

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF THE
DEPARTMENT OF HEALTH'S
CONTRACTING FOR NON-EMERGENCY
TRANSPORTATION SERVICES**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



March 13, 2007

Gregg A. Pane, MD
Director
Department of Health
825 North Capitol Street, N.E., Suite 4400
Washington, D.C. 20002

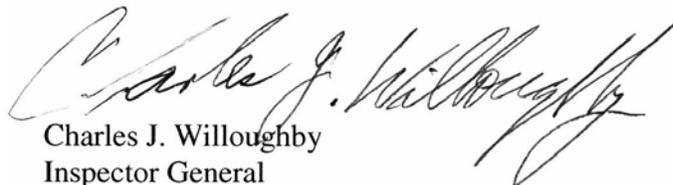
Dear Dr. Pane:

Enclosed is our final audit report summarizing the results of the Office of the Inspector General's (OIG) *Audit of the Department of Health's Contracting for Non-Emergency Transportation Services* (OIG No. 05-2-18HC(c)). This audit is part of our continuous coverage of the District's Medicaid Program. The report is the fourth of a series of audits covering the Department of Health's (DOH) non-emergency transportation of Medicaid recipients.

On December 7, 2006, we issued a Management Alert Report (MAR 07-A-01) containing four recommendations and informing you of the results of our review regarding efforts to outsource non-emergency transportation program services. We received a response to the MAR from DOH on January 12, 2007. We consider the actions taken and/or planned to be responsive to each of our four recommendations. The full text of DOH's response is included at Exhibit B.

We recognize the fact that management took action during the audit to strengthen internal controls over non-emergency transportation by developing and implementing policies and procedures requiring that completed Medical Necessity forms be submitted to the Medical Assistance Administration for review and maintenance. We appreciate the cooperation and courtesies extended to our staff during the audit. If you have questions, please contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,



Charles J. Willoughby
Inspector General

Enclosure

CJW/hw

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**AUDIT OF THE DEPARTMENT OF HEALTH’S CONTRACTING FOR
NON-EMERGENCY TRANSPORTATION SERVICES**

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EXECUTIVE DIGEST

OVERVIEW

The District of Columbia Office of the Inspector General (OIG) has completed an audit of the Department of Health's (DOH) Contracting for Non-Emergency Transportation (NET) Services. This audit is part of our continuous coverage of the District's Medicaid Program. The report is the fourth of a series of audits covering the Department of Health's (DOH) non-emergency transportation of Medicaid recipients and focuses on DOH's attempt to award a contract to a transportation broker (Broker) to manage and administer the District's NET Program.

Procedures covering outsourcing a function performed by District government employees are contained in D.C. Code § 2-301.05b(c) (2006). The D.C. Code specifies the required documentation and consideration that must be met prior to making a decision to outsource a government function.

The NET Program is administered by the DOH Medical Assistance Administration, Office of Program Operations (MAA-OPO). The objective of the NET Program is to provide transportation services for Medicaid recipients receiving various forms of medical services.¹ Recipients qualify for transportation assistance after completing a Medical Necessity form at a participating medical provider, which is certified by a doctor or other medical facility staff members.

CONCLUSIONS

MAA officials attempted to outsource NET Program services without evaluating the costs to perform the services and providing documentation to support that doing so was in the best interest of the District of Columbia government. Specifically, MAA did not prepare and submit a cost-benefit analysis to the Office of Contracting and Procurement (OCP) prior to requesting that OCP solicit and award a contract for a Broker. The cost estimate is required by District law and would have assisted MAA officials in reaching an informed decision about whether to perform the services in-house or to outsource them.

Also, our review of the solicitation² to obtain Broker services disclosed that the bid prices submitted by three offerors to provide NET Program services were based on an excessive amount of annual trips, which was estimated by MAA officials. The three offerors used 540,000 trips yearly as the basis for computing the total program costs (bid price) to manage and administer the NET Program.

¹ The Non-Emergency Transportation Program provides transportation to program participants by van, taxicab, or bus. The OIG issued the *Audit of the Department of Health Taxicab Voucher Program for Medicaid Recipients* (OIG 04-1-04HC) on December 13, 2004, which focused solely on van transportation.

² Solicitation, Offer, and Award Number POHC-2006-R-0010, dated May 31, 2006.

EXECUTIVE DIGEST

Prior to the completion of our audit, we met with MAA-OPO officials to discuss the number of annual transportation trips. The officials agreed with our determination that the annual trip estimates were inflated and reduced the estimated number of annual trips, revised the solicitation, and requested best and final offers from the prospective bidders. As a result of the reduction in the number of trips, the District could save as much as \$6.8 million in the first year of the contract and an additional \$27 million should the District opt to contract for all 4 option years of the contract.

In addition, the solicitation contained ambiguous language pertaining to the Broker's use of the Medical Necessity form. The solicitation provided that the Broker had the authority to determine the mode of transportation afforded to program participants. However, DOH procedures require that the medical necessity for transportation be determined by a physician. This vague solicitation language was inconsistent with DOH procedures, may have negatively impacted the services provided to program participants, and could result in unreasonable Broker profits.

