



OCT -2 2002

**TO:** Neil Donovan  
Director, Audit Liaison Staff  
Centers for Medicare & Medicaid Services

**FROM:** Dennis J. Duquette *Dennis J. Duquette*  
Deputy Inspector General  
for Audit Services

**SUBJECT:** Review of Oregon State's Administrative Costs Claimed for Medicaid School-Based Health Services in State Fiscal Year 2000 (A-10-02-00002)

As part of the Office of Inspector General's self-initiated audit work, we are alerting you to the issuance within 5 business days of our final audit report entitled, "Review of Oregon State's Administrative Costs Claimed for Medicaid School-Based Health Services in State Fiscal Year 2000." A copy of the report is attached. This report is one in a series of reports in our multi-state initiative focusing on administrative costs claimed for Medicaid school-based health services. We suggest you share this report with the Centers for Medicare & Medicaid Services (CMS) components involved in program integrity, provider issues, and state Medicaid agency oversight, particularly the Center for Medicaid and State Operations.

The objective of our review was to determine whether the administrative expenditures claimed by the Oregon State Department of Health Services, Office of Medical Assistance Programs (Oregon), for school-based health services for the period July 1, 1999 through June 30, 2000 (state fiscal year (SFY) 2000) were reasonable, allowable, and adequately supported.

We found that Oregon did not properly monitor the school-based health services administrative match program (Program). As a result, in SFY 2000, Oregon:

- (1) did not ensure that unallowable costs were excluded from claims submitted for Program reimbursement; and
- (2) allowed invalid time studies to be used to claim federal reimbursement.

However, due to Program reimbursement limits imposed by Oregon, it appears that the unallowable costs were not claimed for federal financial participation. During the course of our audit, Oregon officials told us they were considering eliminating the reimbursement limits. We are calling this issue to your attention because Oregon would have been reimbursed between \$3.5 million and \$5.3 million in unallowable costs if it had not limited reimbursement for SFY 2000.

We recommended that Oregon:

- (1) ensure Program expenditures are reasonable, allowable, and adequately supported; and
- (2) ensure time studies are properly conducted and that results are a valid representation of the activities performed.

In written response to our draft report, Oregon officials concurred with most of the issues presented regarding monitoring of Program costs and time studies. However, Oregon strongly disagreed with the disallowance of costs related to the summer quarter expenditures. They stated that the methodology was approved by CMS and not identified as a problem in CMS's recent SFY 1999 Program review. They also stated that the method seemed reasonable because most school employees elected to receive their yearly salary over a 12-month period. Oregon officials stated they will work with CMS to resolve the finding.

Based on follow-up discussions with CMS officials, we acknowledge that CMS approved Oregon's methodology. We agree in general that, for those employees whose salary costs were based on a 9-month school year, average time study survey rates generated valid representations of activities performed and assignable costs. However, for those individuals employed and paid on a calendar year basis, the use of average rates over a 12-month period resulted in overstated costs. The costs were overstated because an average rate was derived from the quarters of the school year when employees' interactions with students were high, unlike the summer quarter when student interaction was much lower.

We summarized Oregon's comments and responded to those comments at the end of the FINDINGS AND RECOMMENDATIONS section of the report, and included the comments in their entirety as an Appendix to the report.

Any questions or comments on any aspect of this memorandum are welcome. Please address them to George M. Reeb, Assistant Inspector General for the Centers for Medicare and Medicaid Audits, at (410) 786-7104 or Lori Ahlstrand, Regional Inspector General for Audit Services, Region IX, at (415) 437-8360.

Attachment

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF OREGON STATE'S  
ADMINISTRATIVE COSTS CLAIMED  
FOR MEDICAID  
SCHOOL-BASED HEALTH SERVICES  
IN STATE FISCAL YEAR 2000**



**JANET REHNQUIST  
INSPECTOR GENERAL**

**OCTOBER 2002  
A-10-02-00002**

# *Notices*

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**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
at <http://oig.hhs.gov>

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 information contained therein 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. Final determination on these matters will be made by authorized officials of the HHS divisions.





