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United States General Accounting Office
Washington, DC 20548

Office of Special Investigations

B-286188

September 8, 2000

The Honorable William V. Roth, Jr.
Chairman
The Honorable Daniel Patrick Moynihan
Ranking Minority Member
Committee on Finance
United States Senate

Subject: Gratuities Provided to Officials Responsible for the Procurement of Michigan School-Based Medicaid Consulting Services

In our April 2000 report,¹ we discussed the circumstances surrounding the process used by a consortium of eight Michigan intermediate school districts to contract with Deloitte Consulting LLC² for consulting and billing services.³ At that time, we reported that the contract awards to Deloitte by these school districts did not adhere to standards promulgated by the Department of Health and Human Services in its procurement regulations.⁴

As a result of the media coverage that followed the Committee's April 5, 2000, hearing on Medicaid in schools, we received information alleging that Deloitte provided gratuities to school district officials responsible for the procurement of Michigan school-based Medicaid consulting services. Your office requested a written summary of our investigative findings of this allegation.

We conducted an investigation and determined that Deloitte had provided gratuities, including meals and tickets to professional sporting and theater events, to the school district officials responsible for awarding the contract for consulting services. Records provided to us by Deloitte show that it spent over \$170,000 for the gratuities from 1997 through 1999.⁵ Officials receiving the gratuities included members of the

¹ See *Procurement of Michigan School-Based Medicaid Consulting Services* (GAO/OSI-00-8R, Apr. 4, 2000).

² During the procurement, the company's name was Deloitte & Touche Consulting Group LLC.

³ School districts often contract with private firms that act as consultants and billing agents on the schools' behalf to prepare and submit claims to the state for reimbursement of school-based Medicaid services.

⁴ 45 C.F.R. § 74.40.

⁵ About \$101,000 of this amount was spent during the procurement process and within 1 month of the contract award to Deloitte in 1998.

school district consortium's Medicaid Program Steering Committee and Contract Negotiation Committee.

For instance, in December 1997—the month that the procurement process began—Deloitte paid \$6,000 for a suite at a professional sporting arena for the school district officials. After Deloitte and school district officials discussed procurement issues at two quarterly meetings, Deloitte provided these officials tickets to two other professional sporting arenas at a cost of \$39,000. We interviewed four of these school district officials. Three officials admitted accepting the gifts but could not recall when. The fourth declined to answer specific questions without counsel, but acknowledged attending “some social events” with Deloitte.

As a result of our findings, we are concerned that there is a potential violation of 18 U.S.C. section 666. This statute prohibits, under certain circumstances, anything of value being paid to or accepted by an agent of an organization, or of a state, local, or Indian tribal government, or any agency thereof for the purpose of influencing a business transaction involving anything of value of \$5,000 or more. We therefore have referred this matter to the U.S. Attorney's Office for the Western District of Michigan for further action.

If you have questions regarding this letter, please contact me at (202) 512-7455 or Acting Assistant Director William Hamel at (202) 512-6722. Andrew O'Connell was a key contributor to this investigation.

A handwritten signature in black ink, appearing to read "Robert H. Hast". The signature is written in a cursive, flowing style.

Robert H. Hast
Assistant Comptroller General
for Special Investigations

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