SUMMARY OF RECOMMENDATIONS

In an OIG Management Alert Report (MAR 07-A-01), we directed four recommendations to the Director, DOH, which focused on actions needed before outsourcing NET Program services. We recommended that the Director, DOH: (1) establish sound NET Program patient-participation and financial data before attempting to outsource this service to a Broker; (2) prepare a program cost estimate as required by District law to calculate and compare the cost of providing the non-emergency transportation services using District government employees to the cost associated with contracting for the service; (3) submit to OCP and the District of Columbia Council all necessary documentation in accordance with the requirements set forth in D.C. Code § 2-301.05b(c) prior to awarding a contract for the NET Program to a Broker; and (4) amend the solicitation to specify that the Broker provides for and arranges NET services based on the Medical Necessity form prepared by a participating physician, should a decision be made to outsource these services. A summary of the potential benefits resulting from the audit is included at Exhibit A.

MANAGEMENT RESPONSE AND OIG COMMENTS

DOH provided a written response to our MAR on January 12, 2007, and we consider actions taken or planned to be responsive to our recommendations. However, we disagree with some of DOH's comments and address them in the Finding and Recommendations section of this report. The full text of DOH's response is included at Exhibit B.

INTRODUCTION

BACKGROUND

The District of Columbia Office of the Inspector General (OIG) has completed an audit of the Department of Health’s (DOH) Contracting for Non-Emergency Transportation (NET) Services. This report is the fourth in a series of audits covering the Department of Health’s (DOH) non-emergency transportation of Medicaid recipients.

Medical Assistance Administration. The Medical Assistance Administration (MAA) is the District’s state agency responsible for administering Title XIX of the Social Security Act, the Medical Charities Program, the District’s Medicaid Program, and other health care financing initiatives of the District. MAA works to develop eligibility, service coverage, service delivery, and reimbursement policies for the District’s health care financing programs in order to improve access and efficient service delivery.

Title XIX of the Social Security Act requires that, in order to receive federal matching funds (i.e., for Medicaid costs), certain basic services must be offered to certain categories of the needy population of any state. As such, the District’s Medicaid State Plan requires that the state agency (District of Columbia) must provide effective access to healthcare for the recipient population and maintain continuity of care.

Non-Emergency Transportation Program. The NET Program is a service provided to eligible Medicaid recipients, funded by DOH and administered by DOH Medical Assistance Administration, Office of Program Operations (MAA-OPO). It is a non-emergency medical transportation service that utilizes enrolled Medicaid transportation service providers to provide para-transit (wheelchair and ambulatory) service, including lift-equipped vehicles. The NET Program also utilizes enrolled taxicab operators and provides reimbursement for bus tokens issued by facilities to eligible recipients who use the Metro bus system.

The purpose of this service is to assist Medicaid-eligible recipients receiving medical treatment and to aid individuals seeking to obtain medical evaluations. Any District resident who is enrolled in the Medicaid program is eligible to participate in the NET Program. Table 1 below provides the costs and client participation in the NET Program for fiscal year (FY) 2005.

| Table 1 - Non-Emergency Transportation Information | | | | |
|---|------------------------------------|--|--------------------------------------|--------------------------------|
| Total Costs | Total Number of Claims Paid | Total Number of Participants Served | Average Costs Per Participant | Average Costs Per Claim |
| \$16,310,368 | 427,898 | 8,607 | \$1,895 | \$38.12 |

INTRODUCTION

Additionally, near the end of our audit, we obtained NET Program information for FY 2006. We noted a decrease in total Program costs and total number of claims paid, when compared to the FY 2005 information. In FY 2006, total costs were \$16,179,208 and total claims paid were 423,482.

Transportation Request and Medical Necessity Certification Form. All eligible NET Program participants must have a Medical Necessity form completed on their behalf at an authorized medical facility every 90 days. Once the form is completed, it should be submitted to MAA, indicating the name of a client and the type of transportation needed. Maintenance of the Medical Necessity form is essential for controlling the total cost of the NET Program because it authorizes the District's Medicaid recipients to receive various modes of transportation assistance when receiving treatment or seeking other medical services.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our overall audit objectives were to determine whether DOH: (1) operated the NET Program in an efficient, effective, and economical manner; (2) complied with requirements of applicable laws, rules and regulations, policies and procedures; and (3) documented reimbursements properly and for the correct amounts. During our audit of the NET Program, we found apparent irregularities regarding DOH's intent to outsource the NET Program.

Accordingly, we added a specific audit objective to review the procurement process for obtaining Broker services to manage and administer the District's NET Program. To accomplish our objective, we evaluated the process for soliciting Broker services, including an assessment of available cost-benefit analyses. We held meetings and discussions with responsible OCP and MAA-OPO officials. In addition, we reviewed an actuarial study prepared for MAA-OPO by a private contractor related to the NET Program. Finally, we reviewed and evaluated various NET program records and documents.

We also relied on computer-processed data from the Medicaid Management Information System to obtain detailed information on the NET program for FYs 2005 and 2006, including the total number of NET Program transportation claims and related expenditures. Although we did not perform a formal reliability assessment of the computer-processed data, we traced or verified selected data to supporting documents and records.

The audit was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary under the circumstances.

INTRODUCTION

PRIOR AUDIT COVERAGE

1. We issued OIG Report No. 04-1-04HC entitled, “Audit of the Department of Health Taxicab Voucher Program for Medicaid Recipients,” on December 13, 2004. The audit disclosed that DOH, Office of the Chief Financial Officer (OCFO) did not comply with all existing rules, regulations, policies and procedures governing the use of District imprest funds. DOH OCFO also did not establish and implement effective internal policies and procedures or develop the necessary management and internal controls to adequately safeguard the funds against fraud, waste, and abuse. Further, OCFO did not maintain documentation to support approximately \$44,000 in taxicab reimbursements.