Office of Audit Services  
Region IX  
50 United Nations Plaza, Rm. 171  
San Francisco, CA 94102  
(415) 437-8360 FAX (415) 437-8372

OCT -7 2002

Common Identification Number: A-10-02-00002

Mr. Bobby S. Mink  
Oregon Department of Human Services  
500 Summer Street NE E15  
Salem, Oregon 97301-1097

Dear Mr. Mink:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) final report entitled, "Review of Oregon State's Administrative Costs Claimed for School-Based Health Services in State Fiscal Year 2000." Your attention is invited to the audit findings and recommendations contained in the report.

Final determination as to actions taken on all matters reported will be made by the HHS action official. We request that you respond to the HHS action official identified on page 2 of this transmittal 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. Should you have any questions, please direct them to the HHS action official.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, OIG, OAS reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act (See 45 CFR Part 5). As such, within 10 business days after the final report is issued, it will be posted on the world wide web at <http://oig.hhs.gov>. To facilitate identification, please refer to Common Identification Number A-10-02-00002 in all correspondence relating to this report.

Sincerely,

Lori A. Ahlstrand  
Regional Inspector General  
for Audit Services

Enclosures – as stated

Page 2 – Mr. Bobby S. Mink

**Direct Reply To HHS Action Official:**

Linda Ruiz, Regional Administrator  
Centers for Medicare & Medicaid Services, Region X  
Department of Health and Human Services  
2201 6<sup>th</sup> Avenue, M/S RX-40  
Seattle, Washington 98121



OCT - 7 2002

Office of Audit Services  
Region IX  
50 United Nations Plaza  
Room 171  
San Francisco, CA 94102

Common Identification Number: A-10-02-00002

Mr. Bobby S. Mink, Director  
Department of Human Services  
500 Summer Street NE E15  
Salem, Oregon 97301-1097

Dear Mr. Mink:

This final report presents the results of our *Review of Oregon's Administrative Costs Claimed for Medicaid School-Based Health Services in State Fiscal Year 2000*. The objective of our review was to determine whether the administrative expenditures claimed by the Oregon Department of Human Services, Office of Medical Assistance Programs (Oregon), for school-based health services in state fiscal year (SFY) 2000 were reasonable, allowable, and adequately supported.

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## EXECUTIVE SUMMARY

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Our review showed Oregon did not properly monitor the school-based health services administrative match program (Program). Specifically, Oregon did not monitor Program costs to ensure that unallowable costs were excluded from claims submitted by three non-governmental entities (participants) for Program reimbursement. We identified approximately \$5.3 million of unallowable costs included on these claims. However, due to Program reimbursement limits imposed by Oregon, it appears the unallowable costs were not claimed for federal financial participation (FFP).

Three participants, on behalf of 16 school districts, reported to Oregon \$10.3 million in total Program costs. For SFY 2000, Oregon's Program reimbursement limits were \$4.6 million (\$2.3 million FFP). Therefore, Oregon did not reimburse participants the remaining \$5.7 million of reported costs, an amount greater than the unallowable costs we identified. If Oregon had not imposed Program reimbursement limits, it would have received federal reimbursement for unallowable costs.

In addition, Oregon did not adequately monitor how Program participants were conducting the time studies used to allocate costs to the Program. Time studies were not always completed in accordance with time study instructions, which resulted in invalid time study data. Also, time

study calculations were inaccurate due to the use of overstated salary and benefit costs. Due to the structure of the time studies, inappropriate time allocated to the Program could not be specifically identified and, therefore, the effect on FFP claimed resulting from the use of invalid time study results could not be quantified.

During our review, Oregon officials commented on potential future changes to the Program, including expanding to more participants and eliminating reimbursement limits. These potential changes further amplify the need to identify unallowable Program costs through implementation of improved Program monitoring. Without improved monitoring, unallowable costs similar to those identified in this review could be claimed for FFP. We believe that proper and timely reviews of claims and supporting documentation by Oregon would help to ensure that unallowable costs are properly identified and removed from the claims for FFP.

