



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services, Region V  
233 North Michigan Avenue  
Suite 1360  
Chicago, IL 60601

April 30, 2010

Report Number: A-05-09-00073

Ms. Karen Timberlake  
Secretary  
Department of Health Services  
1 West Wilson Street  
Madison, WI 53703

Dear Ms. Timberlake:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of the State of Wisconsin's Medicaid Management Information System Expenditures for the Period October 1, 2006, through September 30, 2008*. 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Sheri Fulcher, Audit Manager, at (312) 353-1823 or through email at [Sheri.Fulcher@oig.hhs.gov](mailto:Sheri.Fulcher@oig.hhs.gov). Please refer to report number A-05-09-00073 in all correspondence.

Sincerely,

/James C. Cox/  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Jackie Garner  
Consortium Administrator  
Consortium for Medicaid and Children's Health Operations  
Centers for Medicare & Medicaid Services  
233 North Michigan Avenue, Suite 600  
Chicago, IL 60601

Department of Health & Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF THE  
STATE OF WISCONSIN'S  
MEDICAID MANAGEMENT  
INFORMATION SYSTEM  
EXPENDITURES FOR THE PERIOD  
OCTOBER 1, 2006, THROUGH  
SEPTEMBER 30, 2008**



Daniel R. Levinson  
Inspector General

April 2010  
A-05-09-00073

# *Office of Inspector General*

<http://oig.hhs.gov>

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# *Notices*

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

## **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**

### **BACKGROUND**

A Medicaid management information system (MMIS) is a system of computer software and hardware used to process Medicaid claims and manage information about Medicaid beneficiaries and services. Section 1903(a) of the Social Security Act authorizes Federal reimbursement for the development of an MMIS at an enhanced rate of 90 percent. The Centers for Medicare & Medicaid Services (CMS) *State Medicaid Manual* identifies MMIS development or operation costs that are allowable for Federal reimbursement. For such costs to be allowable at the enhanced rate of 90 percent, the costs must be directly related to the “design, development, installation, and enhancement of a mechanized claims processing and information retrieval system.”

Wisconsin’s Department of Health Services (the State agency) administers the State’s Medicaid program under Federal regulations established and modified by CMS. The State agency contracted with a fiscal agent, EDS Information Services, L.L.C., now HP Enterprise Services, for the development of an MMIS. During the audit period October 1, 2006, through September 30, 2008, the State agency claimed \$39,530,876 (\$35,577,788 Federal share) as MMIS development costs for reimbursement under the Medicaid program.

### **OBJECTIVE**

Our objective was to determine whether the State agency’s claims for MMIS development costs during the audit period were allowable, equitably allocated, and claimed at the correct Federal reimbursement rate.

### **SUMMARY OF FINDINGS**

Of the \$39,530,876 (\$35,577,788 Federal share) that the State agency claimed in MMIS development costs during our audit period, \$39,460,870 (\$35,514,783 Federal share) was generally allowable, equitably allocated, and claimed at the correct Federal reimbursement rate. However, the State agency claimed \$70,006 (\$63,005 Federal share) in indirect costs that were unallowable. Also, the State agency identified an additional \$31,456 (\$28,310 Federal share) of unallowable indirect costs claimed outside the scope of our audit period.

These errors occurred because the State agency did not have sufficient controls to ensure that only the allowable MMIS development costs were claimed at the enhanced reimbursement rate.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund \$91,315 to the Federal Government; and
- strengthen internal controls and procedures to ensure that MMIS costs claimed for Federal reimbursement are claimed at the correct reimbursement rate.

## **STATE AGENCY COMMENTS**

In written comments on our draft report, the State agency agreed with our findings and described corrective actions that it has taken or plans to take to implement our recommendations. The State agency's comments are included in their entirety as the Appendix.

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## INTRODUCTION

### BACKGROUND

#### 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.

States report Medicaid expenditures for medical assistance and administrative costs to CMS on the “Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program,” Form CMS-64 (CMS-64 report). The standard Federal reimbursement rate for Medicaid administrative expenditures is 50-percent.