The audit also disclosed that MAA-OPO did not establish an organized filing system to properly maintain Medical Necessity forms to account for all the Medicaid recipients who were issued taxicab vouchers during FYs 2002 and 2003. Further, MAA-OPO had not reconciled or accounted for the number of taxicab vouchers issued to the 41 medical facilities during the audit period.

2. We issued OIG Report No. 05-2-18HC(a) entitled, “Audit of a Contractual Arrangement for Non-Emergency Transportation of Medicaid Recipients,” on May 5, 2006. Our audit concluded that a DOH employee, who did not have authority to bind the District in a contractual arrangement, executed a contract for transportation authorization services. The contractual arrangement bypassed the normal procurement process, and the funds to pay for the services had not been pre-encumbered (budgeted). Approval to pay the contractor was made only after a formal ratification process had been completed. This procurement violated basic procurement rules contained in D.C. Code § 2-301.05(d) (1) (2001) and the District of Columbia Municipal Regulations, 27 DCMR § 1200.1.
3. We issued OIG Report No. 05-2-18HC(b) entitled, “Audit of the Maintenance of Medical Necessity Forms for Non-Emergency Transportation of Medicaid Recipients,” on September 29, 2006. Our audit concluded that MAA did not maintain Medical Necessity forms for nearly all the 8,607 participants who received transportation benefits at a cost of \$16.3 million for the NET Program in FY 2005. As stated above, the maintenance of the Medical Necessity form is essential in order to control the cost of the NET Program because it authorizes Medicaid recipients to receive various modes of transportation assistance during treatment or while seeking other medical services.

FINDING AND RECOMMENDATIONS

| |
|---|
| FINDING: OUTSOURCING NON-EMERGENCY TRANSPORTATION SERVICES |
|---|

SYNOPSIS

DOH officials attempted to outsource NET services without evaluating the costs to perform the services and providing documentation to support that doing so was in the best interest of the District of Columbia government. Specifically, MAA did not prepare and submit a cost-benefit analysis to the Office of Contracting and Procurement (OCP) prior to requesting that OCP solicit and award a contract for Broker services. We noted that OCP continued the procurement process, although the required cost-benefit analysis had not been prepared by DOH officials.

Further, our review of Solicitation No. POHC-2006-R-0010, dated May 31, 2006 (Solicitation), disclosed that the bid prices submitted by the three offerors (NET Brokers) were based on an excessively high estimate of the annual trips required to provide non-emergency transportation services. We also noted that the Solicitation contained ambiguous language regarding use of the Medical Necessity form and did not appear to require a physician's determination for specific means of transportation based on medical necessity.

These conditions occurred because MAA had not established accurate patient transportation data before contracting for Broker services, did not ensure that all pre-contract analyses (particularly the cost-benefit analysis) were completed prior to soliciting bids for outsourced services, and failed to ensure compliance with the D.C. Code requiring D.C. Council oversight. As a consequence of our audit analysis, DOH officials agreed to reduce the estimated number of annual non-emergency transportation trips, revised the bid solicitation, and requested bidders to submit best and final offers. Based on the new bid submissions, it appears that the District can save as much as \$6.8 million in the first contract year and an additional \$27 million if the District opts to contract for all 4 option years.

DISCUSSION

Criteria. D.C. Code § 2-301.07(36B) (2006) defines a “privatization contract” (hereinafter referred to as “outsourcing”) as one wherein “the District government enters into an agreement with a private-sector firm, non-profit organization, or other external entities to provide a good or service . . . that has been provided . . . by District government employees, departments, or agencies.”

D.C. Code § 2-301.05b(a) (2006) requires that “[before] issuing a solicitation [to outsource], the District government agency on whose behalf the solicitation will be issued shall prepare

FINDING AND RECOMMENDATIONS

[and submit to the contract specialist,] an estimate of the fully allocated cost associated with providing the relevant goods or services using District government employees.” D.C. Code § 2-301.07(29A-i) (2006) defines “fully allocated cost” as the “total direct and indirect costs of providing a good, service, or function ... including [in part,] wages, salaries, and fringe benefits; ... materials, supplies ... utilities, insurance, travel ... and general and administrative overhead.”

Compliance with Cost Analysis Requirements. D.C. Code § 2-301.05b(a) (2006) requires that prior to issuing a solicitation to outsource functions, the requesting agency shall prepare and submit to the contract specialist, an estimate of the fully allocated cost associated with providing the relevant goods or services using District government employees. In addition, D.C. Code § 2-301.05b(c) (2006) requires that:

Prior to awarding a privatization contract . . . to provide goods or services to or on behalf of the District government that currently are provided by District government employees, departments, or agencies, the Mayor or independent agency head shall transmit to the Council a determination and findings that:

(1) Compares the current fully allocated cost of providing the service using District government employees . . . to the fully allocated costs associated with contracting for the service . . .³

We requested that MAA-OPO officials provide the OIG with all records and documents concerning the cost-benefit analysis, which had been purportedly prepared by MAA-OPO. MAA-OPO officials indicated that a spreadsheet had been prepared and that the spreadsheet outlined program costs. We did not receive the spreadsheet, but instead were informed that an actuarial study, that included program cost information, had been prepared for MAA-OPO by a private contractor.

We found no evidence that MAA-OPO officials prepared and submitted a cost-benefit analysis to OCP that compared the fully allocated cost of providing NET Program services using District government employees with the estimated cost of contracted NET services. A cost-benefit analysis would have assisted MAA-OPO officials in reaching an informed decision about whether to perform the services in-house or to outsource the services. A cost-benefit analysis should be prepared before the agency requests OCP to solicit and award a contract to outsource services currently performed by District employees. We noted that OCP continued the procurement process, absent the required cost-benefit analysis. MAA-OPO officials also referred to an actuarial study as the basis to support a cost-benefit analysis.