We recommended Oregon improve monitoring of the Program to:

- (1) ensure Program expenditures are reasonable, allowable, and adequately supported; and
- (2) ensure time studies are properly conducted and that results are a valid representation of the activities performed.

In written response to our draft report, Oregon officials generally concurred with most of the issues presented. However, Oregon strongly disagreed with the disallowance of costs related to the summer quarter expenditures. They stated that the methodology was approved by the Centers for Medicare & Medicaid Services (CMS) and not identified as a problem in CMS's recent SFY 1999 Program review. They also stated that the method seemed reasonable because most school employees elected to receive their yearly salary over a 12-month period. Oregon officials stated they will work with CMS to resolve the finding.

Based on follow-up discussions with CMS officials, we acknowledge that CMS approved Oregon's methodology. We agree in general that, for those employees whose salary costs were based on a 9-month school year, average time study survey rates generated valid representations of activities performed and assignable costs. However, for those individuals employed and paid on a calendar year basis, the use of average rates over a 12-month period resulted in overstated costs. The costs were overstated because an average rate was derived from the quarters of the school year when employees' interactions with students were high, unlike the summer quarter when student interaction was much lower.

We encourage Oregon to continue to work with CMS on the development and implementation of an allocation methodology appropriate for employees who work a 12-month schedule. The

methodology should recognize the reduction in allowable administrative activities during the summer quarter. The conduct of time studies may be necessary to properly support the amounts claimed for those employees during the summer quarter.

We summarized Oregon's comments and responded to those comments at the end of the FINDINGS AND RECOMMENDATIONS section of this report. The complete text of Oregon's comments is included as an Appendix to this report.

In the OTHER MATTERS section of this report, we noted that several of the school district employees interviewed during the course of our fieldwork stated the training they received on the revised time study forms for SFY 2002 was inadequate.

Further, we found that the three participants received the maximum amount available under Oregon's imposed reimbursement limits on Program expenditures in SFY 2000. The participants used the Program funds as compensation for their indirect costs and a variety of school district health and social activities, including hiring health access personnel, upgrading student computer facilities, and providing programs for low-income families and low-performing and at-risk students.

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## INTRODUCTION

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### BACKGROUND

#### Medicaid Program

Title XIX of the Social Security Act (the Act) authorizes federal grants to states for Medicaid programs to provide medical assistance to persons with limited income and resources. Each state Medicaid program is administered in accordance with a state plan approved by CMS. Although a state has considerable flexibility in designing its state plan and operating its Medicaid program, it must comply with broad federal requirements.

While Medicaid programs are administered by the states, they are jointly financed by 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 FFP for administration is a fixed rate of 50 percent for all states.

## **School-Based Health Services Program**

The Medicaid program, recognizing the important role school health services can play, has supported school-based health care as an effective method of providing access to essential medical care to eligible children. The school-based health services program was designed to promote access to health care for eligible students in the public school systems, thereby, preventing costly or long-term health care problems. The services include routine preventive health care, primary treatment, and services for children with special needs. Further, these services may be provided at a school-based clinic, a linked clinic, or a private clinic in collaboration with school personnel.

The Act permits payment of FFP for administrative claims for the proper and efficient administration of the state plan. Administrative expenditures incurred for school-based health services are considered appropriate to properly and efficiently administer the state plan. A school district may be eligible to receive payment for activities performed in support of the Program regardless of whether the district has school-based health clinics or performs any direct services. The Program covers such items as Medicaid outreach, eligibility intake, information and referral, health service coordination and monitoring, and interagency coordination. Sixteen Oregon school districts were reimbursed for these activities under the Program in SFY 2000.

