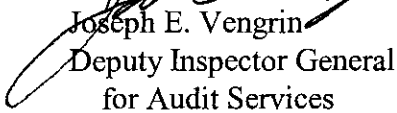




SEP 15 2004

TO: Wynethea Walker
Acting Director, Audit Liaison Staff
Centers for Medicare & Medicaid Services

FROM: 
Joseph E. Vengrin
Deputy Inspector General
for Audit Services

SUBJECT: Medicaid School-Based Health Services Administrative Costs – Massachusetts
July 1999 Through June 2001 (A-01-02-00016)

Attached is an advance copy of our final report on Medicaid school-based health services administrative costs for Massachusetts during the period July 1999 through June 2001. We will issue this report to Massachusetts within 5 business days. This is one of a series of reports addressing whether Medicaid payments for school-based health services were in accordance with laws and regulations.

The objective of our audit was to determine whether costs claimed by Massachusetts for school-based administrative activities on behalf of individual local education agencies were allowable in accordance with the terms of applicable Federal requirements, Centers for Medicare & Medicaid Services (CMS) guidelines, and the Medicaid State plan. The audit covered Medicaid claims for administrative costs incurred for the period July 1, 1999 through June 30, 2001.

Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments," dated August 1997, provided that "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received." We found the following:

- Contrary to OMB Circular A-87 and CMS instructions, five of eight local education agencies did not accurately allocate administrative costs to reflect relative Medicaid benefits received. Specifically, the Medicaid share percentages in quarterly claims were overstated by 6 to 27 percent. The local education agencies did not always apply the appropriate data in developing the Medicaid share percentages used in their allocation process. As a result, they overstated their claims by \$4,952,453.
- One of the eight local education agencies double-counted salaries and fringe benefits when identifying costs to be allocated. As a result, the agency overstated its claim by \$359,994.

In total, Massachusetts overstated its Medicaid claim for reimbursement by \$5,312,447 (Federal share).

Massachusetts did not provide specific guidance to local education agencies regarding proper allocation methods. Further, the internal control structures at local education agencies were not adequate to ensure that costs claimed were properly allocated and reasonable, and Massachusetts did not monitor the appropriateness of claims even when they increased significantly from period to period.

We recommend that Massachusetts (1) provide technical assistance to ensure that local education agencies strengthen internal controls over how they compute their Medicaid share percentages, (2) implement a monitoring system to ensure that local education agencies properly calculate claims for Medicaid reimbursement, (3) refund to the Federal Government \$5,312,447 (Federal share) that was inappropriately paid by the Medicaid program to five local education agencies, and (4) require all local education agencies to review the calculation of their Medicaid share percentage for the audit period as well as for subsequent periods and submit adjusted claims as necessary.

In response to the draft report, the State agency generally agreed with our procedural recommendations. However, they disagreed with our recommendation to refund the entire \$5,312,447 (Federal share) that was inappropriately paid by the Medicaid program to the five local education agencies. Even though the State agency agrees that the five local education agencies in question used an incorrect ratio to calculate the Medicaid share percentage, it believes that if the local education agencies used a different allocation method (that is, direct match), the reported adjustment would be less.

The five local education agencies in question chose to use an alternative allocation method rather than the direct match in developing their claims for administrative costs. Our audit showed the data used under their allocation method resulted in the Medicaid share percentage being overstated. The direct match methodology used by the State agency was not available at the time of our fieldwork. Moreover, the State agency limited its direct match to the 9-month period, October 2000 to June 2001, whereas our audit period covered the 24-month period, July 1999 to June 2001. Accordingly, we believe that our calculated overpayment is appropriate and continue to recommend the financial adjustment. We are not in a position to comment upon the proposed change to the direct match method because that method was not the basis for their claim.

If you have any questions or comments about this report, please do not hesitate to call me, or have your staff call George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or Michael J. Armstrong, Regional Inspector General for Audit Services, at (617) 565-2689. Please refer to report number A-01-02-00016 in all correspondence.

Attachment



SEP 20 2004

Office of Audit Services
Region I
John F. Kennedy Federal Building
Boston, MA 02203
(617) 565-2684

Report Number: A-01-02-00016

Ms. Beth Waldman
Medicaid Director
The Commonwealth of Massachusetts
Executive Office of Health and Human Services
One Ashburton Place, 11th Floor
Boston, Massachusetts 02108

Dear Ms. Waldman:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Medicaid School-Based Health Services Administrative Costs — Massachusetts July 1999 Through June 2001." A copy of this report will be forwarded to the action official noted below for her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. 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.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please refer to report number A-01-02-00016 in all correspondence.

