



Office of Audit Services
1100 Commerce, Room 632
Dallas, Texas 75242

January 21, 2004

Report Number: A-06-02-00037

Dr. Kaye Stripling
Superintendent
Houston Independent School District
3830 Richmond Avenue
Houston, Texas 77027-5838

Dear Dr. Stripling:

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, "Audit of Houston Administrative Costs Claimed for Medicaid School-Based Health Services." A copy of this report will be forwarded to the action official noted below for his/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, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise (See 45 CFR Part 5).

To facilitate identification, please refer to Common Identification Number A-06-02-00037 in all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink that reads "Gordon L. Sato".

Gordon L. Sato
Regional Inspector General
for Audit Services

Enclosures - as stated

Page 2 - Dr. Kaye Stripling

Direct Reply to HHS Action Official:

Dr. James R. Farris, M.D.
Regional Administrator
Centers for Medicare & Medicaid Services
1301 Young Street, Suite 714
Dallas, Texas 75202

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF HOUSTON
ADMINISTRATIVE COSTS CLAIMED
FOR MEDICAID SCHOOL-BASED
HEALTH SERVICES**



**JANUARY 2004
A-06-02-00037**

Office of Inspector General

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



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January 21, 2004

Report Number: A-06-02-00037

Dr. Kaye Stripling
Superintendent
Houston Independent School District
3830 Richmond Avenue
Houston, Texas 77027-5838

Dear Dr. Stripling:

This final report provides you with the results of our audit of Medicaid payments to the Houston Independent School District (Houston) for administrative school-based health services. The objective of our audit was to determine if the administrative costs that Houston claimed for school-based health services were reasonable, allowable and adequately supported in accordance with applicable Federal regulations and the terms of the State Medicaid contract. We limited our review to Houston's Federal fiscal year (FFY) 2000 calculation of its claim including the costs and time studies used as a basis of allocation of the costs.

During FFY 2000, Houston claimed \$5,303,985, of which it received \$2,792,575 for the Federal financial participation (FFP) for the costs of Medicaid administrative activities performed in schools. We found that Houston's system of calculating its claim was not reliable and unallowable costs were included in the calculations. As a result, the claim of \$5,303,985 was not allowable or adequately supported in accordance with Federal and State regulations. Based on our review, the supporting cost documentation, the allocation methodologies, and the time studies used by Houston did not support the Federal reimbursement of \$2,792,575.

The Social Security Act (the Act) permits payment of FFP for administrative costs of Medicaid administrative activities performed in schools. Centers for Medicare & Medicaid Services (CMS) provided guidance on the Medicaid requirements associated with seeking payment for coverable administrative activities. The Texas Department of Human Services (State), Texas's State Medicaid administrative agency, developed the "Medicaid Administrative Claiming (MAC)" guide (State MAC guide), which outlines the State's requirements to participate in the Medicaid school-based administrative claiming program (Program). The State also issued the methodology for the invoicing and preparation of claims.

A Texas cost allocation plan (CAP), approved by the CMS in January 1996, was developed to define how an agency's costs are to be allocated to Medicaid. Agency costs are allocated based on the primary function of staff, staff time spent on Medicaid administrative tasks, and the portion of agency clientele who are Medicaid eligible.

In order to claim FFP for administrative costs, the school district is to determine, through the use of time studies, the amount of time school district staff spends performing Medicaid

administrative activities. We reviewed Houston's system for calculating its claim for FFP for Medicaid administrative cost. This included an examination of costs included in cost pools and the reliability of time studies used to allocate costs. Appendix A provides a flowchart of the various calculations Houston used to arrive at their claim. The basic foundation for claiming FFP for Medicaid administrative activities is to use valid time studies to allocate supported costs.

