



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

REGION V
OFFICE OF
INSPECTOR GENERAL

August 4, 2005

Report Number: A-05-02-00050

Barry S. Maram
Director
Illinois Department of Healthcare and Family Services
201 South Grand Avenue East
Springfield, Illinois 62763-0002

Dear Mr. Maram:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final audit report entitled "Review of Illinois Medicaid School-Based Administrative Costs for State Fiscal Year 2001." A copy of this report will be forwarded to the action official noted below for review and any action deemed necessary.

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 within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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Please refer to report number A-05-02-00050 in all correspondence.

Sincerely,

Paul Swanson
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Ms. Verlon Johnson
Associate Regional Administrator
Division of Medicaid and Children's Health
Centers for Medicare & Medicaid Services
Department of Health and Human Services
233 North Michigan Avenue, Suite 600
Chicago, Illinois 60601-5519

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF ILLINOIS MEDICAID
SCHOOL-BASED ADMINISTRATIVE
COSTS FOR STATE FISCAL YEAR
2001**



**Daniel R. Levinson
Inspector General**

**August 2005
A-05-02-00050**

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

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



EXECUTIVE SUMMARY

BACKGROUND

The Medicaid program under Title XIX of the Social Security Act authorizes Federal grants to States to help pay for the cost of medical assistance for needy persons. Each State Medicaid program is jointly financed by the Federal and State governments and administered by the State in accordance with a State plan approved by the Centers for Medicare & Medicaid Services (CMS).

In 1988, Medicaid was extended to cover health-related services provided to children under Part B of the Individuals with Disabilities Education Act. This school-based health program allows eligible children to receive health-related services, generally without having to leave school. Medicaid reimbursement is paid to States for the cost of the program's administration by school districts. Administrative functions include outreach, eligibility intake, information and referral, health service coordination and monitoring, and interagency coordination.

During State fiscal year (SFY) 2001, Illinois claimed Federal reimbursement of approximately \$137 million for school-based administrative costs incurred by about 825 local education agencies. The Illinois Department of Healthcare and Family Services (HFS) and the Illinois State Board of Education shared school-based program oversight.

Since 1994, when Illinois began claiming administrative costs for school-based services, the State's methodology has been subject to ongoing revision based on discussions between HFS and CMS. The initially developed administrative codes, used as a part of a time study process to allocate administrative costs to Medicaid, required additional clarification and refinement to ensure that local education agencies were not reimbursed for costs unrelated to Medicaid. CMS ultimately approved all but one of the revised Illinois administrative claiming codes for implementation in 2002.

OBJECTIVE

The objective of our review was to determine whether Medicaid administrative costs claimed for school-based services at two Illinois local education agencies for SFY 2001 were reasonable, allowable, and adequately supported in accordance with applicable Federal and State requirements.

SUMMARY OF FINDINGS

The Chicago local education agency claimed unallowable Federal financial participation (FFP) of \$22,976 for enhanced reimbursement. Of the \$22,976, \$14,847 was unallowable because the costs of materials and supplies were claimed at the 75 percent rate rather than at the 50 percent rate. The remaining \$8,129 was unallowable because the costs for support personnel were claimed as family planning services at the 90 percent rate rather than at the lower 50 percent rate.

In addition, time study documentation at both the Chicago and the Peoria local education agencies was generally not sufficient for us to verify that skilled professional medical personnel expertise was required to perform the activities claimed at the enhanced 75 percent rate. Although the combined difference between claims calculated at the 50 percent rate and the 75 percent rate for the two local education agencies was approximately \$3.5 million for SFY 2001, Federal criteria and CMS policy did not address the level of supporting documentation that should have been maintained during this time period and we did not question this amount. Better supporting documentation should be maintained by the local education agencies in order to allow for independent verification that skilled professional medical expertise is required for activities reported for the enhanced 75 percent reimbursement.

RECOMMENDATIONS

We recommend that HFS:

- Refund \$22,976 (Federal share) that was not claimed in accordance with applicable Federal and State Medicaid requirements.
- Work with local education agencies to ensure that sufficient documentation is maintained to allow independent verification that skilled professional medical expertise is required to perform all activities that are claimed at the 75 percent enhanced rate.