## **Program Implementation**

Oregon, in implementing the Program, entered into biennial intergovernmental agreements (agreements) with three participants located in Oregon. For SFY 2000, the three participants were Marion County Child Health Initiative, Crook-Deschutes Educational Service District, and Linn-Benton-Lincoln Educational Service District. The participants were delegated the responsibility of administering the Program. The participants also compiled the costs of school districts located in their respective regions and submitted the expenditures to Oregon for reimbursement.

The agreements limited the total overall biennial payment and maximum quarterly payment each participant could receive. Due to these limits, the three participants were entitled to receive up to \$4.6 million in Program funds for SFY 2000. For the 12 months ended June 30, 2000, Oregon claimed \$4.6 million (\$2.3 million FFP) for the \$10.3 million in Program expenditures reported by the three participants.

During the period of our review, Oregon, acting as a pass-through entity between the Federal Government and the participants, did not expend any funds for the Program. Oregon claimed FFP based on its payments to Program participants. To meet the Program's FFP requirements, Oregon transferred to the participants payments equal to both the federal and state shares.

However, Oregon billed each participant to recover the state's share of the total expenditures. Based on this arrangement, Oregon used the participants' reported expenditures to meet the state's share of the FFP requirements.

Subsequent to the period of our review, Oregon issued a Program manual in May 2002.

### **CMS Guidance and Review**

The CMS issued two technical guides that summarized the requirements states must meet in order to obtain reimbursement for Program expenditures. The guides are: "Medicaid and School Health: A Technical Assistance Guide," dated August 1997 (CMS Technical Guide) and the February 2000 draft, "Medicaid School-Based Administrative Claiming Guide."

The CMS performed a review of the Program for SFY 1999. The CMS "identified a number of instances where the state's claims and/or documentation are not in conformance" with guidelines. As a result, CMS recommended the following:

- (1) enhance the state's oversight of the Program;
- (2) employ the CMS February 2000 administrative claiming guide in all future claims;
- (3) update the intergovernmental and interagency agreements regarding the Program;
- (4) assure that the state's cost allocation plan includes processes used by counties, participants, or school districts for claiming or allocating costs;
- (5) assure that time sampling is statistically valid;
- (6) claim indirect costs at rates approved by the federal Department of Education;
- (7) use the administration codes specified in the claiming guide; and
- (8) update the time study survey form to reflect revised administrative activities.

Because of the timing of the CMS recommendations and Oregon's corrective actions, Oregon was not able to implement the recommendations during our audit period. However, we were able to confirm the implementation of revised time study survey forms effective November 2001.

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

Our review was conducted in accordance with generally accepted government auditing standards. The objective of our review was to determine whether the administrative expenditures incurred by Oregon for school-based health services in SFY 2000 were reasonable, allowable, and adequately supported. We reviewed all three of the participants that reported Program expenditures in SFY 2000. Program expenditures totaled approximately \$10.3 million in SFY 2000. Of the \$10.3 million reported, Oregon claimed \$4.6 million for \$2.3 million in FFP.

To accomplish our objective, we conducted site reviews at Oregon and all three participants. We interviewed Oregon Program officials to discuss their roles and procedures in administering the Program. We also reviewed records supporting Oregon's claims for FFP.

We met with participant personnel and discussed reporting procedures, reviewed supporting documentation, and obtained an understanding of the sampling methodologies used to determine the costs allocated to Medicaid. We also interviewed school employees to determine the adequacy of training they received to complete time study surveys. In addition, we met with CMS officials to determine their involvement with Oregon in the development, modification, and review of the Program.

We reviewed only those internal controls considered necessary to achieve our objectives. Our review was limited to obtaining an understanding of Oregon's administrative claim processing system for school-based health services.

Our field work was conducted during the period of October 2001 through May 2002 and included site visits to: Oregon's office in Salem, and participants' administrative offices of Marion County, Child Health Initiative in Salem, Crook-Deschutes Educational Service District in Redmond, and Linn-Benton-Lincoln Educational Service District in Albany.

