



COMPTROLLER GENERAL OF THE UNITED STATES
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The Honorable Robert Taft, Jr.
United States Senate

Dear Senator Taft:

In December 1973, you asked us to examine how the Department of Health, Education, and Welfare (HEW) has implemented section 235 of Public Law 92-603. Section 235 allows HEW to reimburse the States for (1) 90 percent of the cost attributable to the design, development, and/or installation of mechanized Medicaid claims processing and information retrieval systems and (2) 75 percent of the cost of operating these systems when approved by the Secretary of HEW. 22

The Secretary has delegated to the Administrator of the Social and Rehabilitation Service (SRS) the responsibility for issuing regulations, approving the design, and reimbursing the States for the costs of developing and operating Medicaid Management Information Systems (MMIS). 199

We conducted our review at SRS headquarters in Washington, D.C.; HEW regional offices in Atlanta, Boston, and Chicago; and as you requested, in Ohio. Our April 11, 1974, letter to you reported a chronology of events and the problems Ohio encountered in installing its MMIS.

We sent questionnaires to the 49 States having Medicaid programs requesting information on the status of their MMIS. We received 47 responses. As you requested, we did not obtain written comments from HEW on the matters in this report. However, we did discuss these matters with SRS officials responsible for implementing section 235.

IMPROVEMENT NEEDED IN SRS PROCEDURES
FOR PAYING STATES FOR COSTS OF MMIS

Although Public Law 92-603 was approved on October 31, 1972, SRS did not issue regulations implementing section 235 until May 1974. Additional detailed guidelines on requirements for MMIS were issued to the States on June 10, 1974.

In response to our questionnaire, 11 States said the delay in issuing regulations had an impact on developing their MMIS. Between June 10 and June 30, 1974, SRS approved plans for MMIS in Ohio, New Hampshire, Kentucky,

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Georgia, Utah, and West Virginia. These are the first States to obtain approval. As of June 30, 1974, HEW had not made any payments to the States under section 235.

Therefore, our review was directed to:

--SRS controls, which were in effect at the time of our review, over reimbursing costs for automated systems.

--SRS manpower available for approving systems under section 235 and SRS controls to preclude payment for systems designed and developed without SRS approval.

SRS controls to reimburse costs for automated systems are limited

In claiming Federal reimbursement, States included all costs for automated systems (including some equipment), under the general administrative expenses category. Administrative expenses are reimbursed by the Federal Government at a 50-percent rate. The States may later request the additional 40-percent funding for approved MMIS. SRS does not require the States to submit a breakdown of the administrative costs, such as costs related to installing or operating automated data systems.

OMB Circular No. A-87 (superseded on July 18, 1974, by General Services Administration Management Circular 74-4) and SRS regulations and guidelines required that, as a condition for Federal reimbursement, States obtain Federal approval before acquiring automated data processing (ADP) systems and services.

SRS headquarters officials said SRS regional offices were responsible for monitoring the costs of automated systems. In one region visited, the SRS personnel who reviewed the administrative cost statements submitted by the States checked only the mathematical accuracy of the statements and compared costs to earlier State estimates. They did not obtain supporting documentation from the States to determine the amount of administrative costs applicable to automated systems.

In the other regions visited, SRS financial management personnel visited State Medicaid agencies but did not examine administrative costs in detail because of limited staff and other priorities. In addition, SRS headquarters personnel did not obtain supporting documentation from States before claims for administrative costs were paid. According to

SRS headquarters officials, all administrative costs paid by SRS are subject to audit by the HEW Audit Agency. Although the audit agency has reviewed some States' administrative costs, it has not made specific reviews of expenditures for automated systems. An HEW Audit Agency official said the agency had no specific plans to audit MMIS costs, but it would consider this area in future audits.

SRS has not inventoried
existing automated systems

In January 1973, SRS headquarters requested its regional staff to inventory all automated systems in the States. However, SRS headquarters officials informed us that, as of July 1974, the inventory had not been completed because of a lack of manpower.