Sincerely yours,

Michael J. Armstrong
Regional Inspector General
For Audit Services

Enclosures – as stated

Page 2 – Ms. Beth Waldman

Direct Reply to HHS Action Official:

Charlotte S. Yeh, M.D.
Regional Administrator
Centers for Medicare & Medicaid Services
Department of Health and Human Services
John F. Kennedy Federal Building, Room 2325
Boston, Massachusetts 02203

cc:

Frank McNamara, Director, Internal Control and Audit, Office of Medicaid, Executive Office of Health and Human Services, Commonwealth of Massachusetts

John Robertson, Associate Vice Chancellor, Center Director, Center for Health Care Financing, University of Massachusetts Medical School

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**MEDICAID SCHOOL-BASED
HEALTH SERVICES
ADMINISTRATIVE COSTS -
MASSACHUSETTS
JULY 1999 THROUGH JUNE 2001**



**SEPTEMBER 2004
A-01-02-00016**

Office of Inspector General

<http://oig.hhs.gov>

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In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR part 5.)

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 program was established by Title XIX of the Social Security Act to provide need-based medical assistance to pregnant women; children; and individuals who are aged, blind, or disabled. States design and administer the program under the general oversight of the Centers for Medicare & Medicaid Services (CMS). The Medicaid program supports school-based health services as an effective method of providing essential medical care to eligible children. The services provided include routine preventive health care, primary treatment, and services for children with special needs. These services may be provided at a school-based clinic or a private clinic.

The Massachusetts Office of Medicaid (formerly the Division of Medical Assistance) is the Massachusetts State agency (referred to in this report as Massachusetts) responsible for administering the Medicaid program. Massachusetts contracts with the University of Massachusetts Medical School, Center for Health Care Financing, Municipal Medicaid (UMass) to administer the State's school-based health services program and to develop the Medicaid claim for direct services provided by local education agencies and the related administrative costs.

In addition to providing direct school-based health services,¹ local education agencies are also involved in administrative services that benefit both non-Medicaid-eligible and Medicaid-eligible students. These administrative services include, but are not limited to, outreach, individual care planning, and general administration activities. Since these services are provided to both non-Medicaid-eligible and Medicaid-eligible students, they must be allocated between the two groups of students. This allocation ratio is known as the Medicaid share percentage. The costs allocated to the Medicaid program are billed as administrative costs and are reimbursed at the 50-percent Federal matching rate.

Massachusetts local education agencies claimed approximately \$121 million (total) for administrative activities during the 24-month period July 1, 1999 through June 30, 2001 under the Commonwealth of Massachusetts's Medicaid program. The eight local education agencies we audited claimed administrative costs of approximately \$54.7 million. The Federal share of this claim amounted to \$27.6 million.

OBJECTIVE

The objective of our audit was to determine whether costs claimed by Massachusetts for school-based administrative activities on behalf of individual local education agencies were allowable in accordance with the terms of applicable Federal requirements, CMS guidelines, and the Medicaid State plan. The audit covered Medicaid claims for administrative costs incurred for the period July 1, 1999 through June 30, 2001.

¹ See previous report number A-01-02-00009 entitled "Medicaid Payments for School-Based Health Services—Massachusetts Division of Medical Assistance—July 1999 Through June 2000" (July 16, 2003).

SUMMARY OF FINDINGS

Office of Management and Budget (OMB) Circular A-87, “Cost Principles for State, Local and Indian Tribal Governments,” dated August 1997, provided that “A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.” We found the following:

- Contrary to OMB Circular A-87 and CMS instructions, five of eight local education agencies did not accurately allocate administrative costs to reflect relative Medicaid benefits received. Specifically, the Medicaid share percentages in quarterly claims were overstated by 6 to 27 percent. The local education agencies did not always apply the appropriate data in developing the Medicaid share percentages used in their allocation process. As a result, they overstated their claims by \$4,952,453.
- One of the eight local education agencies double-counted salaries and fringe benefits when identifying costs to be allocated. As a result, the agency overstated its claim by \$359,994.

In total, Massachusetts overstated its Medicaid claim for reimbursement by \$5,312,447 (Federal share).

Massachusetts did not provide specific guidance to local education agencies regarding proper allocation methods. Further, the internal control structures at local education agencies were not adequate to ensure that costs claimed were properly allocated and reasonable, and Massachusetts did not monitor the appropriateness of claims even when they significantly increased from period to period.

Because Massachusetts did not monitor the appropriateness of claims, we believe the risk is high that the audited local education agencies may have overstated their Medicaid share percentages following our audit period. Similarly, other local education agencies in Massachusetts may have overstated their Medicaid share percentages in the audit period and in later periods. During our fieldwork, we were informed that contractors hired by the local education agencies included in our review continued to calculate their Medicaid share percentages in the same manner after the audit period. The same contractors also developed administrative cost claims for a number of other local education agencies that were not included in our review.

RECOMMENDATIONS

We recommend that Massachusetts (1) provide technical assistance to ensure that local education agencies strengthen internal controls over how they compute their Medicaid share percentages, (2) implement a monitoring system to ensure that local education agencies properly calculate claims for Medicaid reimbursement, (3) refund to the Federal Government \$5,312,447 (Federal share) that was inappropriately paid by the Medicaid program to five local education agencies, and (4) require all local education agencies to review the calculation of their Medicaid share percentage for the audit period as well as for subsequent periods and submit adjusted claims as necessary.