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## **FINDINGS AND RECOMMENDATIONS**

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We found Oregon did not properly monitor the Program. We determined that approximately \$5.3 million in expenditures submitted to Oregon for reimbursement were not allowable for FFP under the Program. Due to Oregon's limitation on reimbursement to Program participants, it appears these costs were not used in the claim for federal matching funds. Included in the costs reported to Oregon were approximately:

- (1) \$2.5 million for the summer quarter expenditures that were not properly supported with valid time studies,
- (2) \$2.5 million for overstated indirect costs, and
- (3) \$264,000 in duplicate costs.

We also determined that Oregon did not adequately monitor how Program participants were conducting the time studies used to allocate costs to the Program. The time studies were not always completed in accordance with time study instructions, which resulted in invalid time study data. In addition, we determined that the time study calculations were inaccurate due to the

use of overstated salary and benefit costs. Due to the structure of the time studies, inappropriate time allocated to the Program could not be specifically identified and, therefore, the effect on FFP claimed resulting from the use of invalid time study data could not be quantified.

Oregon had little incentive to closely monitor the Program because Oregon imposed Program reimbursement limits and any state funds used in the Program were fully recovered from the Program's participants through intergovernmental transfers. During the period of our review, Oregon's monitoring efforts were limited to verifying whether a participant's (1) agreement was current and (2) claim exceeded its quarterly reimbursement limit.

During our review, Oregon officials commented on the possible future expansion of the Program. Oregon is considering expanding the Program to a larger number of participants and eliminating reimbursement limits. As a result, the issues identified in our report raise considerable future concern over Oregon's efforts to safeguard federal Medicaid funds.

## **UNALLOWABLE COSTS**

### **Unsupported Summer Quarter Expenditures**

The three Program participants reported to Oregon approximately \$2.5 million for summer quarter expenditures that were not properly supported. Rather than conducting time studies to determine allowable administrative activities for the summer quarter, the three participants calculated their costs based on various averages of data applicable to other time periods. By not conducting valid time studies during the summer quarter, the participants, in effect, claimed reimbursement for costs that were unsupported.

In addition, school employees' costs were allocated to all four quarters of the year, regardless of the length of time worked during the year. It appears the allocations were performed to maximize the amounts the participants would be reimbursed by Oregon. However, the use of an average rate to calculate the claim for the summer quarter also resulted in an overstatement of costs.

Lastly, we noted that, of the \$2.5 million claimed by Program participants for the summer quarter, 1 participant's claim included a mathematical error that overstated costs by \$739,462.

Office of Management and Budget Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments," dated May 1999, states:

"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."

Additionally, the CMS Technical Guide states:

“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.”

Generally, the level of allowable activities performed during the summer quarter is much lower than the other three quarters in the school year. During the summer quarter, school officials had minimal student interaction and did not perform the same administrative activities as when school was in session. Because of the limited interaction school officials had with students during the summer months, the amount claimed did not accurately represent the percentage of time actually attributable to Medicaid-eligible individuals.

### **Overstated Indirect Costs**

Indirect costs reported to Oregon by two Program participants were incorrect. Calculation errors caused the participants’ Program expenditures to be overstated by approximately \$2.5 million.

One participant duplicated its school districts’ total costs in compiling the amount reported to Oregon. The errors occurred in each of the four quarterly claims submitted to Oregon and resulted in an overstatement of \$2,498,372.

Another participant incorrectly combined school districts’ direct and indirect costs when calculating its indirect costs. According to the agreements between Oregon and Program participants, the participants were to calculate their indirect costs based only upon each school district’s direct costs. This resulted in an overstatement of indirect costs totaling \$3,124.

### **Duplicate Costs**

Participants’ expenditures reported to Oregon included duplicate costs. Direct costs of personnel services for school district employees, totaling \$263,676, were included in the participants’ indirect cost component as well as the direct cost component of the claim submitted to Oregon. The costs were factored into the percentage used to calculate indirect costs and also in the time study projections for administrative staff.