Personnel at two of the SRS regional offices visited said they had relied on the States to report their automated systems inventories. In one of these regions, the ADP specialist sent a form to each State requesting that it report its inventories. He then sent the State reports to SRS headquarters. The information, he said, was so voluminous that the region did not retain a copy. The other region requested the States to report their inventories in a similar manner. However, regional officials informed us that they did not know whether the States had responded. In the third region visited, the computer systems specialist informed us that the region had not placed major emphasis on compiling an inventory because

--the immediate need was to review States' requests for ADP equipment acquisition and systems development,

--the region must provide technical assistance to State and local agencies,

--SRS headquarters does not appear to have a sense of urgency for an inventory, and

--there are practical problems of gathering data for the inventory without specific guidelines.

Consequently, until an inventory of ADP systems is compiled, SRS will not know the number and types of systems now used by the States. Further, under its procedures for approving and paying for States' automated systems, SRS does not know what portion, if any, of the cost of those systems has been paid by the Federal Government as administrative expenses.

As a result, it is possible that SRS could reimburse the States under section 235 for costs that have already been paid with Federal funds. HEW Audit Agency officials agreed to consider this issue in any future audits of MMIS costs.

Insufficient SRS staffing

To receive approval for MMIS development, each State must submit an advanced planning document which contains its plan to implement an MMIS and the estimated cost of developing the system. SRS headquarters officials review the document to determine whether the State's proposal is feasible and meets the requirements of SRS regulations. If the document meets the requirements, SRS approves the plan.

SRS headquarters personnel told us that, when a State requests, and time permits, they visit the State to discuss problems in automated systems. However, according to these officials, it is the SRS regional offices' responsibility to monitor the development and implementation of MMIS and to insure that the implementation complies with the State's plan.

The SRS regional offices are responsible not only for monitoring MMIS, but also for monitoring all automated systems for Medicaid, the Aid to Families With Dependent Children (AFDC) program, and social services. In each of two regions visited, one ADP system specialist was responsible for reviewing systems in six States. The third region had four professionals to review the automated systems in eight States. SRS headquarters officials agreed that the regions lacked the necessary staff to properly monitor States' systems. They did not know when additional staff would be available.

TRANSFERABILITY OF OHIO SYSTEM TO OTHER STATES

SRS headquarters personnel helped Ohio develop its model MMIS. The MMIS development manuals for Ohio were made available to all States having Medicaid programs. SRS headquarters encouraged States to adopt Ohio's system or parts of it to meet section 235 requirements, believing this would reduce costs. New Hampshire, Michigan, Minnesota, and Utah have adopted part of Ohio's system. However, only New Hampshire reported any dollar savings as a result. According to SRS headquarters officials, three other States are considering adopting Ohio's MMIS.

A recent HEW study showed that use by other States of Ohio's system might be limited because States' Medicaid programs differ as to services provided and data processing capabilities.

LIMITED IMPLEMENTATION
OF MMIS BY OTHER STATES

Delays by SRS headquarters in issuing regulations and guidelines had a detrimental effect on the States' implementation of MMIS. SRS informed the States that their systems could not be approved and they could not receive Federal reimbursement for the costs until guidelines were issued. The guidelines were not issued until June 10, 1974.

Despite SRS delays in providing guidelines and funds, 31 States responding to our questionnaire said they intended to develop automated systems that qualify for cost reimbursement under section 235. Another six States said they already have automated systems that they believe meet the intent of section 235.

Twenty-three of the 47 States told us that they started developing MMIS before SRS issued implementing guidelines. After responding to our questionnaire, 6 States (including 4 of the 23 mentioned above) received SRS approval to begin developing their systems.

OTHER PROBLEMS NOTED BY STATES

In responding to our questionnaire, States pointed out some problems in maintaining up-to-date eligibility files and in providing to each recipient, as required by the Social Security Amendments of 1972, an explanation of Medicaid benefits paid on his behalf.

Maintaining updated eligibility files

In most States, welfare rolls are used to determine Medicaid eligibility. Welfare rolls for AFDC are maintained by the States and/or localities. Rolls for the aged, blind, and disabled receiving Supplemental Security Income (SSI) assistance are maintained by the Social Security Administration (SSA). Since both the AFDC and the SSI rolls are used to determine Medicaid eligibility, any errors in those rolls will carry over to the Medicaid rolls.