STATE AGENCY'S COMMENTS

In response to the draft report, the State agency generally agreed with our procedural recommendations. However, they disagreed with our recommendation to refund to CMS the entire \$5,312,447 (Federal share) that was inappropriately paid by the Medicaid program to the five local education agencies. Even though the State agency agrees that the five local education agencies in question used an incorrect ratio to calculate the Medicaid share percentage, it believes that if the local education agencies used a different allocation method (that is, direct match), the reported adjustment would be less. The State agency's comments are summarized in the body of our report and are included in their entirety as Appendix C.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

The five local education agencies in question chose to use an alternative allocation method rather than the direct match in developing their claims for administrative costs. Our audit showed that the data used under their allocation method resulted in the Medicaid share percentage being overstated. The direct match methodology used by the State agency was not available at the time of our fieldwork. Moreover, the State agency limited its direct match to the 9-month period, October 2000 to June 2001, whereas our audit period covered the 24-month period, July 1999 to June 2001. Accordingly, we believe that our calculated overpayment is appropriate and continue to recommend the financial adjustment. We are not in a position to comment upon the proposed change to the direct match method because that method was not the basis for their claim.

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INTRODUCTION

BACKGROUND

The Medicaid program was established by Title XIX of the Social Security Act to provide need-based medical assistance to pregnant women; children; and individuals who are aged, blind, or disabled. States design and administer the program under the general oversight of CMS. The Medicaid program supports school-based health services as an effective method of providing essential medical care to eligible children. The services provided include routine preventive health care, primary treatment, and services for children with special needs. These services may be provided at a school-based clinic or a private clinic.

The Massachusetts Office of Medicaid (formerly the Division of Medical Assistance) is the Massachusetts State agency (referred to in this report as Massachusetts) responsible for administering the Medicaid program. Massachusetts contracts with UMass to administer the State's school-based health services program and to develop the Medicaid claim for direct services and related administrative costs provided by local education agencies.

While Medicaid programs are administered by the States, they are jointly financed by the Federal and State governments. States incur expenditures for medical assistance payments to providers that furnish medical services to Medicaid-eligible individuals. The Federal Government pays its share of these medical assistance expenditures to each State according to a prescribed formula. In addition, the Federal Government participates in the costs for administration of the program. The Federal share for Medicaid administration is fixed at 50 percent, except for administrative activities for family planning, which is set at 90 percent.

In addition to providing direct school-based health services,² local education agencies are also involved in administrative services that benefit both non-Medicaid-eligible and Medicaid-eligible students. The costs incurred for these services are billed to the Medicaid program as administrative costs. Since these services are provided to both non-Medicaid-eligible and Medicaid-eligible students, they must be allocated between the two groups of students. In developing their claims for administrative costs in the school-based health services program, local education agencies identify chargeable or assignable costs that relate to the Medicaid program. As part of an administrative allocation process, the local education agencies use time-studies to determine what portion of costs is associated with direct services and administrative activities. The Medicaid share percentage and a general overhead factor are applied to administrative service costs to calculate the benefit to the Medicaid program and claimed as an administrative cost.

Eligibility of school personnel to participate in the program is based on their actual functions, not their job titles. Massachusetts grouped school personnel into nine job positions that are eligible to participate in the program. To capture administrative costs, school personnel in these nine job positions participated in quarterly time-studies. In time-studies, participants recorded their time

² See previous report number A-01-02-00009 entitled "Medicaid Payments for School-Based Health Services—Massachusetts Division of Medical Assistance—July 1999 Through June 2000" (July 16, 2003).

in 15-minute intervals using the activity codes that most closely corresponded to their predominant activity. The activities are listed below:

- providing information, outreach, and training
- facilitating or assisting in the Medicaid eligibility process
- assisting in provider networking, program planning, or interagency coordination
- planning, monitoring, coordinating, and referring individual care
- preparing and coordinating for initial health reviews
- making family planning referrals
- providing direct services
- conducting general administrative and overhead activities
- participating in non-health-related activities

The time-study results are used to claim reimbursement. With the exception of direct services and non-health-related activities, the costs associated with administrative activities are eligible for Federal reimbursement based on certain factors, including the Medicaid share percentage, a general administrative overhead factor, and the Federal share rate. School systems are reimbursed for these activities under the Medicaid program. The eight local education agencies we reviewed claimed costs for administrative activities of approximately \$54.7 million (total) and \$27.6 million (Federal share) for the 24 months ended June 30, 2001.

Massachusetts acted as a pass-through entity between the Federal Government and the local education agencies and did not expend any funds for the program during our review. Massachusetts used program costs paid by the school district to meet the program's matching requirements. Massachusetts passes on any Federal reimbursement to the local education agencies.

CMS issued two technical guides summarizing the requirements States must meet in order to obtain reimbursement for program expenditures: the August 1997 "Medicaid and School Health: A Technical Assistance Guide" and the February 2000 draft "Medicaid School-Based Administrative Claiming Guide." The February 2000 draft was revised during November 2002 and finalized during May 2003. In addition, UMass developed "The Center for Health Care Financing Claiming Manual for School-Based Administrative Activities," dated December 1, 1997. It was revised effective March 1, 1998 and January 1, 2000. On March 1, 1998, UMass issued "The Center for Health Care Financing Time-Study Manual for School-Based Administrative Activities," and revised it effective January 1, 2000. These manuals detail the responsibilities of each local education agency as a condition of participation in the program.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to determine whether costs claimed by Massachusetts for school-based administrative activities on behalf of individual local education agencies were allowable in accordance with the terms of applicable Federal requirements, CMS guidelines, and the Medicaid State plan.