³ We hereinafter refer to this comparison as the “cost-benefit analysis.”

FINDING AND RECOMMENDATIONS

Actuarial Study. We obtained a copy of a document entitled, “The District of Columbia Non-Emergency Transportation Rate Development and Actuarial Certification,” (Study) dated October 11, 2004. We reviewed the Study and noted that it contained proposed NET Program capitation rates⁴ and the types of information used to develop these rates. However, the Study did not contain the required program cost-benefit analysis or any information to indicate that a cost-benefit analysis had been prepared by MAA-OPO officials.

Therefore, we concluded that MAA-OPO officials requested that OCP prepare the Solicitation for Broker services without performing the required cost-benefit analysis or otherwise demonstrating that outsourcing the services is in the best interest of the government.

Solicitation Price Schedule Requirements. During our review of Section C.2.1.1 of the Solicitation, we noted that MAA-OPO officials estimated that an average of 45,000 eligible recipients would receive program services each month in the first 3 years of the proposed contract. This monthly average, when annualized, amounted to 540,000 trips (45,000 X 12 months).

The monthly average and distribution of recipients among each category of participants are shown in Table 2 below.

| Table 2 – Distribution of Monthly Trips Among Prospective Participants | | |
|---|-------------------|-------------------|
| Category of Participant | Percentage | Recipients |
| TANF ⁵ & TANF Related | 15% | 6,750 |
| Aged with Medicare | 9% | 4,050 |
| Aged without Medicare | 10% | 4,500 |
| Blind & Aged with Medicare | 59% | 26,550 |
| Blind & Disabled without Medicare | 7% | 3,150 |
| Totals | 100% | 45,000 |

⁴ Capitation rates form the basis for payments that the District makes to the contractor on behalf of each recipient under a contract for the provision of medical services under the District’s Medicaid State Plan.

⁵ TANF - Temporary Assistance to Needy Families.

FINDING AND RECOMMENDATIONS

Based on information contained in the Solicitation,⁶ MAA-OPO officials estimate that an average of 45,000 eligible recipients will receive NET Program services monthly during the first 3 years of the proposed contract with the Broker. This monthly average amounts to 540,000 trips annually. When compared to the number of actual transportation claims paid in FY 2005 (427,898), the estimate represents an increase of 112,102 trips.

MAA-OPO officials could not provide the OIG with documentation to justify the increase in the number of estimated trips included in the Solicitation. We question the accuracy of this proposed increase without sufficient MAA-OPO justification. Moreover, the proposed contract with the vendor is based on fixed capitation payments; hence, the District will make payment regardless of whether a particular recipient receives transportation services during the period covered by the payment. Consequently, the Solicitation's proposed estimates have the potential to grossly inflate the Broker's profit.

Media Interest in Non-Emergency Transportation Services. The news media provided several articles concerning the NET Program. In an October 25, 2006, Washington Times article, a healthcare consultant stated that "it's not uncommon for Medicaid programs to lose 30 percent to 50 percent of non-emergency transportation spending to fraud and abuse." *Id.* at Page 1. In addition, according to the article, "[t]he Washington-based Community Transportation Association of America says the District trailed only Alaska in how much it has paid for transporting Medicaid patients...." *Id.* The article points out that the District's spending is second to Alaska's notwithstanding that the geographical area of Alaska encompasses more than 581,000 square miles, while the District encompasses only 63 square miles.

OIG Evaluation of Initial Bid Prices. Three bid proposals were received in response to the initial Solicitation. We noted that each bid proposal contained information showing that the Broker's performance period was a 1-year base period with 4 option years (for a total of 5 years). We also noted that the three offerors used 540,000 trips (yearly) as the basis for computing the total program costs to manage and administer the NET program.

On November 16, 2006, we informed MAA-OPO officials that using 540,000 trips as a basis for computing total program cost may grossly inflate NET Program cost. We explained that the total number of trips for the NET Program during FY 2005 was 427,898. Further, based upon the results of our review of 385 paid claims, we could not substantiate that services were actually provided for 106 of the 385 trips (or 28 percent).⁷

⁶ The Solicitation seeks a Broker to manage and administer the District of Columbia Non-Emergency Transportation Program for eligible Medicaid recipients. The District plans to award a multi-year requirements-type contract with payments made to the contractor based on a fixed capitation rate.

⁷ Each claim represents a one-way or round trip.

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We informed MAA-OPO officials that although the results of the judgmental sample could not be projected to the 427,898 claims paid in FY 2005, our results - coupled with media reports of 30 to 50 percent overstatements of paid claims due to fraud and abuse - indicate the potential for a high rate of unsubstantiated claims in the NET Program. As such, our review suggests that the estimate of 540,000 trips included in the solicitation needed to be reduced considering the possibility of a high percentage of unsubstantiated claims. MAA-OPO officials agreed with our analysis and stated that they would amend the Solicitation to reduce the number of annual trips.

Revised Bid Offers. OCP revised the Solicitation on November 17, 2006, to reflect a 20 percent reduction in the number of trips annually. We reviewed the Best and Final Offers and noted that the decreases in offerors' bid proposals ranged from \$7.6 million to as much as \$33.8 million over a 5-year period (an annual decrease of \$1.6 million to \$6.8 million). Consequently, the District could save as much as \$6.8 million in the first year of the contract and an additional \$27 million should the District elect to exercise the contract option for 4 more years.

