

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



November 20, 2002

The Honorable Anthony A. Williams
Mayor
District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., 6th Floor
Washington, D.C. 20004

Subject: Medicaid Management Implication Report (MIR No. 03-A-02)

Dear Mayor Williams:

The purpose of this report is to encourage District executives and managers to remain focused on improving the Medicaid Program (Program) in the District of Columbia during this new fiscal year (FY). Dating back to at least FY 1999, annual expenditures have approximated \$1 billion for the Medicaid Program (about 20 percent of General Fund expenditures), which services 130,000 District residents. Few programs have greater potential to improve the well being of our citizens. Moreover, if the program is not properly managed, few programs are likely to have a more negative impact on the financial health of the District.

While the Office of the Inspector General (OIG) is aware of recent ongoing improvements and initiatives by your Office, we want to emphasize our concerns in order to encourage consistent focus to the responsible agencies, managers, and legislative committees. Making the Medicaid Program a high priority now is certain to have a positive effect upon the execution of the FY 2003 budget and subsequent year budgets.

THE MEDICAID PROGRAM

The Medicaid Program, as defined in Title XIX of the Social Security Act, provides medical assistance for certain individuals and families of low income and resources. 42 U.S.C.S. §§ 1396-1396v (Lexis through 2002 legislation). Federal and state governments (and the District) jointly fund the Program to provide adequate medical care to eligible persons. Medicaid is the largest program through which America's poorest citizens receive medical and health-related services. The Medical Assistance Administration (MAA), of the District's

Department of Health, has been established as the “single state agency¹” in the District responsible for policy development and administration of Medicaid.

District of Columbia government agencies that receive federal Medicaid funds and provide Medicaid eligible services include the Department of Health, the Department of Human Services, the District of Columbia Public Schools, the Child and Family Services Agency, the Department of Mental Health, and the Department of Fire and Emergency Medical Services.

DISTRICT MEDICAID PROGRAM CONCERNS

While the OIG has previously issued Medicaid-related reports, managers may not be fully aware of reports issued in the last 3 years by the independent auditor of the District’s Comprehensive Annual Financial Report (CAFR) and the General Accounting Office (GAO), which have also surfaced areas of concern regarding the Program. As you know, the OIG contracts with the independent auditor and oversees the conduct of the CAFR.

CAFR Auditors. In the Management Letter issued in conjunction with the FY 2001 CAFR for the District, the independent auditor listed three material weaknesses,² two of which were related to the Medicaid Program:

1. “Accounting and Financial Reporting for the District Medicaid Program,” and
2. “Accounting for Medicaid Expenditures,” an element of a second material weakness- “District of Columbia Public Schools Accounting and Financial Reporting.”

Proper handling of and accounting for Medicaid transactions is a significant concern to the District.

The FY 2001 Management Letter further provides that agencies submit Medicaid claim reports to MAA for review. In the course of its review, MAA disallows costs for claims submitted untimely or because the claims lack adequate supporting documentation. The Management Letter also stated that agencies failed to record reserves for disallowed costs. Accordingly, suggested audit adjustments totaling \$100 million had to be posted at the end of FY 2001 so that the financial statements were fairly presented.

GAO Auditors. A February 2002 United States General Accounting Office report cited the need for the U.S. Department of Health and Human Services (HHS) to exercise better oversight of state claims for Medicaid reimbursement in order to reduce the amount of improper payments to the various states. U.S. GEN. ACCOUNTING OFFICE, MEDICAID FINANCIAL MANAGEMENT BETTER OVERSIGHT OF STATE CLAIMS FOR FED. REIMBURSEMENT

¹ A single state agency is that agency designated by a state government to administer or to supervise the administration of that state’s plan for medical assistance.

² A material weakness is an area in internal control where the District’s financial statements are vulnerable to material misstatements that may occur and not be detected within a timely period by District employees in the normal course of performing their assigned duties.