Scope

We reviewed only those internal controls considered necessary to achieve our objectives. The audit period included Medicaid claims for administrative costs incurred for the period July 1, 1999 through June 30, 2001.

Methodology

To accomplish our audit objective, we performed the following steps:

- We reviewed Federal and State laws and requirements and CMS guidelines pertaining to the Medicaid administrative claiming program for school-based health services.
- We reviewed the Interdepartmental Service Agreement between Massachusetts and UMass, which establishes UMass's responsibilities to provide administrative, management, and technical support to Massachusetts in administering the Medicaid State plan.
- We reviewed administrative cost claims from Boston Public Schools and Worcester Public Schools and the supporting records.
- We interviewed providers and school employees at Boston Public Schools and Worcester Public Schools to determine whether they received adequate training regarding time-study participation.
- We reviewed the Medicaid share percentages for administrative costs claimed by the eight local education agencies—Boston Public Schools, Fall River Public Schools, Haverhill Public Schools, Holyoke Public Schools, Lynn Public Schools, New Bedford Public Schools, Springfield Public Schools, and Worcester Public Schools.
- We obtained city census data from the U.S. Census Bureau and the Massachusetts Institute for Social and Economic Research to assist in the development of the comparable Medicaid share percentage.
- We held discussions with officials from CMS, the Massachusetts State agency, UMass, the eight local education agencies, Public Consulting Group, Inc. (Boston Public Schools' contractor), Micronet Associates, Inc. (Worcester Public Schools' contractor), and New

England Medical Billing (Fall River Public Schools' contractor). We discussed claim procedures, reviewed supporting documentation, and obtained an understanding of the methodologies used to determine the costs allocated to Medicaid.

Our audit was conducted in accordance with generally accepted government auditing standards. We performed our fieldwork at the offices of Boston Public Schools, Worcester Public Schools, the Massachusetts State agency, and UMass.

FINDINGS AND RECOMMENDATIONS

OMB Circular A-87 stated that "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received." Local education agencies in Massachusetts did not always allocate administrative costs using a Medicaid share percentage that accurately reflected Medicaid benefits received. In addition, one local education agency double-counted salaries and fringe benefits when identifying allocated costs. As a result, Massachusetts overstated its Medicaid claim for reimbursement by \$5,312,447 (Federal share). These findings are explained in detail below.

ALLOCATION METHODS

The August 1997 CMS "Medicaid and School Health: A Technical Assistance Guide" contains specific technical information on Medicaid requirements associated with payments for coverable services under the school-based health program. The CMS guide stated:

Once administrative activities are identified, costs must be . . . supported by a system which has the capability to properly identify and isolate the costs which are directly related to the support of the Medicaid program from all other costs incurred by the agency . . . and must abide by the cost allocation principles described in the Office of Management and Budget Circular A-87 which requires that costs be "necessary and reasonable" and "allocable" to the Medicaid program

When claiming for allowable administrative activities that are performed with respect to a population consisting of both Medicaid-eligibles and non-eligibles, payment may only be made for the percentage of time actually attributable to the Medicaid-eligible individuals

Allocating Costs: Methods Varied

To allocate costs, three of the eight selected local education agencies used a matching method that was reasonable and properly calculated. The remaining five local education agencies used an alternative method to allocate administrative costs that did not accurately reflect Medicaid benefits received.

To ensure a reasonable allocation of administrative costs, the Medicaid share percentages should be calculated by dividing either Medicaid-eligible students by the student population (direct

match) or all Medicaid-eligible children in the school district by the population of all children in the school district. However, the five local education agencies (Boston Public Schools, Fall River Public Schools, Lynn Public Schools, Springfield Public Schools, and Worcester Public Schools) used a combination of these methods—that is, they divided Medicaid-eligible children, not necessarily enrolled in school, by the student population—and, as a result, overstated their respective Medicaid share percentages.

Applying the same methodology used by the local education agencies, we recalculated the Medicaid share percentages using comparable data that accurately reflected the ratio of benefits attributed to the Medicaid program. We determined the ratio of the number of all Medicaid-eligible school-aged children, as provided by UMass, to the number of all school-aged children living in their respective school districts, as reported by the U.S. Census Bureau and the Massachusetts Institute for Social and Economic Research. The table below compares our calculations to the Medicaid share percentages used by each local education agency.