Solicitation Terms and Language. We reviewed the Solicitation for Broker services and found unclear and ambiguous language pertaining to the Broker's use of the Medical Necessity form. Section C.3.3.3.4 of the Solicitation states that "[t]he Broker shall conduct an assessment to determine the level or mode of Transportation Services required or requested by a Recipient or for a Recipient..." Additionally, transportation services may not be provided according to Section C.3.3.3.4a (5) until "[t]he Broker has determined the Recipient to have a valid service need for NET."

Section C.3.3.3.5 provides that "[t]he Broker shall select the most appropriate mode of transportation based on the Recipient's need considering the Recipient's current level of mobility and functional independence. The Broker shall determine the most Appropriate Mode of Transportation needed by the Recipient based on information provided by the Recipient."

Section C.3.3.3.5 further provides as follows:

The Broker shall determine the most appropriate mode of transportation based on the following:

- a. Availability of public transportation:
 1. Distance from scheduled stops;
 2. Age of recipient;
 3. Disabilities, if any, of Recipient;

FINDING AND RECOMMENDATIONS

4. Any physical or mental impairment which would preclude use of public transportation;
5. Availability of funds to pay for transportation;
6. Date of request; [and]
7. Date of trip.

This language, in our opinion, gives the Broker the authority to determine the mode of transportation provided to program participants, which is not consistent with DOH procedures contained in the District of Columbia Department of Health Access Guide (Access Guide) dated August 2001. The Access Guide mandates that all participants of the NET Program have a Medical Necessity form completed and approved by a physician at an authorized medical facility. Specifically, the procedures require that the medical necessity for transportation be determined by a physician, not the Broker.

This inconsistency needs to be clarified by MAA-OPO officials because it may have a negative impact on services provided to program participants, and could inflate the Broker's profit. Further, to allow the Broker to make a medical determination could place the District at risk for law suits if program participants are not afforded adequate transportation based on their medical condition.

RECOMMENDATIONS

We recommend that the Director, Department of Health:

1. Establish sound NET Program patient-participation and financial data before attempting to outsource this service to a Broker.
2. Prepare a program cost estimate as required by District law to calculate and compare the cost of providing the non-emergency transportation services using District government employees to the cost associated with contracting for the service.
3. Submit to the Office of Contracting and Procurement and the District of Columbia Council all necessary documents in accordance with the requirements set forth in D.C. Code § 2-301.05b(c) prior to awarding a contract for the NET Program to a Broker.
4. Amend the Solicitation to specify that the Broker provides for and arranges NET services based on the Medical Necessity form prepared by a participating physician, should a decision be made to outsource these services.

FINDING AND RECOMMENDATIONS

DOH RESPONSE (Recommendation 1)

DOH concurred with the recommendation stating that MAA selected a national best practice model for transportation reform that is used in at least 14 other states. DOH also stated that MAA procured the services of a professional actuary firm to provide assistance in its outsourcing effort and to develop a fiscal impact statement and report. In addition, MAA-OPO reduced the number of annual trips in the Solicitation by 20 percent. Further, MAA stated its belief that any one of the three candidates who submitted bids in response to the solicitation for NET services is qualified.

OIG COMMENT

DOH's corrective actions are responsive and meet the intent of the recommendation.

However, we disagree with DOH's statements made in its response to our report, inferring that a cost/pricing analysis was prepared and submitted to OCP prior to requesting that OCP solicit and award a contract for a Broker. We found no evidence during the audit that MAA-OPO prepared and submitted a cost-benefit analysis to OCP. During the audit, we requested a copy of the cost/pricing analysis from MAA officials; however, we did not receive a copy until a January 5, 2007, meeting with MAA officials. We found that the cost-benefit analysis was undated. However, the OCP's contracting officer indicated the he did not receive the cost-benefit analysis report prior to the RFP issuance.

We also disagree with DOH's statement made in its response to our report that the NET Program costs shown in the Solicitation were not computed using 540,000 annual trips as the basis for establishing the offerors' bid proposals. While DOH MAA-OPO may not have intended to base the program costs on 540,000 annual trips, our review of the proposals revealed that all three of the offerors bids were, in fact, based upon 540,000 annual trips.

DOH RESPONSE (Recommendation 2)

DOH concurred with the recommendation and stated that the MAA prepared and completed a cost/price analysis that revealed that no District employees will be displaced in accordance with the D.C. Privatization Law.

OIG COMMENT

DOH's corrective actions are responsive and meet the intent of the recommendation. However, the OIG was not provided any documentation to show that a cost/price analysis was prepared prior to our January 5, 2007, meeting with MAA officials.

FINDING AND RECOMMENDATIONS

DOH RESPONSE (Recommendation 3)

DOH concurred with the recommendation. In its response, DOH stated that with the completion of the cost/price analysis, MAA is in compliance with D.C. Privatization Law.

OIG COMMENT

DOH's corrective actions are responsive and meet the intent of the recommendation. MAA must submit the required documents to the Mayor for approval prior to the award of the contract.

DOH RESPONSE (Recommendation 4)

DOH concurred with the recommendation. In its response, DOH stated that the Broker will be required to use the Medical Necessity form completed by the treating or clinical provider to determine the mode of transportation afforded Medicaid clients.

OIG COMMENT

DOH's corrective actions are responsive and meet the intent of the recommendation.