STATE COMMENTS

In written comments to the draft report, HFS agreed with our findings and recommendations. We have included the State's comments in their entirety as an appendix to this report.

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INTRODUCTION

BACKGROUND

Nationwide School-Based Program

The Medicaid program under Title XIX of the Social Security Act pays for medical assistance costs for persons with limited income and resources. Each State Medicaid program is administered in accordance with a State plan approved by the Centers for Medicare & Medicaid Services (CMS) to ensure compliance with Federal requirements.

In 1988, Congress amended section 1903(c) of the Social Security Act to extend Medicaid coverage to health-related services provided to children under Part B of the Individuals with Disabilities Education Act. This school-based program allows eligible children to receive health-related services, generally without having to leave school. The Individuals with Disabilities Education Act provides for Medicaid reimbursement to States for the cost of the program's administration by school districts. Administrative functions include outreach, eligibility intake, information and referral, health service coordination and monitoring, and interagency coordination.

The Federal Government and States share the allowable costs of the program, generally at the Federal financial participation (FFP) rate of 50 percent. Before January 2003, the FFP rate for skilled professional medical personnel activities was generally 75 percent of allowable costs. To receive the enhanced rate, Medicaid required skilled professional medical personnel to perform activities requiring the use of their professional training and expertise.

Illinois School-Based Administrative Claims and Coding

For SFY 2001, Illinois claimed Federal reimbursement of approximately \$137 million for school-based administrative costs incurred by about 825 local education agencies that submitted at least one quarterly administrative claim. Local education agencies compiled their claims independently, or through cooperative arrangements between multiple school districts. Some individual and cooperating groups of local education agencies entered into agreements with billing agents or consultants to assist them with the claim filing process. During SFY 2001, the Illinois Department of Healthcare and Family Services (HFS) and the Illinois State Board of Education shared school-based program oversight. Interagency agreements were executed between these two State agencies, and between the Illinois State Board of Education and the participating individual and cooperating local education agencies. These agreements defined the responsibilities of each participant.

Since 1994, when Illinois began claiming administrative costs for school-based services, the methodology has been subject to ongoing revision based on discussions between HFS and CMS. The initially developed administrative codes, used as a part of a time study process to allocate administrative costs to Medicaid, required additional clarification and refinement to ensure that local education agencies were not reimbursed for costs unrelated to Medicaid. CMS ultimately

approved all but one of the revised Illinois administrative claiming codes for implementation in 2002¹.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our review was to determine whether Medicaid administrative costs claimed for school-based services at two Illinois local education agencies were reasonable, allowable, and adequately supported in accordance with applicable Federal and State requirements.

Scope

Our review at the Chicago and Peoria local education agencies covered SFY 2001. Chicago Public Schools was the largest claiming individual local education agency within the State, while the Peoria local education agency participated in a cooperative arrangement (the Peoria Consortium), consisting of approximately 390 individual school districts that were reimbursed through single quarterly administrative claims. The Peoria local education agency functioned as the billing agent for the Peoria Consortium as a whole. Our objective did not require a review of internal controls.

For SFY 2001, the two selected local education agencies received about \$23.7 million (Federal share) for the administrative costs of providing school-based services. We reviewed a judgmentally selected sample of SFY 2001 claimed administrative cost transactions totaling about \$500,400. We also assessed the overall procedures that were used to prepare the claims for the Chicago local education agency and for the Peoria Consortium.

Fieldwork was completed at the offices of HFS in Springfield, Illinois and at the administrative offices of the local education agencies in Chicago and Peoria, Illinois.

Methodology

To accomplish our objective, we:

- evaluated the overall claim preparation procedures used by the Chicago local education agency and the Peoria Consortium,
- reviewed documentation supporting the allocation and appropriateness of selected cost transactions claimed by the Chicago and Peoria local education agencies,
- reviewed time study documentation supporting skilled professional medical claiming at the 75 percent enhanced rate by the Chicago and Peoria local education agencies, and

¹ Identification and Referral (activity code "C") had not been approved at the time our fieldwork was completed.

