

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**ARKANSAS GENERALLY SUPPORTED  
ITS CLAIM FOR FEDERAL MEDICAID  
REIMBURSEMENT**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
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Patricia Wheeler  
Regional Inspector General

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A-06-10-00098

# *Office of Inspector General*

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## **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

*For the quarter ended June 30, 2010, Arkansas generally supported its claim for Federal reimbursement with actual recorded expenditures. However, there were issues with Arkansas' procedures for preparing the claim.*

### Why We Did This Review

In its *Implementation Guidance*, the Office of Management and Budget identified the Medicaid program as a program at risk for significant erroneous payments. Previous work in the Medicaid program showed that the Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64 report), did not always reconcile to claim data. Because CMS-64 reporting could be vulnerable to fraud, waste, and abuse, we have conducted audits of multiple States' CMS-64 reports since 2009.

Our objective was to determine whether the State agency's claim for Federal reimbursement of Medicaid expenditures was adequately supported by actual recorded expenditures.

### Background

In Arkansas, the Department of Human Services (State agency) administers the Medicaid program. The State agency claims Medicaid expenditures and the associated Federal share on the CMS-64 report. This form shows the disposition of Medicaid funds used to pay for medical and administrative expenditures for the quarter being reported and any prior-period adjustments. The amounts the State agency reports on the CMS-64 report must represent actual expenditures. In addition, all supporting documentation must be readily reviewable and available at the time the claim is filed.

### What We Found

For the quarter ended June 30, 2010, the State agency generally supported its claim for Federal reimbursement with actual recorded expenditures. However, the State agency used a manual process to compile costs, which caused errors in both claiming Federal reimbursement and reporting for informational purposes.

Additionally, the State agency did not archive supporting claim data at the time the CMS-64 report was filed. As a result, the records were not immediately available or in readily reviewable form.

### What We Recommend

We recommend that the State agency:

- establish review procedures to ensure that expenditures are correctly compiled and claimed on the CMS-64 report,

- address the misreporting of expenditures during the compilation of the CMS-64 report, and
- archive claim data when the CMS-64 report is filed.

### **State Agency Comments**

The State agency concurred with all of our recommendations.

## TABLE OF CONTENTS

	<u>Page</u>
<b>INTRODUCTION</b> .....	1
<b>Why We Did This Review</b> .....	1
<b>Objective</b> .....	1
<b>Background</b> .....	1
<b>How We Conducted This Review</b> .....	2
<b>FINDINGS</b> .....	2
<b>Federal Requirements</b> .....	2
<b>The State Agency Used a Manual Process To Compile Expenditures     for the CMS-64 Report</b> .....	3
The State Agency Overreported Expenditures .....	3
The State Agency Misreported Expenditures .....	3
<b>The State Agency Did Not Archive Claim Data</b> .....	4
<b>RECOMMENDATIONS</b> .....	4
<b>STATE AGENCY COMMENTS</b> .....	4
<b>APPENDIXES</b>	
<b>A: AUDIT SCOPE AND METHODOLOGY</b> .....	5
<b>B: STATE AGENCY COMMENTS</b> .....	7

## INTRODUCTION

### WHY WE DID THIS REVIEW

In its *Implementation Guidance*, the Office of Management and Budget identified the Medicaid program as a program at risk for significant erroneous payments. Previous work in the Medicaid program showed that the Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64 report), did not always reconcile to claim data. Because CMS-64 reporting could be vulnerable to fraud, waste, and abuse, we have conducted audits of multiple States' CMS-64 reports since 2009.

### OBJECTIVE

Our objective was to determine whether the Department of Human Services' (State agency) claim for Federal reimbursement of Medicaid expenditures was adequately supported by actual recorded expenditures.

