



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Offices of Audit Services

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

MAY 23 2006

Report Number A-07-06-01030

Mr. Scott Brunner, Medicaid Director
Division of Health Policy and Finance
900 Jackson, Suite 900
Topeka, Kansas 66612-1570

Dear Mr. Brunner:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Medicaid School-Based Services in Kansas – Adjustment of the Bundled Rates." The report covers the updates that Kansas made to the bundled rates for fiscal years 1996-2003. We will forward a copy of this report to the HHS action official noted on the following page for his 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 the HHS action 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.

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Please refer to report number A-07-06-01030 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick J. Cogley", written over a horizontal line.

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Thomas Lenz
Regional Administrator, Region VII
Centers for Medicare & Medicaid Services
Richard Bolling Federal Building, Room 227
601 East 12th Street
Kansas City, Missouri 64106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**MEDICAID SCHOOL-BASED
SERVICES IN KANSAS –
ADJUSTMENT OF THE
BUNDLED RATES**



Daniel R. Levinson
Inspector General

May 2006
A-07-06-01030

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

The Medicaid school-based health services program allows reimbursement for health-related services in a school setting. Local education agencies (school districts) provide or arrange such services for children with special needs identified in their individualized education plans. Each child's primary disability is specified in the child's individualized education plan.

In Kansas, the Department of Social and Rehabilitation Services administers Medicaid. Instead of using the traditional fee-for-service basis to pay for school-based services, Kansas uses bundled payment rates and reimburses participating school districts one monthly payment for each special education student. In 1997, Kansas developed the rates using data on the cost and utilization of health services by special education students in six school districts. There are 15 flat payment rates that vary according to primary disability. Kansas periodically adjusts the payment rates for inflation using a consumer price index established by the U.S. Department of Labor, Bureau of Labor Statistics.

The Federal share of Medicaid reimbursement for school-based services in Kansas ranged from 59.71 to 63.15 percent of the amounts claimed by school districts for fiscal years (FYs) 1998–2003. During that period, the Federal share was approximately \$135.2 million.

OBJECTIVE

Our objective was to determine whether Kansas adjusted the payment rates for Medicaid school-based health services pursuant to Federal regulations.

SUMMARY OF FINDING

Kansas did not adjust the payment rates for Medicaid school-based health services pursuant to Federal regulations. Specifically, Kansas did not adjust the payment rates for inflation consistent with the costs that it used to develop the rates. Kansas had inadequate internal controls to ensure that it correctly adjusted the payment rates. As a result, each of the 15 payment rates was overstated as of May 2003. We did not calculate the resulting overpayments.

RECOMMENDATIONS

We recommend that Kansas:

- work with the Centers for Medicare & Medicaid Services to appropriately adjust the rates for inflation, and then calculate and refund the overpayments for FYs 1998–2003,
- calculate and refund any overpayments that occurred subsequent to our audit period, and
- develop and implement adequate internal controls to ensure that future Federal claims for school-based services comply with Federal requirements and the State plan.

AUDITEE'S COMMENTS

Kansas stated that it will discuss with CMS the recommendation to appropriately adjust the rates for inflation and refund any overpayments. In regard to the second recommendation, Kansas stated that it has not increased the payment rates since State FY 2003; therefore, "Any overpayment based on the inflation rate . . . would be contained within the audit period." Kansas concurred with the third recommendation.

Kansas's comments are included in their entirety as the appendix.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

We commend Kansas for addressing recommendations through contractual changes and increased oversight. Unless Kansas reduced the payment rates by 19 percent subsequent to May 2003, the overstatement carried forward beyond the audit period.

INTRODUCTION

BACKGROUND

We conducted this audit at the request of the Centers for Medicare & Medicaid Services (CMS).

Medicaid School-Based Program

Title XIX of the Social Security Act (the Act) established the Medicaid program to pay for medical assistance costs for persons with limited income and resources. This program is a jointly funded cooperative venture between the Federal and State Governments. Each State administers its Medicaid program in accordance with a State plan approved by CMS to ensure compliance with Federal requirements.

Congress amended section 1903(c) of the Act in 1988 to allow Medicaid coverage of health-related services provided to children pursuant to Part B of the Individuals with Disabilities Education Act. Medicaid may reimburse States for school-based health services shown on a child's individualized education plan (IEP), including physical therapy, occupational therapy, speech pathology, and psychological services. To be reimbursable under Medicaid, services must be (1) provided to Medicaid-eligible children, (2) medically necessary, (3) claimed pursuant to Federal and State regulations, and (4) included in the State plan.