NEEDED, GAO-02-300 (2002). HHS will be instituting measures such as data mining, data sharing, and neural networking to assist in determining the propriety of claims. Data mining involves analyzing relationships among data to detect new patterns, associations, or sequences. Data sharing provides bases for entities to compare information from different sources to help ensure the propriety of Medicaid expenditures. Neural networking involves extracting and analyzing data of, for example, utilization trends, patterns, and complex interrelationships. Such techniques have helped other states detect over \$12 million in improper claims and payments, and if employed by the federal government in reviewing District claims, the District has the potential to lose millions of dollars in federal reimbursement.

Another GAO report issued in April 2000 covers the results of a GAO survey of the 50 states and the District of Columbia. U.S. GEN. ACCOUNTING OFFICE, MEDICAID IN SCHOOLS: IMPROPER PAYMENTS DEMAND IMPROVEMENTS IN HCFA³ OVERSIGHT, GAO/HEHS/OSI-0069 (2002). The report provides that states are authorized to use their Medicaid program to help pay for certain health care services provided to children eligible for Medicaid, including services provided under the Individuals with Disabilities Education Act (IDEA). In fact, Medicaid is the payer of first resort for IDEA-eligible health care services. Services covered would include transportation for special education students, speech pathology, physical and occupational therapy, etc. Again, the GAO called for improved federal oversight and monitoring of payments for Medicaid reimbursements.

IMPLICATIONS FOR THE DISTRICT

While MAA is responsible for establishing and maintaining adequate internal controls to ensure that the Medicaid Program is managed with integrity and in compliance with applicable law, its efforts do not protect the District from incurring Medicaid expenses paid from the General Fund but disallowed for purposes of reimbursement from the Program. Therefore, MAA and other District agencies submitting claims for Medicaid expenditures reimbursement must work together to ensure that adequate District internal controls and financial management exist over economic events related to Medicaid. District agencies will have to ensure that Medicaid claims are filed on time, adequate documentation exists to support the claims, recipients are Medicaid eligible, and expenditures for services are Medicaid eligible. Even court orders, such as those applicable to the District of Columbia Public Schools, which set deadlines for payments to vendors who provide services to special education children, do not negate requirements for adequate documentation and timely filing of Medicaid claims. A sound financial management infrastructure will help the District withstand an increase in federal scrutiny, and ensure that the General Fund absorbs the proper share of Medicaid costs.

³ The Health Care Financing Administration (HCFA) was renamed the Centers for Medicare and Medicaid Services on June 14, 2001.

OIG INITIATIVES

As we advised in our *FY 2003 Audit and Inspection Plan* (Plan), dated August 30, 2002, we are contributing to the attainment of the Mayor's strategic initiatives by focusing on five strategic themes:

1. Revenue Enhancement
2. Spending and Efficient Use of Resources
3. Deliver of Citizen Services
4. Support Services
5. Audits Required by Law

While aspects of the Medicaid Program may be encompassed under many of these themes, we chose to emphasize the Medicaid Program under the theme Revenue Enhancement. Our Plan provides coverage of the Medicaid Program in four specific audits, as shown in the table below.

Plan No.	Audit Title	Started in FY 2003	Later Start in FY 2003
01	Audit of the D.C. Public Schools' Special Education Program and Medicaid		√
02	Audit of Medicaid Taxicab Voucher Program	√	
03	Audit of Medicaid Reimbursements at the Department of Mental Health	√	
04	Comprehensive Audit of the District's Medicaid Program		√

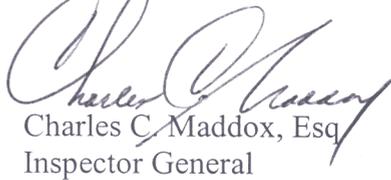
The OIG has designated the Program for audit emphasis until the risk to the District is more manageable. Accordingly, our coverage will be citywide and comprehensive, and planned coverage may be expanded based on the results of the four audits of the Program.

CONTINUING IMPROVEMENT

It is our hope that, as FY 2003 begins, this Management Implication Report encourages District managers to continue to improve the District's Medicaid Program by taking timely actions to reduce costs, eliminate waste, share costs appropriately with the federal government through appropriate documentation and support of transactions, and provide services only to persons eligible for participation in the Program.

If you have questions, please contact me or William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Charles C. Maddox, Esq
Inspector General

CCM/ws

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