### BACKGROUND

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. In Arkansas, the State agency administers the Medicaid program. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

As part of the implementation of their Medicaid programs, States may submit waiver requests to CMS. These waivers, when approved, allow exceptions to certain requirements or limitations of the Social Security Act (the Act). Section 1115 of the Act authorizes research and demonstration projects, under which States may demonstrate and evaluate policy approaches, such as expanding eligibility and using innovative service delivery systems. Arkansas operates its Medicaid program primarily using a fee-for-service payment system and several section 1115 waivers.

The State agency claims Medicaid expenditures and the associated Federal share on the CMS-64 report. The CMS-64 report is an accounting statement that the State agency must submit to CMS within 30 days after the end of each quarter. This form shows the disposition of Medicaid funds used to pay for medical and administrative expenditures for the reporting period and any prior-period adjustments. The amounts the State agency reports on the CMS-64 report must represent actual expenditures.

The CMS Regional Office conducts quarterly reviews of the CMS-64 report, during which staff members examine the accounting records the State agency used to support the claimed costs. The office of the Arkansas Division of Legislative Audit (Legislative Audit Division) also conducts reviews of the CMS-64 report.

## **HOW WE CONDUCTED THIS REVIEW**

The State agency claimed Medicaid costs totaling a little less than \$1.1 billion (\$890 million Federal share) for the quarter ended June 30, 2010. We assessed the overall accuracy of amounts claimed on the CMS-64 report by tracing them to supporting summary reports from the State agency's accounting system. We then selected 10 CMS-64 report line item amounts totaling nearly \$778 million (\$631 million Federal share), which was more than 70 percent of the State agency's claimed expenditures for the quarter. We traced expenditures included in the selected line items to detailed records and analyzed them.

To assess the reliability of the State agency's data, we (1) performed electronic testing for obvious errors in accuracy and completeness, (2) reviewed information about the data and the system that produced the data, and (3) worked closely with State agency officials to identify any data problems. When we found discrepancies, we brought them to the State agency's attention and worked with State agency officials before conducting our analyses. We determined that the data was sufficiently reliable for the purposes of our audit.

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.

Appendix A contains the details of our audit scope and methodology.

## **FINDINGS**

For the quarter ended June 30, 2010, the State agency generally supported its claim for Federal reimbursement with actual recorded expenditures. However, the State agency used a manual process to compile costs, which caused errors in both claiming Federal reimbursement and reporting for informational purposes.

Additionally, the State agency did not archive supporting claim data at the time the CMS-64 report was filed. As a result, the records were not immediately available or in readily reviewable form.

## **FEDERAL REQUIREMENTS**

Section 2500.2 of the *CMS State Medicaid Manual* instructs States to: "Report only expenditures for which all supporting documentation, in readily reviewable form, has been compiled and which is immediately available when the claim is filed." Federal regulations (42 CFR § 433.32(a)) require that the State agency "[m]aintain an accounting system and supporting fiscal records to assure that claims [reported on the CMS-64 report] for Federal funds are in accord with applicable Federal requirements ...."



## **THE STATE AGENCY USED A MANUAL PROCESS TO COMPILE EXPENDITURES FOR THE CMS-64 REPORT**

The State agency used an electronic spreadsheet with 271 separate schedules to compile expenditures for the CMS-64 report. The State agency used this electronic spreadsheet to manually manipulate expenditure reports produced from the State agency's claims system. The manual manipulations designed by one State agency official included splitting expenditures into the fee-for-service and waiver portions of the CMS-64 report, adjusting expenditures, and adding nonclaim expenditures. Because no other State agency official was familiar with the complete process of creating the spreadsheet, it was not reviewed. The State agency overreported expenditures on the CMS-64 report by \$43,076,448 (\$34,969,459 Federal share) and misreported expenditures on the CMS-64 report by \$11,865,790.