**EXHIBIT A: SUMMARY OF POTENTIAL BENEFITS
RESULTING FROM AUDIT**

| Recommendation | Description of Benefit | Amount and Type of Benefit | Status⁸ |
|-----------------------|---|--|---------------------------|
| 1 | Economy and Efficiency and Internal Control. Ensures the accuracy of the number of trips provided annually and reduces Medicaid transportation costs. | Cost savings of \$6.8 million in the first contract year and an additional \$27 million if all 4 option years are exercised. | Open |
| 2 | Compliance and Internal Control. Ensures that outsourcing is in the best interest of the District. | Non Monetary | Closed |
| 3 | Compliance and Internal Control. Ensures compliance with established law. | Non Monetary | Closed |
| 4 | Compliance and Internal Control. Ensures that the Broker is in compliance with established MAA policies and procedures. | Non Monetary | Closed |

⁸ This column provides the status of a recommendation as of the report date. For final reports, “Open” means Management and the OIG agree on the action to be taken, but action is not complete. “Closed” means management has advised that the action necessary to correct the condition is complete. “Unresolved” means that management has neither agreed to take the recommended action nor proposed satisfactory alternative actions to correct the condition.

EXHIBIT B: DEPARTMENT OF HEALTH RESPONSE TO MANAGEMENT ALERT REPORT

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Department of Health



Office of the Director

Via Hand Delivery

JAN 12 2007

Charles J. Willoughby
Inspector General
District of Columbia
717 14th Street, N.W.
Washington, DC 20005

Re: Contracting for Non-Emergency Transportation Services

Dear Mr. Willoughby:

We are responding to your December 7, 2006, Management Alert Response (MAR No. 07-A-01), entitled "Contracting for Non-Emergency Transportation Services." We appreciate the work conducted by your office on our behalf to protect the interests of the Medicaid program and its beneficiaries. I would first mention that we agree with your recommendations and have incorporated them into our program to reform the transportation system for D.C. Medicaid. In response, we would like to reiterate those measures that we began to implement prior to the issuance of the MAR, and to share with you, the additional program safeguards and prophylactic measures we are pursuing as a result of your four (4) major recommendations, each of which we will respond to, individually, as follows:

Cost/Pricing Analysis Required Under District Law

We provided OCP with a documented cost/pricing analysis comparing the "fully allocated cost," as referenced in your MAR, of providing NET program services using District employees versus the transportation broker model. This was completed as soon as we were made aware of this requirement in our prior meetings with your staff and by OCP. A copy of that documentation has since been provided to your office as well. The subject documentation was prepared in advance of OCP's award of the contract and in advance of approval by the Office of the Attorney General for the District of Columbia and the District of Columbia City Council. We believe that our decision to operate the NET program with a broker manager is an informed, prudent and efficient one, particularly since it appears that the District will save millions of dollars and also, there is no possibility of any District government employee being displaced from employment as a result of the NET broker contract.

MAA's internal checks and balances warranted three cost/pricing analyses which were all initially provided to OCP in advance of the Solicitation, and immediately to your office after we were informed that you did not have the cost/pricing analysis documentation. Following our meetings with your staff on January 5th, MAA revised it once again.

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To reiterate our discussion with your office on November 16, 2006, we previously estimated and provided supporting documentation to OCP that the current cost to administer and manage the NET program utilizing District government employees exceeds \$24 million. All of the bids and proposals submitted for the NET broker contract are under \$14.5 million. Your staff has since confirmed that fact in their discussions with OCP. Simply stated the District will save millions of dollars annually using the health care industry best practice, NET broker contract model.

Number of NET Eligible Medicaid Recipients and Volume of Trips

The Solicitation (i.e. RFP) that was issued to the public, in fact, contained both the number of eligible Medicaid recipients who may receive NET program services and the actual number of Medicaid recipients who used NET program services in the preceding fiscal year.

Based on available data we have reviewed and analyzed, MAA estimates that 45,000 Medicaid beneficiaries may be eligible for the NET program services and 10,000 of those beneficiaries will utilize NET services on at least one occasion.

We believe that during our meetings between MAA staff and your staff prior to the issuance of your report on December 7, 2006, we may not have clearly communicated this information. We apologize for our mistake. To restate our analysis MAA estimates that 45,000 Medicaid beneficiaries may be eligible for NET program services and that 10,000 of those beneficiaries did actually utilize NET services on at least one occasion.

While our potential universe of eligible NET beneficiaries is 45,000, only 10,000 or less than 25% actually utilized the benefit. We do not expect or anticipate an increase in NET usage above 10,000 and look forward to a decrease with increased efficiency in the operation of the NET program through the use of the industry-preferred transportation broker model.

The Solicitation does not state that MAA proposed an increase of 540,000 trips annually. The estimated number of trips/claims MAA stated in the solicitation (see RFP at p. 24) is as follows.

| <u>Year</u> | <u>Trips</u> |
|-------------|--------------|
| 2001 | 378,115 |
| 2002 | 321,134 |
| 2003 | 356,722 |

The Medicaid fee-for-service (non-managed care) population ranges from 40,000 to 50,000 recipients. The RFP gave a "mid-point" figure of 45,000 recipients for the vendors to utilize in order to develop their "**capitation**" rates for their price proposals for the Broker procurement. Only 10,000 unduplicated recipients actually utilize transportation services. All 45,000 recipients do not utilize transportation services each month.

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Subsequent to a meeting between our staffs in November 2006, MAA reduced the total number of trips that were stated in the RFP by 20%, for the 3 historical years (2001 thru 2003). The 20% reduction in the number of trips was based on the potential number of MAA estimated NET claims due to fraud, waste and/or abuse of Medicaid program resources. As a result of the reduction, OCP revised the Solicitation on November 17, 2006 to reflect the 20% reduction of total annual trips. This revision was accomplished via an amendment to the Solicitation and allowed vendors bidding on the proposed NET contract to have the opportunity to revise or lower their cost proposals. Each vendor reduced their cost proposal, accordingly, in their best and final offer documents (BAFO) which were submitted to OCP on November 22, 2006.