We also found that Program expenditures included employees’ costs that were either partially, or 100 percent funded, by another federal program. In one instance, a participant chose to include two individuals in the cost pool because they were not 100 percent funded by other federal programs. The CMS Technical Guide states:

“[P]ayments for allowable administrative activities must not duplicate payments that have been or should have been included and paid as part of a rate for services, part of a capitation rate, or through some other state or federal program.”

The CMS Technical Guide further states:

“[I]n no case should a program or claiming unit in a local jurisdiction be reimbursed more than the actual cost of that programs claiming unit, including state, local, and federal funds.”

Claiming costs under the Program that are either partially or fully funded by another governmental agency, results in reimbursements that exceed the actual costs of providing the services. Without a full review of all employees, the extent of potential duplicate claims for employees who were partially or fully funded by another governmental entity could not be determined. We determined that such a review would be cost prohibitive during our audit timeframe and, therefore, did not attempt to calculate the potential overstatements.

## **TIME STUDIES**

Oregon did not perform adequate reviews to ensure the time studies performed at the school districts were conducted and completed in accordance with Program requirements. The studies were not always conducted in accordance with the prescribed methodology, which resulted in invalid time study data. Included in the studies were unallowable activities and inaccurate payroll data that were not properly identified and excluded from the calculation of the claim for FFP. Due to the structure of the time studies, inappropriate time allocated to the Program could not be identified and, therefore, the effect on the FFP claimed resulting from the use of invalid time study and inaccurate payroll data could not be quantified.

### **Invalid Time Study Data**

We determined that activities unrelated to Medicaid covered services or health issues were inappropriately classified as Medicaid reimbursable activities. In addition, many school employees did not understand the prescribed activity codes or the amount of time required to record an allowable activity. The three participants stated that school district employees received training in completion of time study log sheets. However, based upon our interviews of school employees, we determined that the training received varied between school districts and that the majority of school district employees completing the time studies did not have an adequate understanding of the Program’s requirements or the structure of the time study to accurately reflect their Medicaid administrative efforts.

Further, several school employees we reviewed failed to correctly input their position code on the time study. This error occurred even though their position code was written on the identification

label for the time study. In addition, one employee coded his time as a reimbursable Program activity, i.e., administrative time, when he should have included his time as a non-Program activity because his salary was already reported as a direct cost to Medicaid.

The time studies were used to support the amount of time employees spent performing Medicaid activities and to determine the share of costs allocated to the Program. Without complete and accurate records documenting allowable activities, there is no assurance that Medicaid was charged for only its fair share of costs.

### **Inaccurate Payroll Data**

We found salary and benefit amounts used in the time study calculations exceeded the amounts supported by payroll records. For 19 judgmentally-selected school employees for 1 participant, we found that payroll data included in the time study was either overstated or understated for each of the sampled employees. For example, 1 school employee's salary had been increased by a factor of 10 when included in the time study calculation.

### **RECOMMENDATIONS**

Although Oregon placed limitations on payments it made to Program participants, the costs included in our review contained amounts that were unallowable under the Program. As the Program is offered to more participants and reimbursement limits are removed, the significance of the issues identified in our report will be increased. As a result, Oregon should implement adequate policies and procedures that ensure the allowability of costs used to claim FFP.

We recommended Oregon improve monitoring of the Program to:

- (1) ensure Program expenditures are reasonable, allowable, and adequately supported; and
- (2) ensure time studies are properly conducted and that results are a valid representation of the activities performed.

### **OREGON' S COMMENTS**

In written response to our draft audit report, Oregon officials concurred with the issues presented regarding unallowable costs pertaining to overstated indirect costs, duplicate costs, and time study cost calculations based upon invalid time study data and inaccurate payroll data. However, Oregon strongly disagreed with the disallowance of costs related to the unsupported summer quarter expenditures. Oregon asserted that since 1993, its administrative claiming methodology was approved by CMS and not identified as a problem in CMS's recent SFY 1999 Program review. They added that the methodology also seemed reasonable because most school

employees elected to receive their salaries over a 12-month period. Oregon officials commented they will work with CMS to resolve this finding.