### **The State Agency Overreported Expenditures**

The State agency overreported expenditures on the CMS-64 report by \$43,076,448 (\$34,969,459 Federal share) because the State agency official preparing the electronic spreadsheet:

- added rather than subtracted hospital settlement costs of \$19,815,757 to the CMS-64 report line item for inpatient hospital expenditures, causing expenditures to be overreported by twice that amount, or \$39,631,514 (32,172,863 Federal share), and
- added breast and cervical cancer expenditures to the original expenditure reports' amounts even though they were already included, causing expenditures to be overreported by \$3,444,934 (\$2,796,596 Federal share).

Beginning with State fiscal year 2010 (July 1, 2009, through June 30, 2010), the Legislative Audit Division's reviews of the CMS-64 report included tracing the CMS-64 amounts to the State agency's supporting summary reports. As a result, the Legislative Audit Division identified the overreported hospital settlement costs before the Office of Inspector General (OIG) began this audit. OIG identified the overreported breast and cervical cancer expenditures and informed the State agency of them. The Legislative Audit Division included both amounts in the *State of Arkansas Single Audit Report for Year Ended June 30, 2010*, and the State agency made adjustments to the CMS-64 report for the quarter ended September 30, 2010, to correct the overreported expenditures.

### **The State Agency Misreported Expenditures**

When the State agency allocated expenditures to the waiver portions of the CMS-64 report, it included \$11,865,790 in expenditures twice, once for each of two waivers. The official who designed the spreadsheet included formulas that decreased the expenditures on the fee-for-service portion by the duplicated amounts; thus, the overall expenditures were not overreported. However, the fee-for-service amount was underreported and one waiver's expenditures were overreported.

## **THE STATE AGENCY DID NOT ARCHIVE CLAIM DATA**

The State agency did not archive claim data when it filed the CMS-64 report; thus, State agency officials had to re-create the data at the start of the audit. In fact, State agency officials told OIG staff at the beginning of the audit that, based on previous history and the lack of archiving, they did not expect to be able to provide data that would reconcile to the amounts claimed on the CMS-64 report. Also, State agency officials were unfamiliar with the claim data they provided, which caused OIG audit staff to continuously request additional information over a period of 18 months even though the supporting documentation should have been available in readily reviewable form. As a result, the claim data for the select lines did not completely reconcile to the amount on the CMS-64 report, but the overall difference was immaterial and less than 1 percent of the line amounts.

## **RECOMMENDATIONS**

We recommend that the State agency:

- establish review procedures to ensure that expenditures are correctly compiled and claimed on the CMS-64 report,
- address the misreporting of expenditures during the compilation of the CMS-64 report, and
- archive claim data when the CMS-64 report is filed.

## **STATE AGENCY COMMENTS**

The State agency concurred with all of our recommendations and described corrective actions that it had taken or planned to take. The State agency's comments appear in their entirety as Appendix B.

## APPENDIX A: AUDIT SCOPE AND METHODOLOGY

### SCOPE

The State agency claimed Medicaid costs totaling just under \$1.1 billion (\$890 million Federal share) for the quarter ended June 30, 2010. We did not include some expenditures the State agency claimed for family planning services because we reviewed them in more detail during a separate review.<sup>1</sup>

To assess the reliability of the State agency's data, we (1) performed electronic testing for obvious errors in accuracy and completeness, (2) reviewed information about the data and the system that produced the data, and (3) worked closely with State agency officials to identify any data problems. When we found discrepancies, we brought them to the State agency's attention and worked with State agency officials before conducting our analyses. We determined that the data was sufficiently reliable for the purposes of our report.

We limited our review of supporting documentation to records that the State agency maintained; we did not evaluate claims submitted by providers to determine their validity. Our objective did not require a review of the overall internal control structure of the State agency. Therefore, we limited our internal control review to the State agency's procedures for aggregating Medicaid expenditures on the CMS-64 report.

We conducted fieldwork at the State agency's offices in Little Rock, Arkansas.