State Medicaid agencies, in response to our questionnaire, stated that it is difficult to maintain accurate

Medicaid rolls because of inaccuracies in the SSI rolls. Ten States pointed out that SSA has experienced problems in communicating to the States additions and deletions from its SSI rolls. SSA officials are working to correct these problems.

Questionable need for providing explanation of benefits

An approved MMIS is required by section 235 of Public Law 92-603 to include a means for providing prompt written notice to each individual of the specific Medicaid services provided, the name of the person or persons furnishing the services, the date on which each service was furnished, and the amount of the payment. This notice is commonly referred to as the explanation of benefits (EOB). SRS has defined "prompt written notice" to be within 45 days after the date of payment of the claim.

Many States opposed the EOB provision because of the costs involved in providing EOBs to recipients. Ohio, which presently has the machine capacity to provide EOBs, estimated it would cost the State an extra \$600,000 annually to prepare and insert the EOBs with assistance checks each month. Michigan, which has limited experience with EOBs, has estimated a cost exceeding \$870,000 a year to provide EOBs to its Medicaid recipients each month.

Using Michigan's study as a base, the National Council of State Public Welfare Administrators estimated that it would cost over \$19 million nationwide to provide EOBs promptly as the law now requires.

Other States which have objected to HEW about EOBs include Colorado, Minnesota, Washington, and Wisconsin. Thirty-three other States indicated in their questionnaire responses that they believe the requirement for EOBs is unreasonable. Most expressed concern about the costs. Twenty States suggested that this requirement might best be met with sampling techniques. However, HEW's General Counsel has ruled that sampling would not comply with section 235.

OTHER FACTORS COULD SIGNIFICANTLY AFFECT MMIS

Proposed legislation for a national health insurance program would greatly reduce the need for MMIS in the States. Under the proposed Kennedy-Griffiths Health

Security Act, the Federal Government would pay for most medical services and administer the program. Under the Administration's proposal, program administration would be turned over to private contractors, such as insurance companies. Under both proposals, Medicaid, as now administered by the States, would be substantially reduced because the States would pay only for those services not covered by the national health insurance program.

Health maintenance organizations (HMOs) under Medicaid are relatively new and their full impact has not been realized. However, HMOs could greatly diminish the need for MMIS since HMOs are paid a monthly per capita rate and do not bill on an individual fee-for-service basis. Twenty-six States indicated they have been in contact with at least one HMO regarding providing Medicaid services.

CONCLUSIONS

SRS does not have adequate controls over Federal reimbursements to States for costs for operating existing automated Medicaid systems, nor does it have the manpower to adequately review, approve, and pay for automated systems under section 235. In this regard SRS does not know

- the number and types of automated systems the States now have,
- which of these systems and equipment have already been paid for with Federal funds, and
- the cost of operating existing systems.

Furthermore, SRS staffing is not adequate to review and evaluate State proposals to insure that

- the design, development, and implementation of MMIS comply with SRS regulations and guidelines and
- costs for designing, developing, and implementing MMIS are reasonable.

RECOMMENDATIONS

We recommend that the Secretary of HEW consider suspending approval of MMIS to all States until HEW has evaluated the possible effect of other programs, including national health insurance and HMOs, on the MMIS program. If he

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determines that the program should be continued, he should not approve the design, development, and installation of any additional State's MMIS until SRS has

- identified systems currently being used by the State;
- identified any systems within the State which may have been partially paid for with Federal funds; and
- made available adequate staff to insure that the State's design, development, and implementation of MMIS complies with SRS regulations and guidelines.

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As your office agreed, after you release this report, we will distribute copies to the Secretary of HEW and to the Chairmen, Senate and House Committees on Appropriations; the Chairmen, Senate and House Committees on Government Operations; the Chairman, Senate Committee on Finance; and the Chairman, House Committee on Ways and Means. L350
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Sincerely yours,



Comptroller General
of the United States