- reviewed the State’s administrative cost claiming policies and procedures to understand the general process and to verify overall compliance with Federal requirements.

Our audit was conducted in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

The Chicago local education agency claimed unallowable FFP of \$22,976 for enhanced reimbursement. Of the \$22,976, \$14,847 was unallowable because the costs of materials and supplies were claimed at the 75 percent rate rather than the 50 percent rate. The remaining \$8,129 was unallowable because the costs of support personnel were claimed as family planning services at the 90 percent rate rather than the lower 50 percent rate. In addition, time study documentation at both the Chicago and the Peoria local education agencies was generally not sufficient to verify that skilled professional medical expertise was required to perform activities that were claimed at the enhanced 75 percent rate.

ENHANCED REIMBURSEMENT

Materials and Supplies

Costs for materials and supplies that did not qualify for enhanced reimbursement were claimed by the Chicago local education agency at the 75 percent rate, resulting in an overpayment of \$14,847 (Federal share).

Federal regulations at 42 CFR, section 432.50, “FFP: Staffing and training costs,” state:

“(a) Availability of FFP. FFP is available in expenditures for salary or other compensation, fringe benefits, travel, per diem, and training, at rates determined on the basis of the individual’s position, as specified in paragraph (b) of this section... (b) Rates of FFP. (1) For skilled professional medical personnel and directly supporting staff of the Medicaid agency or of other public agencies... the rate is 75 percent.”

Federal regulations allow enhanced rate reimbursement for qualifying skilled professional medical personnel costs but do not authorize claiming for the costs of materials and supplies at 75 percent. By recalculating the FFP for these costs at the 50 percent rate, we determined that the unallowable reimbursement totaled \$14,847 (Federal share). We noted that HFS’s electronic system for filing administrative cost claims now includes controls to automatically limit claims for these costs to 50 percent.

Family Planning Support Personnel

Sufficient documentation was not available to substantiate an enhanced rate FFP claim of \$8,129 for the administrative cost of personnel who supported the provision of family planning services at the Chicago local education agency. The allocation of time for the support personnel was proportional to the time allocated for the skilled professional medical personnel who performed

the family planning services, and participated in the time study process. However, the direct supervisory relationships between the support personnel and the skilled medical professionals were not documented. Although these costs were claimed at the enhanced FFP rate of 90 percent, the claim should have been limited to the FFP rate of 50 percent. The \$8,129 difference between the calculated amounts under the two rates is unallowable.

Federal regulations at 42 CFR, section 432.50(b)(5) state:

“For personnel administering family planning services and supplies, the rate is 90 percent... (c) Application of rates... (2) Rates of FFP in excess of 50 percent apply only to those portions of the individual’s working time that are spent carrying out duties in the specified areas for which the higher rate is authorized.”

Section (6)(d) of the same regulation further states:

“Other limitations for FFP rate for skilled professional medical personnel and directly supporting staff... (v)... The skilled professional medical staff must directly supervise the supporting staff and the performance of the supporting staff’s work.”

Since direct supervisory relationships between support and skilled professional medical personnel were not normally documented, the local education agency generally limited its claims for direct support personnel to 50 percent. Inconsistent with this practice, a small portion of support personnel time was claimed at the enhanced family planning rate of 90 percent. Because the support activities could not be directly associated with the administration of family planning services, the difference between FFP in these costs at the 90 percent rate and the 50 percent rate, or \$8,129 (Federal share), is unallowable for reimbursement.

DOCUMENTATION FOR SKILLED PROFESSIONAL MEDICAL PERSONNEL TIME

A significant portion of skilled professional medical claims for enhanced reimbursement of administrative costs may have been insufficiently documented through the time studies. We reviewed 34 judgmentally selected time studies at the two local education agencies and found that the documentation was generally not sufficient to confirm that skilled professional medical expertise was required to perform the activities claimed at the 75 percent enhanced rate. For 16 of the studies, we received no documentation beyond the time study form. For the remaining 18 studies, some additional documentation was provided, but this documentation was not adequate to support the enhanced FFP claim. The combined difference between claims calculated at the 50 percent rate and the 75 percent rate for the Chicago local education agency and the Peoria Consortium, is approximately \$3.5 million for SFY 2001. Better supporting documentation should be maintained by the local education agencies in order to allow for independent verification that skilled professional medical expertise is required for activities reported for the enhanced 75 percent reimbursement.