As outlined below, we found problems with the time studies and costs in the cost pools used in Houston's calculations, which resulted in their calculations being unreliable. The effect of these problems resulted in a lack of support for Federal reimbursement. Our review disclosed that Houston:

- 1) used invalid time studies (which is the basis for the allocation of all costs), (e.g. altered time studies without support, used incorrect activity codes, incorrectly reported units of time per activity code used, incorrect salaries for time study participants and did not provide support for the benefits claimed for sampled job codes),
- 2) included unallowable administrative salaries and operating costs, (e.g. administrative salaries for construction project managers, food service coordinators, housekeeping supervisors, and crafts trainers; and operating costs such as gasoline vehicles, supplies for maintenance, testing materials, items for sale, and election costs),
- 3) included salaries for unqualified skilled professional medical personnel (SPMP) participants and unallowable activities, (e.g. participants that were not qualified, services that did not require SPMP medical knowledge, and services that were not adequately supported),
- 4) included unallowable travel/training costs,
- 5) included duplicate costs, (e.g. donated USDA commodities, physician prescriptions/referrals, and Admission, Review, and Dismissal (ARD)- Individual Education Plan (IEP) meetings),
- 6) included budgeted costs and revenues instead of actual costs and revenues, and
- 7) did not offset costs claimed by School Health and Related Services (SHARS) revenues or State or local matching funds.

We also determined that Houston did not track administrative expenditures and did not include all the required elements in its Implementation Plan as required by the State.

We also were unable to determine if Houston used State or local funds for its share of administrative costs. School districts were required to provide the State's share of matching funds. However, district officials advised us that they were not aware that they needed to track administrative expenditures. Further, Houston did not provide the State with an annual report describing how the Medicaid administrative claiming revenues were used to reimburse administrative expenses for the project and/or to enhance health-related services for clients. The

State MAC guide requires Texas schools to submit a report to the State annually showing MAC funds are dedicated to providing or expanding health services.

We are recommending that Houston:

- 1) make a financial adjustment of \$2,792,575 through the Medicaid State agency for the Federal share of costs not in compliance with Federal and State requirements,
- 2) ensure time study participants are properly trained and understand activity codes,
- 3) ensure administrative salary and overhead costs claimed are allowable, allocable, and reasonable,
- 4) ensure SPMP participants meet Federal and State provider qualifications,
- 5) claim actual costs,
- 6) offset costs claimed by SHARS revenues and State or local matching funds,
- 7) track Medicaid administrative expenditures, and
- 8) update the Implementation Plan to include all required elements.

We summarized Houston's comments and included the Office of Inspector General's response at the end of the FINDINGS AND RECOMMENDATIONS section of the report. We did not include Houston's comments in their entirety, which consisted of 65 pages of detailed comments and 20 appendices containing an additional 186 pages. We included Houston's transmittal letter, table of contents, introduction and background, and executive summary in Appendix D. The executive summary of Houston's response contains the major issues it raised with our report. We have forwarded a complete copy of their response and our detailed analysis to the responsible action official.

Houston generally did not agree with our findings. In the executive summary of their response, they stated that the draft report suffered from major methodological and substantive errors that undermined its validity. Houston asserted that:

- The draft report relied upon a sample size of only 16 individuals that was several orders of magnitude smaller than the minimum needed to support statistical validity.
- The draft report's use of the unapproved Draft CMS guidelines was the most basic flaw of the audit and undermines its validity. Houston stated that had the auditors consulted with TDHS, the regulatory body with primary responsibility for auditing Houston, the draft report's conclusions would have been much more favorable to Houston. They also stated that the draft report virtually ignores TDHS' jurisdiction over Houston and that TDHS would reject most of the draft reports findings as inconsistent with CMS approved procedures.

- The draft report also had factual errors. The draft report failed to include the very substantial cost of benefits, which effectively reversed the overcharge finding. Houston did indicate that the draft report identified some areas that will need adjustments and/or corrections. Houston said those adjustments will be made where necessary.

After we received the auditee response to our draft report, we requested additional information to support Houston's comments on two different findings in their detailed response. We received no additional documentation for one issue and only some applicable documentation for the second issue. Also, Houston's response contained information inconsistent with documentation that we were provided during our review. Additionally, Houston's comments in the written portion of their response did not agree with their attachments to their response.