Medicaid Share Percentages and Related Overpayments

		Boston Public Schools	Lynn Public Schools	Springfield Public Schools	Worcester Public Schools	Fall River Public Schools
July 1999 through September 2000	Highest Ratio Used in the Claim	76%	73%	87%	48%	66%
	OIG Revised Calculation	54%	54%	60%	41%	43%
	Difference	22%	19%	27%	7%	23%
October 2000 through June 2001	Highest Ratio Used in the Claim	78%	68%	78%	48%	64%
	OIG Revised Calculation	52%	51%	56%	42%	44%
	Difference	26%	17%	22%	6%	20%
Total Overpayments Based on Differences (July 1999 through June 2001)		\$2,954,496	\$443,542	\$907,942	\$401,254	\$245,219

The numbers in the above table are rounded.

As illustrated above, the Medicaid share percentages did not accurately reflect relative Medicaid benefits received because the percentages were overstated by 6 to 27 percent. As a result, the Massachusetts claim for administrative costs was overstated by \$4,952,453 (see Appendix A).

Agencies Used Incorrect Ratio to Calculate Medicaid Share

The five local education agencies overstated the Medicaid share percentages because the ratio they used included Medicaid-eligible children living in the local education agency area regardless of whether they were enrolled in the school district. Boston Public School and Lynn Public School officials stated that they believed they correctly followed all verbal and written guidance. They stated that UMass instructed them to use the number of recipients provided by UMass divided by the school enrollment and that a match was not necessary. Further, an official representing Fall River Public Schools stated that while they tried to be conservative in their calculation, the instructions regarding the calculation of the Medicaid share percentage from UMass were not clear. Local education agencies did not ensure that the Medicaid share percentage identified was reasonable and reflected the relative benefits received by the Medicaid program.

Massachusetts did not provide specific guidance to local education agencies that elected to employ an alternative method or monitor whether the alternative methods were appropriately implemented. Since local education agencies used varied interpretations of instructions to calculate the Medicaid share percentage, we believe the risk is high that other Massachusetts local education agencies may have incorrectly computed their Medicaid share percentage in the audit period as well as periods thereafter.

Medicaid Claim Overstated

As a result, Massachusetts overstated its Medicaid claim for reimbursement by \$4,952,453.

SALARY AND FRINGE BENEFIT COSTS

In addition to OMB Circular A-87, “The Center for Health Care Financing Claiming Manual for School-Based Administrative Activities,” section III, dated March 1, 1998 and a subsequent January 1, 2000 revision, provided instructions on completing an administrative claim. Specifically, it provided that, in identifying cost data, the local education agency should “Gather actual expenses incurred during the quarter for **Direct Personnel** . . . [and] Direct Support Personnel . . . from your school districts’ accounting system.”

Worcester Overstated Salaries and Fringe Benefits

We found that Worcester Public Schools overstated salary and fringe benefit costs by \$4.4 million before they allocated these costs to the Medicaid school-based health program. For the review period, salary and fringe benefit costs for several individuals were recorded to the job code for their positions and also inadvertently recorded in full under another job code. In addition, for the 2 quarters ended June 30, 2000 and June 30, 2001, Worcester Public Schools claimed salaries and fringe benefits that were recorded on their accounting records but not paid. The Worcester Public Schools claimed these salaries and fringe benefits a second time when the individuals were actually paid in the subsequent quarter. As a result, the salaries and fringe benefits were double-counted.

After applying the administrative allocation process, Worcester Public Schools overstated its claim by \$683,235. A listing of the above costs detailed by each calendar quarter is provided in Appendix B.

Local Education Agencies Lacked Specific Guidance

Massachusetts did not provide specific guidance to local education agencies regarding proper allocation methods. Further, the internal control structures at local education agencies were not adequate to ensure that costs claimed were properly allocated and reasonable. Similarly, Massachusetts did not monitor the appropriateness of claims even when claims showed a significant cost increase from period to period.

Deficiencies Led to Overstated Costs Claim

As a result, the Federal share of the overstated administrative costs claim was \$359,994.

RECOMMENDATIONS

We recommend that Massachusetts:

- provide technical assistance to ensure that local education agencies strengthen internal controls over how they compute their Medicaid share percentages
- implement a monitoring system to ensure that local education agencies properly calculate claims for Medicaid reimbursement
- refund to the Federal Government \$5,312,447 (Federal share) that was inappropriately paid by the Medicaid program to five local education agencies
- require all local education agencies to review the calculation of their Medicaid share percentage for the audit period as well as for subsequent periods and submit adjusted claims as necessary

STATE AGENCY'S COMMENTS

The State agency agreed with our procedural recommendations to provide technical assistance to the local education agencies, to oversee the process to claim administrative costs related to school-based health services, and to review the accuracy of claims submitted during and after the audit period. The State agency also agreed that one local education agency overstated its salaries and fringe benefits it used in its allocation process. However, the State agency disagreed with our recommendation to refund to CMS the entire \$5,312,447 (Federal share) that was inappropriately paid by the Medicaid program to the five local education agencies. Even though the State agency agrees that the five local education agencies in question used an incorrect ratio to calculate the Medicaid share percentage, it believes that if the local education agencies used a different allocation method (that is, direct match), the reported adjustment would be less. The State agency's comments are included in their entirety as Appendix C.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

The five local education agencies in question chose to use an alternative allocation method rather than the direct match in developing their claims for administrative costs. Our audit showed the data used under their allocation method resulted in the Medicaid share percentage being overstated. The direct match methodology used by the State agency was not available at the time of our fieldwork. Moreover, the State agency limited its direct match to the 9-month period, October 2000 to June 2001, whereas our audit period covered the 24-month period, July 1999 to June 2001. Accordingly, we believe that our calculated overpayment is appropriate and continue to recommend the financial adjustment. We are not in a position to comment upon the proposed change to the direct match method because that method was not the basis for their claim.