Kansas School-Based Program

In Kansas, the Department of Social and Rehabilitation Services administers the Medicaid program. Individual school districts provide or arrange health services for students with special needs when such health services are identified in the students' IEPs.

Instead of using the traditional fee-for-service basis to pay for school-based services, Kansas uses bundled payment rates and reimburses participating school districts one monthly payment for each special education student. The 15 individual payment rates vary depending on the student's primary disability but are flat rates regardless of the number of services provided during the month.

In 1997, Kansas developed the rates using data on the cost of health services by special education students in six school districts. The costs were actual expenditures for health-related services provided during the 1995–96 school year. The U.S. Department of Labor, Bureau of Labor Statistics produces consumer price indexes, including several for education and medical services. Kansas periodically adjusts the payment rates for inflation using the consumer price index for “educational services - elementary and high school tuition and fees,” which reflects “annual consumer expenditures for studies at elementary schools and high schools (grades K-12) where tuition or fixed fees are both charged.”

Kansas claims Federal Medicaid reimbursement for the amounts it reimburses school districts. The Federal share of Medicaid reimbursement for school-based services ranged from 59.71 to 63.15 percent of the amounts claimed by school districts for fiscal years (FY) 1998–2003.

During that period, Kansas received approximately \$135.2 million of Federal Medicaid reimbursement for all school districts.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Kansas developed and adjusted the payment rates for Medicaid school-based health services pursuant to Federal regulations.

Scope

We reviewed the \$135.2 million of Federal Medicaid reimbursement that Kansas received for FYs 1998–2003.

We reviewed the accuracy of the original cost and utilization data that Kansas used to develop the payment rates. We limited our review of internal controls to the methodology that Kansas used to develop the payment rates based on data from the 1995–96 school year. We also analyzed how Kansas adjusted the FYs 1996–2003 payment rates for inflation.

We performed this audit in conjunction with three other audits of the school-based services. We reviewed (1) the accuracy of the calculations that Kansas used to develop the payment rates (A-07-04-01003), (2) the claims Kansas made for school-based health services (A-07-03-00155), and (3) how Kansas developed the payment rates (A-07-05-01018). We used the information obtained and reviewed during those audits in performing this review.

We performed our fieldwork at the Department of Social and Rehabilitation Services’s main office in Topeka, Kansas.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal Medicaid laws and regulations and Kansas’s State Medicaid plan;
- interviewed officials from CMS and the Kansas Department of Social and Rehabilitation Services to obtain an understanding of how Kansas developed and adjusted the payment rates;
- reconciled the cost and utilization data for each of the six school districts that Kansas used to develop the payment rates to the school district’s actual expenditures for State FY 1996 as recorded on the State budget forms;

- used the data in the Medicaid Management Information System to identify the Federal Medicaid reimbursement to Kansas for all school districts for FYs 1998–2003; and
- reviewed the consumer price index that Kansas used to update the payment rates to determine whether Kansas used the correct index.

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

FINDINGS AND RECOMMENDATIONS

The Kansas State plan permits the State to annually adjust for inflation the rates it pays to providers; however, the State plan does not specify the inflation factors to be used. Office of Management and Budget (OMB) “Cost Principles for State, Local, and Indian Tribal Governments”¹ Circular A-87, Attachment A(C)(1)(a), states that to be allowable, costs must “be necessary and reasonable for proper and efficient performance and administration of Federal awards.”

Kansas did not adjust the payment rates for Medicaid school-based health services pursuant to Federal regulations. Specifically, Kansas did not adjust the payment rates for inflation consistent with the costs that it used to develop the rates. Kansas developed the rates based on costs for health-related services but adjusted the rates for FYs 1996–2003 based on a consumer price index that reflected education expenditures for tuition and fees at elementary schools and high schools. We believe that Kansas should have used a consumer price index related to medical expenditures, namely, the index for services by other medical professionals. According to the Bureau of Labor Statistics, the index includes “services performed by other professionals such as psychologists, chiropractors, physical therapists, podiatrists, social workers and nurse practitioners in or out of the office.”

Kansas had inadequate internal controls to ensure that it correctly adjusted the payment rates. Kansas officials stated that they used the consumer price index related to education because they believed that the associated costs best represented the change in the cost of providing health-related services.