#### Medicaid Management Information System

Section 1903(r)(1) of the Act states that in order to receive Federal funding for the use of automated data systems in administration of the Medicaid program, the State must have a mechanized claims processing and information retrieval system. The CMS *State Medicaid Manual*, Chapter 11, Section 11100, states that, for Medicaid purposes, the mechanized system is the Medicaid management information system (MMIS). An MMIS is a system of computer software and hardware used to process Medicaid claims and manage information about Medicaid beneficiaries and services. The system may be operated by either a State agency or a fiscal agent, which is a private contractor hired by the State.

Section 1903(a) of the Act authorizes a 90 percent Federal reimbursement rate for design, development, or installation of an MMIS. The Act also authorizes a 75 percent Federal reimbursement rate for the operation of an MMIS.

The CMS *State Medicaid Manual* identifies MMIS development or operation costs that are allowable for Federal reimbursement. For such costs to be allowable at the enhanced rate of 90 percent, the costs must be directly related to the “design, development, installation, and enhancement of a mechanized claims processing and information retrieval system.” The *State Medicaid Manual* identifies training and indirect costs as reimbursable at a rate of 50 percent.

#### Wisconsin Medicaid Management Information System

In Wisconsin, the Department of Health Services (the State agency) administers the Medicaid program with Federal oversight from CMS. In January 2005, the State agency contracted with a fiscal agent, EDS Information Services, L.L.C., now HP Enterprise Services (fiscal agent), for

the development and operation of an MMIS. The initial term of the contract was 7 years and consisted of two phases, implementation and operations. The implementation phase was a 2 year term with the option to renew in 1 year increments followed by a 5 year operations phase. The State agency extended the implementation phase, which will currently end when the final payment is made to the fiscal agent after CMS grants full Federal certification of the MMIS.

Our review focused on the implementation phase, with initial development costs not to exceed \$21,500,000. CMS approved an additional \$51,343,589 for the implementation phase, including \$11,266,256 for a contract with Deloitte Consulting for quality assurance and technical advisory services. The resulting contract cost for the implementation phase was \$72,843,589. During the audit period October 1, 2006, through September 30, 2008, the State agency claimed \$39,530,876 (\$35,577,788 Federal share) in MMIS development costs for the implementation phase.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine whether the State agency's claims for MMIS development costs during the audit period were allowable, equitably allocated, and claimed at the correct Federal reimbursement rate.

### **Scope**

We reviewed \$39,530,876 (\$35,577,788 Federal share) that the State agency claimed in MMIS development costs during the audit period October 1, 2006, through September 30, 2008.

Our objective did not require an understanding or assessment of the overall internal control structure of the State agency's Medicaid program. Rather, we reviewed the State agency's procedures used to calculate and claim the Federal share of MMIS development expenditures.

We performed fieldwork at the State agency in Madison, Wisconsin, from May through November 2009.

### **Methodology**

To accomplish our objectives, we:

- reviewed applicable Federal laws and regulations and CMS guidance;
- reviewed the State agency's policies and procedures for ensuring that MMIS development costs were allowable, equitably allocated, and claimed at the correct Federal reimbursement rate;
- reviewed the State agency's contracts with the fiscal agent and Deloitte Consulting;

- compared amounts claimed by the State agency on the CMS-64 reports for fiscal years 2007 and 2008 with the supporting spreadsheets and invoices;
- reviewed judgmental samples totaling \$35,360,876 (\$31,819,210 Federal Share) and traced amounts to invoices, State payroll records, and other supporting documentation.

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.

## **FINDINGS AND RECOMMENDATIONS**

Of the \$39,530,876 (\$35,577,788 Federal share) that the State agency claimed in MMIS development costs during our audit period, \$39,460,870 (\$35,514,783 Federal share) was generally allowable, equitably allocated, and claimed at the correct Federal reimbursement rate. However, the State agency claimed \$70,006 (\$63,005 Federal share) in indirect costs that were unallowable. Also, the State agency identified an additional \$31,456 (\$28,310 Federal share) of unallowable indirect costs claimed outside the scope of our audit period.

### **UNALLOWABLE INDIRECT COSTS**

Section 11276.11 of the *CMS State Medicaid Manual* establishes the rate of funding for indirect costs at 50 percent. Section 11276.9 states that “Only direct costs allocable to the development or operation of an MMIS are eligible for reimbursement at enhanced FFP<sup>1</sup> rates.” It continues, “Costs which cannot be specifically identified with the development or operation of an MMIS are matched at the 50 percent FFP rate. Such costs are usually indirect costs....”