APPENDICES

MEDICAID SHARE PERCENTAGES AND ASSOCIATED OVERPAYMENTS

	Boston Public Schools	Fall River Public Schools	Haverhill Public Schools	Holyoke Public Schools	Lynn Public Schools	New Bedford Public Schools	Springfield Public Schools	Worcester Public Schools	Total Overpayments
QE 9/99									
Ratio Claimed	73.74%	57.45%	22.00%	69.47%	71.99%	45.00%	70.76%	47.00%	
Recalculation	54.00%	43.00%	N/A	N/A	54.00%	N/A	60.00%	41.00%	
Difference	19.74%	14.45%	N/A	N/A	17.99%	N/A	10.76%	6.00%	
Overpayments	\$ 136,180	\$ 10,946	N/A	N/A	\$ 24,500	N/A	\$ 53,033	\$ 29,951	\$ 254,610
QE 12/99									
Ratio Claimed	75.90%	58.00%	22.00%	72.63%	71.99%	45.00%	72.95%	48.00%	
Recalculation	54.00%	43.00%	N/A	N/A	54.00%	N/A	60.00%	41.00%	
Difference	21.90%	15.00%	N/A	N/A	17.99%	N/A	12.95%	7.00%	
Overpayments	\$ 270,329	\$ 21,822	N/A	N/A	\$ 56,632	N/A	\$ 69,770	\$ 54,058	\$ 472,611
QE 3/00									
Ratio Claimed	65.29%	58.00%	22.00%	70.87%	72.05%	45.00%	74.99%	48.00%	
Recalculation	54.00%	43.00%	N/A	N/A	54.00%	N/A	60.00%	41.00%	
Difference	11.29%	15.00%	N/A	N/A	18.05%	N/A	14.99%	7.00%	
Overpayments	\$ 182,326	\$ 20,709	N/A	N/A	\$ 68,638	N/A	\$ 96,938	\$ 56,807	\$ 425,418
QE 6/00									
Ratio Claimed	74.58%	58.00%	22.00%	68.72%	72.62%	45.00%	87.41%	48.00%	
Recalculation	54.00%	43.00%	N/A	N/A	54.00%	N/A	60.00%	41.00%	
Difference	20.58%	15.00%	N/A	N/A	18.62%	N/A	27.41%	7.00%	
Overpayments	\$ 453,852	\$ 35,631	N/A	N/A	\$ 72,569	N/A	\$ 152,085	\$ 66,022	\$ 780,159
QE 9/00									
Ratio Claimed	74.58%	66.00%	22.00%	72.81%	65.51%	39.15%	82.72%	48.00%	
Recalculation	54.00%	43.00%	N/A	N/A	54.00%	N/A	60.00%	41.00%	
Difference	20.58%	23.00%	N/A	N/A	11.51%	N/A	22.72%	7.00%	
Overpayments	\$ 284,601	\$ 47,940	N/A	N/A	\$ 23,312	N/A	\$ 114,575	\$ 57,688	\$ 528,116
QE 12/00									
Ratio Claimed	78.18%	64.00%	21.28%	74.12%	65.62%	39.15%	72.37%	48.00%	
Recalculation	52.00%	44.00%	N/A	N/A	51.00%	N/A	56.00%	42.00%	
Difference	26.18%	20.00%	N/A	N/A	14.62%	N/A	16.37%	6.00%	
Overpayments	\$ 475,087	\$ 40,127	N/A	N/A	\$ 61,837	N/A	\$ 124,494	\$ 45,857	\$ 747,402
QE 3/01									
Ratio Claimed	78.37%	60.00%	21.02%	69.81%	65.49%	39.15%	72.37%	48.00%	
Recalculation	52.00%	44.00%	N/A	N/A	51.00%	N/A	56.00%	42.00%	
Difference	26.37%	16.00%	N/A	N/A	14.49%	N/A	16.37%	6.00%	
Overpayments	\$ 598,854	\$ 34,386	N/A	N/A	\$ 62,072	N/A	\$ 143,532	\$ 39,499	\$ 878,343
QE 6/01									
Ratio Claimed	78.48%	58.00%	21.93%	N/A	68.25%	39.15%	77.93%	48.00%	
Recalculation	52.00%	44.00%	N/A	N/A	51.00%	N/A	56.00%	42.00%	
Difference	26.48%	14.00%	N/A	N/A	17.25%	N/A	21.93%	6.00%	
Overpayments	\$ 553,267	\$ 33,658	N/A	N/A	\$ 73,982	N/A	\$ 153,515	\$ 51,372	\$ 865,794
Total Overpayments	\$ 2,954,496	\$ 245,219	\$ -	\$ -	\$ 443,542	\$ -	\$ 907,942	\$ 401,254	\$ 4,952,453

Notes:

- QE = quarter ending.
- Worcester Public Schools calculated a Medicaid eligibility ratio of 67% for our audit period; however, they erroneously claimed ratios of 47% and 48%.
- The alternative method for Boston, Springfield, and Worcester Public Schools was adjusted to exclude the increase in 18-year-olds attending college.
- Overpayments were determined by substituting revised Medicaid share percentages when applying the administrative allocation process.