Transportation Requests and Medical Necessity Certification Forms

MAA has implemented new protocols and procedures to track and monitor Medical Necessity Certification Forms (medical necessity forms). These are immediate corrective actions intended to address the need for corrective action and improvement of program integrity pending the longer term solution for a transportation broker. On August 21, 2006, MAA informed your office of this change in a response letter to matters previously raised in MAR No. 06-A-09 for OIG audit No. 05-2-18HC.

For example, MAA now maintains NET authorization request forms on file. In addition, we have created in our payment safeguard system for NET services for the first time, a link between the prior authorization of every NET service request and the subsequent Medicaid claim generated by the NET provider who furnishes the NET service and seeks reimbursement from Medicaid.

MAA has established policies and procedures requiring MAA's Surveillance and Utilization Review Unit to perform periodic reviews of Medical Necessity Certification forms at NET provider sites. MAA began periodic monthly reviews of Medical Necessity Certification forms around October 2006. Copies of those reviews are available upon requests. As a result of the above corrective actions implemented thus far, MAA can identify the actual number of Medicaid recipients who utilize NET services and the attendant programs costs to date.

All of these corrective actions are MAA policy and are processes that will be continued with the new transportation broker

Ambiguity Regarding Broker's Use of Medical Necessity Form

Based on the medical necessity determination of the NET medical clinician that supports a specific mode of transportation and level of service, the broker will assign the mode of transportation which cannot vary from the documentation of the medical clinician. To the extent that any ambiguity was perceived, we apologize for the potential discrepancy and appreciate your identifying this issue which we have resolved.

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Specific Action-Items Recommended

Following are our responses to the four specific action items recommended in the December 7, 2006, MAR:

1. *Establish sound NET program patient-participation and financial data before attempting to outsource this service to Broker.*

Reform of the District's Medicaid transportation system has been a top priority of MAA for the last three years. Based on national research, MAA selected a national best practice model for transportation reform. Currently used in at least 14 states nationwide, the NET transportation broker model is consistently receiving high marks for customer satisfaction. We need this type of reform and potential results for the NET program.

MAA procured the services of the professional actuarial firm of Mercer Consulting to determine the actual costs required to outsource and administer the NET program, and to develop the related fiscal impact report and statement. Mercer's services were engaged to develop actuarial sound capitation payment rates for the NET transportation broker program. Mercer used accounting and management reports and historical claims data to complete the actuarial analysis.

The final fiscal impact report included assertions related to claims data and financial information accumulated over the time period of three (3) years. The report was certified by Mercer as sound under applicable and prevailing professional accounting industry standards based on the data utilized.

As previously mentioned, MAA completed a cost/pricing analysis, which compared three (3) options available for administering the non-emergency transportation program in the District. In addition, MAA submitted to the District of Columbia City Council the fiscal impact report/statement, the Solicitation, the Request For Proposal (RFP), and the Medicaid Waiver on January 25, 2005. All were approved by the D.C. City Council on July 25, 2005. The Medicaid Waiver and State Plan Amendment were subsequently approved by the federal government (U.S. Department of Health and Human Services, Centers for Medicare and Medicaid (CMS)) on December 1, 2005. This submission included detailed costs, and the actuarial study that was completed by the professional accounting firm of Mercer Consulting. The D.C. City Council and CMS approvals of the fiscal impact statement, RFP, and waiver documents occurred before the Solicitation was issued by OCP for public bidding.

2. *Prepare a program cost estimate as required by District law to calculate and compare the cost of providing the non-emergency transportation services using District government employees to the cost associated with contracting the service.*

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As early as 2003, MAA identified the potential need for cost savings, quality improvement and specialized expertise for operating the Medicaid program's non-emergency transportation. Pursuant to the D.C. Privatization Law, MAA prepared and completed a cost/pricing analysis and a report that substantially complies with that law. That report indicates that no District employees will be displaced as a result of the potential award of the Transportation Broker contract.

The current cost to administer the transportation program exceeds \$24 million. All of the bids submitted for the Broker contract were under \$14.5 million. Projected savings from the NET program will exceed several million dollars. Depending upon the vendor selected and when the contract is awarded, savings could be substantially higher. In addition, the District is currently not equipped with experienced staff, information systems and other resources comparable to the industry best practice NET broker model, which is necessary, in our view, to successfully manage the transportation program.

The cost/pricing analysis previously discussed demonstrates that total cost of maintaining the current system using District government employees is not cost effective.

The Transportation Broker to be selected will have a thorough understanding and knowledge of Medicaid rules, procedures, and policies. They will provide a quality customer service call center and administer all scheduling, billing, data entry and quality assurance requirements that cannot be effectively managed using existing District government staff. The transportation broker appears to be a more suitable and effective at addressing complaints, conducting outreach, training and education as required for Medicaid recipients, providers and advocates.

3. ***Submit to the Office Contracting and Procurement and the District of Columbia Council all necessary documents in accordance with the requirements set forth in D.C. Code §2-301.05b) prior to awarding a contract for the NET Program to a Broker.***

MAA completed all the necessary documents that were requested and required by OCP since the start of this procurement in 2004.

