resulting in excessive interim payments of \$236,754 (\$172,180 Federal share). We are not making a separate recommendation because this amount is included in the \$36.8 million referenced in our first recommendation.

APPENDIX



State of Utah

JON M. HUNTSMAN, JR.
Governor

GARY R. HERBERT
Lieutenant Governor

**Utah Department of Health
Executive Director's Office**

David N. Sundwall, M.D.
Executive Director

A. Richard Melton, Dr. P.H.
Deputy Director

Allen Korhonen
Deputy Director

Health Care Financing

Michael T. Hales
Division Director

August 1, 2007

Mr. Patrick J. Cogley
Regional Inspector General for Audit Services
Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

Dear Mr. Cogley:

This letter is in response to your request for written comments on the U.S. Department of Health and Human Services, Office of Inspector General (OIG), draft report number: A-07-06-04069 entitled "Medicaid School-Based Services in Utah – Review of Bundled Payment Rates."

The draft report recommends that the State agency:

work with CMS to determine what portion of the \$36.8 million claimed based on interim payments is allowable, and

perform cost settlements to ensure that future final payments for school-based services are based on actual costs.

We concur with these recommendations. Accordingly, we will initiate contact with the CMS Region VIII office in Denver to begin the determination. We are also in the process of conducting cost-settlements to ensure we base final payments on actual costs.

The draft report also identified an internal control issue. That is, a number of school districts submitted claims that resulted in excessive interim payments of \$236,754 (\$172,180 Federal share). We corrected the internal control issue and intend to return the Federal share on the September 30, 2007 CMS-64.

Sincerely,

Michael Hales, Director
Health Care Financing



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