**SCHEDULE OF SALARIES AND FRINGE BENEFITS CLAIMED
WORCESTER PUBLIC SCHOOLS**

Quarter Ending	Salaries and Fringe Benefits Identified	Salaries and Fringe Benefits Duplicated Between Job Codes	Salaries and Fringe Benefits Recorded and Not Paid	Salaries and Fringe Benefits Overstated	Salaries and Fringe Benefits Overstated After Allocation	Federal Share Overpaid
09/30/1999	\$3,590,280	\$49,563	0	\$49,563	\$8,856	\$4,656
12/31/1999	\$3,819,708	\$70,502	0	\$70,502	\$15,089	\$7,852
03/31/2000	\$4,576,796	\$83,227	0	\$83,227	\$20,472	\$10,649
06/30/2000	\$6,224,246	\$117,063	\$1,902,703	\$2,019,766	\$247,324	\$130,152
09/30/2000	\$4,871,897	\$86,853	0	\$86,853	\$21,768	\$11,334
12/31/2000	\$4,475,139	\$34,096	0	\$34,096	\$10,904	\$5,680
03/31/2001	\$3,857,443	\$28,948	0	\$28,948	\$3,141	\$1,651
06/30/2001	\$6,621,911	\$56,712	\$1,966,347	\$2,023,059	\$355,681	\$188,020
Total	\$38,037,420	\$526,964	\$3,869,050	\$4,396,014	\$683,235	\$359,994



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Lieutenant Governor

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Secretary

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July 9, 2004

Report Number: A-01-02-00016

Michael J. Armstrong
Regional Inspector General for Audit Services
Office of Audit Services
Region 1
John F. Kennedy Federal Building
Boston, MA 02203

Dear Mr. Armstrong:

This letter represents MassHealth's response to the draft report entitled "Medicaid School-Based Health Services Administrative Costs—Massachusetts July 1999 through June 2001."

Background

The stated objective of the audit was to determine whether costs claimed by Massachusetts for school-based administrative activities on behalf of individual local education agencies (LEAs) were allowable in accordance with the terms of applicable Federal requirements, CMS guidelines, and the State Medicaid plan. The auditors reviewed claims data submitted by 8 local educational authorities for the period of July 1999 through June 2001. MassHealth and its contractor for the administration of the Municipal Medicaid program, the Center for Health Care Financing at the University of Massachusetts Medical School (UMMS), have been working cooperatively with the OIG since September 2002 on the audit.

During the audit period, the 8 LEAs' administrative claims totaled \$54.7 million, and the federal reimbursement share amounted to \$27.6 million. Of this federal share, the auditors have, as a draft finding, concluded that \$5,312,447 of the reimbursement received may reflect an overpayment.

The OIG based its draft disallowance recommendation on the following preliminary findings:

- 5 of 8 LEAs did not accurately allocate administrative costs to reflect relative Medicaid benefits received. Specifically, the Medicaid share percentages in quarterly claims were overstated by 6 to 27 percent. The LEAs did not always apply the appropriate data in developing the Medicaid share percentages used in their allocation process.
- One of the 8 LEAs double-counted salaries and fringe benefits when identifying costs to be allocated.

Based on these draft findings, the OIG recommends that MassHealth: provide technical assistance to ensure that LEAs strengthen internal controls over how they compute their Medicaid share percentages; implement a monitoring system to ensure that LEAs properly calculate claims for Medicaid reimbursement; refund CMS the above-mentioned \$5,312,447; and require all LEAs to review the calculation of their Medicaid share percentage for the audit period as well as for subsequent periods and submit adjusted claims as necessary.

Response to OIG Findings

1. Allocation Methods

A. Methods Varied

The OIG states correctly that “to ensure a reasonable allocation of administrative costs, the Medicaid share percentage should be calculated by dividing either the Medicaid eligible students by the student population (direct match) or all Medicaid eligible children in the school district by the population of children in the school district.” (See Draft Report, page 4)

Given the varied methodologies for allocating costs, the OIG recalculated the Medicaid share percentage for the audited LEAs by determining the ratio of all Medicaid-eligible children ages 4 through 18 as provided by UMMS, to the number of children ages 4 through 18 living in the city or town as reported by the U.S. Census Bureau and the Massachusetts Institute for Social and Economic Research. The OIG concluded that 5 out of the 8 LEAs overstated their Medicaid share percentages by 6 to 27 percent.