Oregon also stated that corrective actions in the areas of Program monitoring and review were being implemented. Oregon stated that staff have been assigned to monitor and review cost claims, perform training for school staff, and carry out periodic reviews of time studies conducted by Program participants. In addition, since our review, Oregon wrote and distributed a provider manual for use by Program participants and established an electronic mail distribution of frequently asked questions to all participants.

The complete text of Oregon's comments is included as an Appendix to this report.

## **OIG'S RESPONSE**

Based on follow-up discussions with CMS officials, we acknowledge that CMS approved Oregon's methodology. We agree in general that, for those employees whose salary costs were based on a 9-month school year, average time study survey rates generated valid representations of activities performed and assignable costs. However, for those individuals employed and paid on a 12-month basis, the use of average rates over a 12-month period resulted in overstated costs. The costs were overstated because an average rate was derived from the quarters of the school year when employees' interactions with students were high, unlike the summer quarter when student interaction was much lower.

We encourage Oregon to continue to work with CMS on the development and implementation of an allocation methodology appropriate for employees who work a 12-month schedule. The methodology should recognize the reduction in allowable administrative activities during the summer quarter. The conduct of time studies may be necessary to properly support the amounts claimed for those employees during the summer quarter.

We also believe the actions taken by Oregon, if properly implemented and maintained, will help to ensure that Program expenditures used to claim FFP are allowable and in accordance with the requirements of the Program.

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## **OTHER MATTERS**

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### **UPDATED TIME STUDY SURVEYS**

Oregon implemented a new time study survey form for SFY 2002. The updated form incorporated recommended changes made by CMS in its review of Oregon's SFY 1999 Program claims. The new survey form was first used in November 2001, after our period of review. We

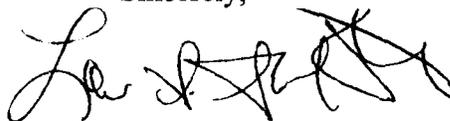
noted, during our review, that several of the school employees we interviewed stated that they had not received any instruction on the new forms.

## **PARTICIPANTS' USE OF FUNDS**

The three Program participants received the maximum amount of Program matching funds under Oregon's imposed reimbursement limits for Program expenditures in SFY 2000. We found the participants used those funds to cover their indirect costs and school district health and social activities, including hiring health access personnel, upgrading student computer facilities, and providing programs for low-income families and low-performing and at-risk students.

If you have any additional comments or concerns, please address them to the HHS Action Official shown on the transmittal letter. To facilitate identification, please refer to Common Identification Number A-10-01-00002 in all correspondence related to this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori A. Ahlstrand". The signature is fluid and cursive, with a large initial "L" and a stylized "A" at the end.

Lori A. Ahlstrand  
Regional Inspector General  
for Audit Services

# **APPENDIX**



**Oregon**

John A. Kitzhaber, M.D., Governor

**Department of Human Services**

*Office of the Director*  
500 Summer St. NE, E15  
Salem, OR 97301-1097  
503-945-5944  
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July 30, 2002

Lori A. Ahlstrand, Regional Inspector General for Audit Services  
Department of Health & Human Services  
Office of the Inspector General  
Region IX Office of Audit Services  
50 United Nations Plaza, Room 171  
San Francisco, CA 94102

Re: Draft Audit Report CIN A-10-02-00002

Dear Ms. Ahlstrand:

Enclosed is the Oregon Department of Human Services' (DHS) response to your office's draft audit report titled, "Review of Oregon State's Administrative Costs Claimed for Medicaid School-Based Health Services in State Fiscal Year 2000."

We concur with all of the findings except the one related to summer claiming. We strongly disagree on this issue and have provided our reasons as part of our response.

DHS appreciates the opportunity to comment on the draft audit report.