Because the education consumer price index that Kansas used was substantially higher than the index for health-related services during FYs 1998–2003, Kansas overstated each of the 15 individual payment rates by approximately 19 percent as of May 2003. Given the difference between the index that Kansas used and the index that Kansas should have used, the payments Kansas made to its school-based providers using these inflated payment rates were not reasonable for proper and efficient performance of the school-based program. As a result, the overstated rates caused overpayments for FYs 1998–2003. We did not calculate these overpayments, but we estimate that their impact is significant.

¹Federal regulations (45 CFR § 95.507) make OMB Circular A-87 applicable to claims for school-based health services.

RECOMMENDATIONS

We recommend that Kansas:

- work with CMS to appropriately adjust the rates for inflation, and then calculate and refund the overpayments for FYs 1998–2003,
- calculate and refund any overpayments that occurred subsequent to our audit period, and
- develop and implement adequate internal controls to ensure that future Federal claims for school-based services comply with Federal requirements and the State plan.

AUDITEE’S COMMENTS

Kansas stated that it will discuss the first recommendation to appropriately adjust the rates for inflation and refund any overpayments with CMS “in coordination with all four of the school-based service OIG [Office of Inspector General] audits” (see “Scope”).

In regard to the second recommendation, Kansas stated that it has not increased the payment rates since State FY 2003; therefore, “Any overpayment based on the inflation rate . . . would be contained within the audit period.”

Kansas concurred with the third recommendation. It stated that it “understands the issues addressed in all of the OIG audits of the school-based service program and [has] attempted to address them through contractual changes and increased oversight.”

Kansas’s comments are included in their entirety as the appendix.

OFFICE OF INSPECTOR GENERAL’S RESPONSE

We commend Kansas for addressing recommendations through contractual changes and increased oversight. Unless Kansas reduced the payment rates by 19 percent subsequent to May 2003, the overstatement carried forward beyond the audit period.

APPENDIX



ROBERT M. DAY, Ph.D., DIRECTOR

K A N S A S

KATHLEEN SEBELIUS, GOVERNOR

DIVISION OF HEALTH POLICY AND FINANCE

May 11, 2006

Mr. Patrick J. Cogley
Office of Inspector General
Offices of Audit Services
601 East 12th Street
Room 284A
Kansas City, MO 64106

Report Number: A-07-06-01030

Dear Mr. Cogley:

I apologize for this late response to the draft audit report "Medicaid School Based Services in Kansas—Adjustment of the Bundled Rates." We have thoroughly reviewed the report and wish to respond to the three recommendations.

The first recommendation asks Division of Health Policy and Finance (DHPF) to work with Centers for Medicare and Medicaid Services (CMS) to appropriately adjust the rates for the medical care services inflation rate between FY 1998 and 2003 and refund any overpayments. This adjustment would be based on the OIG finding that the consumer price index for other medical professional services is more appropriate than the rate adjustments implemented by the State of Kansas based on the approved state plan language. DHPF will discuss this recommendation with CMS in coordination with all four of the school-based service OIG audits. In particular, the report on the development of the bundled rates (Draft Report A-07-05-01018) would directly influence the amount of a refund based on the increases made in the rates.

The second recommendation requests a calculation of any overpayment based on inflationary increases after FY 2003. There have been no increases in the rates paid for school-based services since SFY 2003. Any overpayment based on the inflation rate used to pay for school-based services would be contained within the audit period.

DHPF concurs with the final recommendation to develop and implement adequate internal controls to comply with Federal requirements and the state plan. These requirements have been

LANDON STATE OFFICE BUILDING, 900 SW JACKSON ST., Room 900 North, TOPEKA, KS 66612
Voice 785-296-3981 Fax 785-296-4813 <http://www.da.ks.gov/hpf>

Mr. Patrick J. Cogley
Office of the Inspector General
Report Number: A-07-06-01030
May 11, 2006
Page 2 of 2

included in the contract, awarded on January 1, 2005, for rate development. DHPF understands the issues addressed in all of the OIG audits of the school-based service program and have attempted to address them through contractual changes and increased oversight.

Thank you for the opportunity to respond to this report.

Sincerely,



Scott C. Brunner
Medicaid Director

SCB/dsw

pc: Brenda Kuder, DHPF
Kim Sage, DHPF