### METHODOLOGY

To accomplish our objectives, we:

- reviewed applicable Federal laws and regulations and State plan sections;
- interviewed the CMS official responsible for monitoring the CMS-64 report;
- interviewed State agency officials to obtain an understanding of their policies and procedures for reporting Medicaid costs on the CMS-64 report;
- interviewed Legislative Audit Division officials and reviewed their audit documentation and final report regarding their review of the CMS-64 report;
- analyzed the State agency's procedures for aggregating Medicaid expenditures for the CMS-64 report to assess whether they would produce a reasonable and accurate claim for Federal reimbursement;
- acquired an understanding of the State agency's Medicaid waiver programs;

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<sup>1</sup> The State agency claimed family planning expenditures totaling \$4,039,816 on the CMS-64 report and received \$3,635,834 in Federal share for them. These expenditures will be addressed in a separate report (A-06-11-00022).

## APPENDIX A

- assessed the overall accuracy of amounts claimed on the CMS-64 report by tracing them to supporting summary reports from the State agency's accounting system;
- selected 10 CMS-64 report line item amounts totaling nearly \$778 million (\$631 million Federal share), which was more than 70 percent of the State agency's claimed expenditures for the quarter;
- traced expenditures included in the selected line items to detailed records and analyzed them;
- selected and reviewed supporting documentation for a judgmental sample of expenditures that State agency officials manually entered into the State agency's accounting system; and
- discussed our results with the State agency.

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.

## APPENDIX B: STATE AGENCY COMMENTS



### Division of Medical Services

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January 2, 2013

Patricia Wheeler  
Regional Inspector General for Audit Services  
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Office of Audit Services, Region VI  
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Dallas, TX 75242

**SUBJECT:** OIG audit number A-06-10-00098 draft report entitled “Arkansas Generally Supported Its Claim for Federal Medicaid Reimbursement.”

Dear Ms. Wheeler:

Below please find the Arkansas Department of Human Services – Division of Medical Services (DMS) draft response to your letter dated October 30, 2012 requesting written comments on the recommendations included in the draft report of OIG audit number A-06-10-00098. The recommendations along with our initial draft responses are as follows:

- 1) Establish review procedures to ensure that expenditures are correctly compiled and claimed on the CMS-64 report

**RESPONSE:** **DMS concurs with this recommendation. The state’s own review process identified the over-reported hospital settlement costs and the state identified the error to the Arkansas Legislative Auditor. The over-reported breast and cervical cancer was identified by the Office of Inspector General Auditor’s and adjustments were made to the CMS-64 report for September 30, 2010. The reporting errors did not have any impact on the amount of federal funds drawn. Additional review procedures have been implemented including a check feature added to the spreadsheet to create an overall comparative to the Category of Service amount to the allocated cost in the report which will identify any allocation issues. Staff continues to train on the reporting process with guidance from CMS personnel.**

- 2) Address the misreporting of expenditures during the compilation of the CMS-64 report

**RESPONSE:** **DMS concurs with this recommendation. The spreadsheet utilized to complete the CMS-64 has been changed to correctly report the fee-for service and waiver amounts. As additional lines are added to the CMS-64, the spreadsheet will be updated and formulas and links will be reviewed by the Agency Controller. As**

above, the Staff continues to train on the reporting process with guidance from CMS personnel.

- 3) Archive claim data when the CMS-64 report is filed

**RESPONSE:** DMS concurs with this recommendation. New reports with detail claim data have been developed to address specific issues and have been available since July 2011. All claims data are archived in the data warehouse. This does require a query to pull claims for any specific line from the CMS-64. The financial transactions cause some difficulty in reconciling due to archiving. Arkansas MMIS is a legacy system that is in process of being bid through a Request for Proposal. This issue should be addressed fully in the new MMIS system.

If you have any questions or need to discuss this further, please contact Sharon Jordan at [Sharon.Jordan@arkansas.gov](mailto:Sharon.Jordan@arkansas.gov) or Thomas Carlisle at [Thomas.Carlisle@arkansas.gov](mailto:Thomas.Carlisle@arkansas.gov).

Sincerely,

Andrew Allison  
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Department of Human Services