MassHealth believes that the most accurate method for calculating the Medicaid share percentage is to use school enrollment and Medicaid student eligibility data. While the alternative methodology the OIG used is an acceptable method to determine the Medicaid share percentage rate, it is susceptible to error and inaccuracies as it does not use any school-specific data nor distinguish between enrollments in or out of the LEA. The resulting Medicaid penetration rates are potentially inaccurate and therefore unreliable, at least insofar as they form the basis for calculating a financial audit assessment.

The 5 affected LEAs unanimously dispute the OIG calculations. Given the disagreement between the OIG and LEAs, MassHealth has performed a recalculation of the Medicaid share percentage for 4 LEAs using the most accurate methodology, a direct match. MassHealth matched October 2000 through June 2001 school enrollment data with the Medicaid eligibility file and compared it to the rates claimed by the LEAs and the proposed OIG rates. We have determined a preliminary rate that is less than the LEAs' filed rates but greater than the OIG proposed rates (See Table 1)¹. While inconclusive on the range of Medicaid share percentages for the entire audit period, this information supports MassHealth's concern about the accuracy of the OIG methodology as a basis for assessing an overpayment.

¹ Springfield Public Schools is not included in Table 1 because of time constraints.

Table 1

<i>October 2000 through June 2001</i>	<i>Boston Public Schools</i>	<i>Lynn Public Schools</i>	<i>Worcester Public Schools</i>	<i>Fall River Public Schools</i>
LEA Ratio	76%	73%	48%	66%
OIG Alternative Method	52%	51%	42%	44%
Direct Match Method	62%	58%	51%	55%
Difference between Methods	10%	7%	9%	11%

B. Agencies Used Incorrect Ratio to Calculate Medicaid Share

MassHealth agrees that 5 out of the 8 audited LEAs used an incorrect methodology to calculate the Medicaid share percentage. However, MassHealth strongly disputes the reported contention that Massachusetts provided inadequate guidance for the calculation of the Medicaid share percentage². The Massachusetts Claiming and Time Study Manual published and distributed in October 1999 states that the "Medicaid eligibility factor is the quarterly ratio of Medicaid eligible students in the school district to the number of total students registered in the school district served in the participating Local Education Authority." All relevant correspondence, bulletins, verbal guidance and trainings have supported this definition.

2. Salaries and Fringe Benefits Costs

A. Worcester Overstated Salaries and Fringe Benefits.

MassHealth does not dispute this finding.

B. LEAs lacked specific Guidance: Massachusetts did not provide specific guidance to local education agencies regarding proper allocation methods.

MassHealth does not agree with this finding. The finding seems overbroad since the issue identified is an isolated incident specific to Worcester. No other LEAs audited have been found to overstate salaries and fringe benefits costs. MassHealth and UMMS have provided statewide trainings, clarification memos to the LEAs, provider bulletins with guidance about allocation methods, and the Claim and Time Study Manuals, all of which contain clear direction to LEAs regarding the administrative allocation process.

Response to OIG Recommendations

1. Provide technical assistance to ensure that local education agencies strengthen internal controls over how they compute their Medicaid share percentages

² The OIG reported that the Boston and Lynn Public Schools claim that UMMS instructed them to use the number of recipients provided by UMMS divided by the school enrollment and that a match was not necessary. OIG also reported that Fall River Public School stated the instructions regarding the calculation were not clear.

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MassHealth agrees that technical assistance is an important component of the Municipal Medicaid Program. UMMS provides technical assistance via individualized or group trainings to all participating LEAs to ensure that program requirements and claiming rules are appropriately explained and understood. MassHealth also provides guidance through provider bulletins and statewide trainings. UMMS and Unisys (MassHealth's provider services contractor) trainings are available to any LEA requiring additional assistance.

2. Implement a monitoring system to ensure that local education agencies properly calculate claims for Medicaid reimbursement

MassHealth agrees with the need for oversight procedures to minimize improper payments. MassHealth has recently implemented an additional program management reporting and monitoring system in which outliers are identified and questioned, and claims requiring additional backup documentation are not filed pending review of available documentation to support the claim. MassHealth aims through varied trainings and outreach to further assist LEAs in proper claiming. Furthermore, all administrative claims are reviewed at the time of submission to ensure that all financial calculations are correct. Any claims with mathematical errors are returned to the LEA for corrections.

3. Refund to CMS the \$5,312,447 (Federal share) that was inappropriately paid by the Medicaid program to 5 LEAs

MassHealth disagrees with this recommendation. Based on MassHealth's recalculation of the Medicaid share percentage using the most accurate methodology, MassHealth requests that the OIG revise its draft recommendations and reduce this financial finding.

4. Require all LEAs to review the calculation of their Medicaid share percentage for the audit period as well as for subsequent periods and submit adjusted claims as necessary

MassHealth will issue reminder instructions to LEAs reinforcing their obligation to ensure that the claims they submit are accurate and to review claims submitted during the audit period and for subsequent periods and submit adjusted claims as necessary.

Conclusion

Thank you for the opportunity to respond to this draft audit. MassHealth looks forward to continue working with the OIG to provide any additional information necessary as the OIG prepares its final report.

Sincerely,



Beth Waldman
Medicaid Director