The issues that Houston raised with our draft report regarding sampling and the use of the CMS Administrative guide are not valid. We did not use statistical sampling in our review of Houston's time study system. We conducted an assessment of their time study system by evaluating job codes and interviewing staff. Based upon our overall assessment, we determined that Houston's time study system did not support their claims.

The basic foundation for claiming FFP for Medicaid administrative activities is to use valid time studies to allocate supported costs. Based on our review of the time studies, 12 selected job codes, and a judgmental selection of 16 participant interviews to confirm our results, we found:

- participants charged incorrect activity codes,
- training requirements were not met,
- the Houston Medicaid department inappropriately changed time study results without the required support,
- incorrectly reported units per activity code (Over 50 percent of the time study units claimed for the 12 job codes reviewed were in error.),
- incorrectly reported time study participant salaries, and
- Houston did not provide support for the benefits claimed for sampled job codes.

Houston claimed a percentage of benefits for which we were provided no support. Officials from Houston's benefits department told us the percentage used appeared too high. The officials stated they would analyze the percentage, however, we were never provided the requested information.

Because Houston was unable to retrieve the necessary payroll reports from their own payroll department, we provided them with the support needed to analyze the salary and benefits costs for the selected 12 job codes. They did include in their response benefits for 1 of the 12 job codes; however, they did not provide the necessary support for the benefits claimed. We repeatedly requested this information and never received it.

Contrary to Houston's comments, we did not use the CMS Administrative guide as the overall basis for questioning costs. The CMS guide does not supersede any statutory or regulatory requirements. Rather, it clarifies and consolidates CMS's guidance on how to meet these statutory and regulatory requirements and explains the application of such requirements in the context of current practices. The statutory and regulatory requirements contained in the CMS Administrative guide were applicable prior to its issuance and even though the CMS guide was still in draft does not preclude our use of these previously issued requirements.

Also, contrary to Houston's comments, the State was aware of the issues we identified during the course of our review. However, the State did not indicate that Houston's practices were acceptable.

Lastly, we gave consideration to all comments provided by Houston and made appropriate adjustments in our final report to any initial questioned amounts. However, the entire claimed amount is still insufficiently supported and we continue to believe that the total FFP of \$2,792,575 is in question and we continue to believe our recommendations remain appropriate and are discussed in detail in the report.

INTRODUCTION

Background

The Medicaid Program, established by Title XIX of the Act, was enacted in 1965. The Act authorizes Federal grants to States for Medicaid programs to provide medical assistance to certain persons with insufficient income and resources. Each State Medicaid program is administered by the State in accordance with a State plan approved by CMS. Although a State has flexibility in forming its Medicaid program, it must comply with broad Federal requirements.

The Act permits payment of FFP for administrative costs of activities related to the proper and efficient administration of the State plan. These activities include outreach, eligibility intake, information and referral, coordination and monitoring of health services, and interagency coordination.

To claim FFP for the costs of Medicaid administrative activities performed in schools, the State Medicaid agency must have an interagency agreement with the State Department of Education or separate agreements with participating school districts in accordance with Code of Federal Regulations (CFR) 42, Section 431.10(d). These agreements describe and define the relationship between the State, the entities for which claims will be made, and the responsibilities of each party to the agreements.

In February 2000, CMS issued a draft guide on the Medicaid requirements associated with seeking payment for coverable administrative activities rendered for school-based health services (CMS Administrative guide). The purpose of this guide was to provide information to schools, State Medicaid agencies, CMS staff, and other interested parties on the existing requirements for claiming Federal funds under the Medicaid program for the costs of administrative activities.

The CMS also issued the “Medicaid and School Health: A Technical Assistance Guide” (CMS Technical Assistance guide) in August 1997 which contains specific technical information on the Medicaid requirements associated with seeking payment for coverable services rendered in the school-based setting.

The Office of Management and Budget (OMB) Circular A-87 establishes cost principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments.