Sincerely,

Bobby S. Mink  
Director

Enclosure



*"Assisting People to Become Independent, Healthy and Safe"*  
An Equal Opportunity Employer

Common Identification Number A-10-02-00002

SUMMARY OF  
STATE OF OREGON'S AUDIT RESPONSE

Following is the Oregon Department of Human Service's (DHS) response to the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services draft report entitled "Review of Oregon State's Administrative Costs Claimed for Medicaid School-Based Health Services in State Fiscal Year 2000."

- FINDING: Summer Quarter. Program participants reported approximately \$2.5 million for summer quarter expenditures that were not properly supported.

*Response: DHS disagrees with the finding. Since 1993 Oregon, with approval by Region X CMS, has submitted claims for the summer quarters based upon an averaging of the spring and fall quarter time studies. This methodology was actually part of an approved state plan amendment that Oregon submitted for its school-based claiming program in its first few years of operation. It was later removed as a state plan amendment at the request of CMS because CMS did not believe it was necessary for it to be part of the state plan.*

*Using an average for the summer quarter claim is done because although the expenditures claimed by school districts are based upon a nine-month school year, most school employees elect to receive their paychecks over a 12-month calendar year. This approach seemed to be a reasonable method to account for the actual distribution of payments made for the summer quarter. Furthermore, CMS did not identify this as a problem in its 2000 review of Oregon's school-based administrative claiming process.*

*DHS will discuss this finding with CMS Region X to resolve this issue.*

FINDING: Indirect Costs. Indirect costs were overstated by approximately \$2.5 million. One participant duplicated its school districts' total costs which resulted in an overstatement of \$2,498,372. Another participant incorrectly combined its direct and indirect costs when calculating its indirect costs; result was an overstatement of indirect costs totaling \$3,124.

Response: *Oregon agrees with the finding. Steps have already been taken to address this problem, including the use of a new claiming form which should prevent such math mistakes from being repeated in the future.*

- **FINDING:** Duplicate Costs. Direct costs of personnel services for school district employees, totaling \$263,676, were included in the participants' indirect cost component as well. Additionally, it was found that costs either partially or fully funded by other Federal programs were claimed; however, the total amount of such an overstatement cannot be determined at this time.

Response: *Oregon agrees with the finding. Training conducted by DHS staff includes instructions on calculating the indirect cost rate and separating out the components of the indirect cost rate from any items claimed as administrative expenditures. Instruction is also provided on the need to exclude from the cost pool the amount of any salaries paid with federal funds. Both of these topics are also specifically addressed in the new provider manual.*

- **FINDING:** Time Studies. Time studies performed at the school districts were not conducted and completed in accordance with Program requirements. Furthermore, time study calculations were inaccurate due to use of overstated salary and benefit costs.

Response: *Oregon agrees with the finding. Additional DHS staff has been added to train school staff and to conduct periodic reviews of the time studies conducted by program participants. Schools are contractually required to maintain training logs for the purpose of time study verification. Any school employee who has not been trained is excluded from the cost pool. Instructions are also provided to use only the actual amounts for paid benefits; estimates are not allowed.*

- **RECOMMENDATION:** Oregon should improve the monitoring of its program to:

Ensure program expenditures are reasonable, allowable, and adequately supported; and

Ensure time studies are properly conducted and that results are a valid representation of the activities performed.

*Response: Oregon agrees with these recommendations. Since the time of the audit conducted by OIG, the following actions have been taken:*

- *Hired one full-time staff person to help administer the program; this is in addition to other two staff persons who spend at least half their time on the administrative claiming program;*
- *Written and distributed a provider manual to be used by all the ESDs for their training and claiming activities;*
- *Updated all the intergovernmental agreements used by the ESDs and the school districts;*
- *Began an e-mail distribution of Frequently Asked Questions (FAQ) to all the participating districts;*
- *Periodic visits to the ESDs to assist them in training and claiming procedures.*