During our audit period, the State agency incorrectly claimed indirect MMIS development costs at the 90 percent Federal reimbursement rate instead of the 50 percent rate, resulting in an overcharge of \$70,006 (\$63,005 Federal share). The State agency identified an additional \$31,456 (\$28,310 Federal share) of unallowable indirect costs outside our audit period, resulting in a total overcharge of \$101,462 (\$91,315 Federal share).

These errors occurred because the State agency did not have sufficient controls to ensure that only the allowable MMIS development costs were claimed at the enhanced reimbursement rate.

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<sup>1</sup> Federal financial participation (FFP) is the Federal government’s share of expenditures by a State agency. Section 1903(a) of the Social Security Act directs payment of FFP, at different matching rates, for amounts “found necessary by the Secretary for the proper and efficient administration of the State plan.”

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund \$91,315 to the Federal Government, and
- strengthen internal controls and procedures to ensure that MMIS costs claimed for Federal reimbursement are claimed at the correct reimbursement rate.

## **STATE AGENCY COMMENTS**

In written comments on our draft report, the State agency agreed with our findings and described corrective actions that it has taken or plans to take to implement our recommendations. The State agency's comments are included in their entirety as the Appendix.

# **APPENDIX**



State of Wisconsin  
Department of Health Services

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Jim Doyle, Governor  
Karen E. Timberlake, Secretary

March 23, 2010

Stephen Slamar  
Acting Regional Inspector General for Audit Services  
DHHS Office of Audit Services, Region V  
233 North Michigan Avenue  
Suite 1360  
Chicago, IL 60601

Dear Mr. Slamar:

This is in response to your February 25, 2010 request for comment on the U.S. Department of Health and Human Services, Office of Inspector General (OIG) draft report entitled "Review of the State of Wisconsin's Medicaid Management Information System Expenditures for the Period October 1, 2006, through September 30, 2008," report number A-05-09-00073. The Wisconsin Department of Health Services provides the response below to the following pages of the draft report and recommendations:

**Page 1: Background on the Wisconsin Medicaid Management Information System:**

**DHS Response:** The initial term of the Medicaid Management Information System (MMIS) and Fiscal Agent Services contract between DHS and EDS Information Services LLC, now HP Enterprise Services, for the development and operation of the MMIS is incorrectly stated in the draft report.

The contract term includes two phases. An implementation phase followed by a 60-month operations phase. Also, the contract does not end when final payment is made to the fiscal agent after the State agency receives written approval from CMS granting full Federal certification of the MMIS. The operations phase of the contract continues following Federal certification.

**Page 3: Recommendation:** We recommend that the State agency refund \$91,315 to the Federal Government, and strengthen internal controls and procedures to ensure that MMIS costs claimed for the Federal reimbursement are claimed at the correct reimbursement rate.

**DHS Response:** DHS agrees with this recommendation. DHS refunded the \$91,315 through an adjustment on the CMS-64 report for the Quarter ending September 30, 2009. DHS has strengthened internal controls and procedures to ensure that indirect costs are not claimed at the 90% FFP rate.

Stephen Slamar  
March 23, 2010  
Page 2

**Page 4: Other Matters:** The State agency incorrectly claimed MMIS costs related to training at the 90% reimbursement rate. The OIG and State agency could not quantify the amount of MMIS training costs because they were not separately identified. The State agency did not track and monitor MMIS-related training costs internally or at its fiscal agent and Deloitte Consulting.<sup>1</sup>

**DHS Response:** DHS' time and activity reporting system for State staff has a unique code for State staff to use to track and report time spent on MMIS training. Any time reported under this code would result in claiming costs for State staff time accurately at the 50% FFP rate. DHS will take action to assure future MMIS related training costs are separately tracked and reported by State contractors.<sup>1</sup>

If you have any questions on this response, please contact Kenneth Thyberg at (608) 261-6315.

Sincerely,

Karen E. Timberlake  
Secretary

<sup>1</sup> Office of Inspector General Note—These auditee comments refer to matters included in our draft report but excluded from this final report.