The State developed the “MAC” guide, which outlines the State’s requirements to participate in the Program. The State has also issued the methodology for the invoicing and preparation of claims.

A Texas CAP, approved by the CMS in January 1996, was developed to define how an agency’s costs are to be allocated to Medicaid. Agency costs are allocated based on the primary function of staff, staff time spent on Medicaid administrative tasks, and the portion of agency clientele who are Medicaid eligible.

The FFP rate for State administrative expenditures is generally 50 percent. However, an enhanced FFP rate of 75 percent is available for SPMP. These SPMP staff must have appropriate credentials as skilled medical professionals, and the activity performed must require their level of training and credentialing.

In order to claim FFP for administrative costs, the school district must determine the amount of time school district staff spends performing Medicaid administrative activities through the use of time studies. The results of the time studies are then used to determine the percentage of school district costs that can be claimed under the program. The school district submits a claim for reimbursement to the State, which in turn reports the costs to CMS to obtain FFP. During FFY 2000 Houston received \$2,792,575 in FFP for \$5,303,985 of total expenditures incurred by the school district.

Houston utilized the full absorption method to claim program costs, which includes 100 percent of the agency’s costs and revenues in the claim. The methodology Houston used to allocate the district costs consists of four cost pools: 1) SPMP, 2) non-SPMP, 3) non-Medicaid, and 4) administrative and operating costs (overhead). The overhead cost pool is allocated back to the other three cost pools in proportion to salary and benefit costs. These costs pools were discounted by the Medicaid percentage and the FFP rate to determine the reimbursement amount.

Objective, Scope and Methodology of Audit

The objective of our audit was to determine if the administrative costs Houston claimed for school-based health services were reasonable, allowable and adequately supported in accordance with the terms of applicable Federal regulations and the State Medicaid contract. We audited selected costs totaling \$1,059,659,079 out of the total costs used to calculate the claim. In addition we examined the allocation methodology and time studies used to allocate all costs used in the calculation of the claim.

Our audit consisted of reviewing the claims submitted for the four quarters during FFY 2000 (October 1, 1999- September 30, 2000). Houston received FFP totaling \$2,792,575 during FFY 2000. We used applicable laws, regulations, and Medicaid guidelines to determine whether the claims met the reimbursement requirements.

We discussed the objectives of our audit with the State and CMS central and regional officials to identify requirements for Medicaid school-based administrative health services. In addition, we interviewed appropriate Houston officials responsible for operating the Program. We discussed claims procedures and reviewed supporting documentation to determine if Houston complied with Federal and State policy.

Our audit was conducted in accordance with generally accepted government auditing standards. We reviewed only those internal controls considered necessary to achieve our objectives. Our review was limited to obtaining an understanding of the State Medicaid agency's administrative claim processing system and its involvement in the claim payment reviews. Fieldwork was performed at Houston Independent School District in Houston, Texas, and at the Oklahoma City field office.

FINDINGS AND RECOMMENDATIONS

During FFY 2000, Houston claimed \$5,303,985, of which it received \$2,792,575 for the FFP for the costs of Medicaid administrative activities performed in schools. Based on our review, the supporting cost documentation, the allocation methodologies and the time studies used do not support the Federal reimbursement of \$2,792,575.

As outlined below, we found problems with the time studies and cost pools used in their calculations. These problems resulted in a lack of support for Federal reimbursement. Our review disclosed that Houston:

- used invalid time studies (which is the basis for the allocation of all costs) and did not provide support for the benefits claimed for sampled job codes,
- included \$765,029,930 in unallowable administrative salary and operating costs,
- incorrectly reported salaries and included unsupported benefits, unallowable activities and \$3,384,503 in salaries for unqualified SPMP participants,
- inappropriately included \$107,469 in travel/training costs,
- included duplicate reimbursements,
- included budgeted costs and revenues instead of actual costs and revenues, and
- did not offset costs claimed by SHARS revenues or State or local matching funds.

We also determined that Houston did not track Medicaid administrative expenditures and did not include all the required elements in their Implementation Plan as required by the State.