Specifically, MAA completed the requirements associated with the D.C. Privatization Law (D.C. Code Section 2-301-.05b (2001, as amended)). As previously discussed, MAA provided this information to the responsible OCP contracting officer. The report clearly demonstrates a cost/pricing analysis comparing the in-house costs of providing the service to the costs associated with contracting it to a NET broker manager.

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The three options provided compared the cost of the “As Is” model to the “To Be” model as follows:

- Cost of the New Transportation Contract “requirements” utilizing District Government Staff
- Cost to Outsource the New Transportation Contract’s “requirements” to an experienced Transportation Broker
- Cost of the Current Transportation program utilizing District Government Staff (As Is)

MAA’s analysis demonstrates that several options for providing non-emergency transportation were considered, and the most potentially beneficial option for the Medicaid program and its beneficiaries is to award a competitively-bid contract to the most qualified and/or experienced Non-Emergency Transportation broker.

The outsourcing of non-emergency transportation through the use of the NET broker system far exceeds the 10% savings requirement of the D.C. Privatization Law. Projected savings for the Non-Emergency Transportation Broker program will exceed several million dollars annually.

With the completed cost/pricing analysis document, MAA is in compliance with the D.C. Privatization Law. MAA will achieve monetary savings by contracting out services that were previously performed in-house by agency employees; services will be efficiently delivered after contracting out; and no District of Columbia government employees will be terminated as a result of outsourcing the NET program. These employees will return to their original position description duties within MAA.

The potential award of the NET broker contract will have a positive affect on Medicaid recipients and their providers. The new Non-Emergency Transportation Broker program will provide an improved comprehensive transportation delivery system and overall improved administration of the entire non-emergency transportation program.

4. *Amend the Solicitation to specify that the Broker provides and arranges NET services based on the medical necessity form prepared by a participating physician, should a decision be made to outsource the services.*

We will require that the NET broker utilize MAA’s medical necessity forms which may be completed only by the treating or clinical provider. Based on the medical necessity determination of the medical clinician which supports a particular mode of transportation and level of service, the broker will assign the mode of transportation which cannot vary from the documentation of the medical clinician. Again, to the extent that any ambiguity was perceived, we apologize for the potential discrepancy and appreciate your identifying this issue which we have since resolved and will monitor in the future by conducting the provider audits mentioned previously.

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Summary and Conclusion

Traditionally, assuring the public's access and transportation to health care facilities and services was previously viewed as an ancillary service, rather than a key goal of the Medicaid program. Over the years, the cost and complexity of managing the current Medicaid transportation program, specifically the call volume of transportation requests and the related document management has turned into one of the most serious challenges facing the District of Columbia Medicaid's non-emergency transportation program.

MAA has the major responsibility of ensuring all Medicaid recipients and patients get to their medical appointments. It also has the responsibility to assure that the appropriate mode of transportation is supported by a clinician's determination of medical necessary.

After significant research, MAA has tentatively selected the best practice of the healthcare industry, Transportation Broker model. This model approach to Medicaid transportation has proven to be an innovative and successful alternative in fourteen (14) other State Medicaid programs. The Transportation Broker contract for the District's Medicaid program will control costs and ferret out fraud, waste and abuse, while improving access to medical services.

On a daily basis, MAA receives a large volume of telephone calls for non-emergency transportation requests. The large volume of calls is also associated with a large volume of documentation. All of this needs to be managed more efficiently, as soon as possible. District residents and medical providers deserve and need the services of an experienced organization to coordinate thousands of transports and trips among patients, drivers and medical facilities. The NET broker manager can bring the necessary resources and infrastructure to successfully manage transportation services, track and report costs, oversee and document the quality of services, and implement MAA oversight responsibility.

The current non-emergency transportation program administered by the District government is faced with challenges, which will continue under the existing program's structure. MAA needs this reform to the current system and the best approach is to implement the broker model used by so many other states. This will permit the District to fully capitalize on the investment in the Transportation Broker's state-of-the-art technology. The implementation of the Transportation Broker system will also enable the District to serve Medicaid clients and providers better. It will result in improved customer satisfaction and increased operating efficiency.

MAA intends to further utilize the findings and recommendations of the MAR conducted by the Office of the Inspector general to continue to enhance the non-emergency transportation program by implementing the OIG's recommendations.

**EXHIBIT B: DEPARTMENT OF HEALTH RESPONSE TO
MANAGEMENT ALERT REPORT**

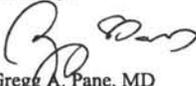
**Charles Willoughby
Inspector General
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We anticipate an award of the Non-Emergency Transportation (NET) services contract for Medicaid beneficiaries by the Office of Contracts and Procurement (OCP) in the near future. The selected vendor should be an experienced non-emergency transportation manager or broker, the latter being the preferred industry terminology. It is our view that any one of the candidates who have submitted bids for the NTE contract is qualified under the criteria outlined above. As a result of the OCP award, DOH/MAA anticipates that we will save several million dollars, annually, in our NET program operational costs. The transportation broker model is purportedly the "best practice" model for the health care industry for the non-emergency transportation services sector and is also utilized by several other State Medicaid programs around the country.

Thank you for having your team meet with Mr. Robert Maruca and his staff on January 5, 2007. That meeting provided the opportunity for Mr. Maruca and his staff to discuss these issues with Mr. Divello and his team. It was reported to me that their discussion was very fruitful and clarified many of these issues for both sides.

Please contact Robert T. Maruca at (202) 442- should you have questions concerning our response to the MAR or any other matter in this regard.

Sincerely,



Gregg A. Pane, MD
Director
Department of Health

cc: Robert Maruca
Marceline D. Alexander
MAA
MAA
William Divello, OIG