Although Federal criteria and CMS policy did not address the level of supporting documentation that should have been maintained during SFY 2001, CMS subsequently implemented its current

policy prohibiting States from claiming on behalf of skilled medical professionals at the enhanced rate².

Previously cited Federal regulations, applicable to enhanced reimbursement of skilled professional medical personnel costs, state that the enhanced rate applies only to the portion of the individual's time spent on activities for which the higher rate is authorized. Additional guidance in the draft CMS Medicaid School-Based Administrative Claiming Guide expanded upon this requirement by stating:

“There must be appropriate documentation to support all claims for enhanced FFP...These supporting records must be available when claims are audited...Checking a box on a time study form is insufficient to support a SPMP [skilled professional medical personnel] claim for it does not allow for verification.”

This CMS draft position concluded that the time study form alone was not sufficient to allow an independent reviewer to verify whether skilled professional medical personnel expertise was needed to perform a specified activity.

In Provider Notice #01-1, HFS defined the State's policy concerning enhanced rate claiming and notified participating local education agencies that only administrative activities requiring skilled professional medical expertise were eligible for the 75 percent rate. However, our time study review indicated that the level of documentation being maintained was not sufficient to support the enhanced reimbursement.

The provider notice stated that agencies must maintain sufficient documentation to verify that claimed administrative activities required the use of skilled professional medical knowledge and skills. In addition, the training materials furnished to the selected local education agencies by outside consultants also emphasized the importance of maintaining documentation in addition to the time study form. Therefore, it is important that local education agencies be able to support activities claimed at the enhanced rate in a manner that allows independent verification of the need for skilled professional medical expertise to perform the activity.

RECOMMENDATIONS

We recommend that HFS:

- Refund \$22,976 (Federal share) that was not claimed in accordance with applicable Federal and State Medicaid requirements.
- Work with local education agencies to ensure that sufficient documentation is maintained to allow independent verification that skilled professional medical expertise is required to perform all activities that are claimed at the 75 percent enhanced rate.

² CMS informed the States that enhanced rate claiming would not be permitted for skilled professional medical school staff activities effective January 21, 2003. We did not assess Illinois compliance with this policy.

STATE COMMENTS

In written comments to the draft report, HFS agreed with our findings and recommendations. We have included the State's comments in their entirety as an appendix to this report.

APPENDIX

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July 13, 2005

Department of Health and Human Services
Office of Audit Services
Attn: Paul Swanson, Regional Inspector General for Audit Services
233 North Michigan Avenue, Suite 1360
Chicago, Illinois 60601-5502

Re: Draft Audit Report No. A-05-02-00050

Dear Mr. Swanson:

We agree with the conditions and conclusions drawn regarding the claiming of unallowable federal financial participation identified by the draft report at the Chicago local education agency (LEA). We will take necessary action to recoup and correctly credit the Centers for Medicare & Medicaid Services (CMS) for the identified overpayment of \$22,976. We also commend the auditors for noting that the Department of Healthcare and Family Services (HFS) has implemented electronic system controls that limit reimbursement for these costs to 50 percent federal medical assistance percentage (FMAP).

In regards to the finding concerning documentation for skilled professional medical personnel (SPMP), the auditors have correctly acknowledged the absence of specific guidance by both CMS Regional and Central office regarding policy and criteria that defines a sufficient level of supporting documentation. Given this lack of guidance, the HFS has taken proactive steps to define criteria and implement policy necessary to ensure that LEAs have sufficient documentation to support claiming of SPMP costs at the enhanced FMAP. We will continue to make clear HFS policy and work with the LEAs, as appropriate, to ensure that sufficient documentation is maintained.

We appreciate the work done by the Office of Inspector General auditors and for the opportunity to comment on the draft report. The Department will use your results to reiterate required policies and improve our administration of this program.

Sincerely,



Barry S. Maram
Director