TIME STUDIES

In order to claim FFP for administrative costs, the school district must determine the amount of time school district staff spends performing Medicaid administrative activities through the use of time studies. These time studies are the basis for allocating costs to arrive at the claim for reimbursement.

Employees' participation in the time study is recorded according to job codes and activity codes. A job code is an employee category, such as nurses, physical therapists, and outreach workers. Each job code may consist of several employees. Each employee utilizes activity codes to describe their daily activities.

Employees' time is logged in 15-minute increments using specific activity codes. The time study consists of 9 Medicaid activity codes, 5 non-Medicaid activity codes, and 1 activity code that is re-allocated to the other 14 codes. Salaries of the time study participants are allocated to the 15 codes based on the percentage of time spent on each activity code. The allocated salaries are then placed into one of three cost pools based on the activity codes, two of which are reimbursed by Medicaid. Houston then allocated 100 percent of the remaining district costs, less any costs they determined were instructional, in proportion to salary and benefit costs. For a detailed chart of the computation see Appendix A.

Based on our review of the time studies we found:

- participants charged incorrect activity codes,
- time study participants were not appropriately trained,
- time study results were inappropriately changed without the required support,
- units per activity code were incorrectly reported,
- time study participant salaries were incorrectly reported, and
- Houston did not provide support for the benefits claimed for sampled job codes.

Consequently, Houston used inaccurate time studies to claim FFP.

Our 16 participant interviews revealed that activity codes were charged inappropriately. Based on the interviews of the time study participants, we believe that 14 time study participants were not adequately trained and, therefore, did not have a clear understanding of the activity codes. For example, one participant charged the same activity code for 3 days. The participant told us that they were not aware that different codes should be charged according to what activity they performed. Another provider billed Medicaid while attending a personal dental appointment.

Also, participants charged Medicaid codes when providing non-Medicaid services. For instance, during an IEP meeting, participants would charge the entire meeting to Medicaid. The IEP's are an Individuals with Disabilities Education Act (IDEA) requirement and not reimbursable through school-based services and, therefore, the meeting should not have been charged to Medicaid.

The CMS and the State both require training to be conducted each quarter prior to the time study. We found participants that said they were trained only once per year.

The Houston Medicaid department erased and changed codes originally marked on participant time studies. Since Houston did not always contact the participant prior to changing the time studies or document the changes made, we have no assurance of the validity of the changes. According to the CMS Administrative guide, staff should be clear on how to choose activities, the difference between health-related and other activities, and where to obtain technical assistance if there are questions. According to the State, "Supervisors should not cross out codes marked on the form with which they do not agree."

We judgmentally selected and verified the time studies for 12 job codes included in the claim. Over 50 percent of the total time study units claimed for the 12 job codes did not reconcile to the units charged in the time studies.

Also, the number of participants in the time study for selected job codes (e.g., nurse consultants) did not reconcile to the number of participant salaries included in the SPMP and non-SPMP cost pools. For example, only seven employees participated in Houston's time study as nurse consultants; however, Houston included salaries for nine nurse consultants in the SPMP cost pool. A Houston official told us that only salaries for those who participate in the time study should be included in the SPMP and non-SPMP cost pools.

For all 12 judgmentally selected job codes Houston did not provide us with support for the benefits claimed; therefore, the benefits claimed are unallowable.

We determined the total FFP claimed was based on invalid time studies. Because we identified multiple errors with the time studies and the studies were conducted over 2 years ago, we were unable to reconstruct them. Since these time studies were the basis of the allocation of the costs, we are questioning the entire amount of Houston's claim.

ADMINISTRATIVE AND OPERATING COSTS

In developing the claim, Houston included \$765,029,930 in unallowable costs, consisting of administrative costs totaling \$494,976,972 and operating costs totaling \$270,052,958. According to the CAP, these costs make up the overhead cost pool, which was allocated back to the three remaining cost pools in proportion to salary and benefit costs.

Administrative Costs

During FFY 2000, Houston inappropriately included \$494,976,972 of administrative costs. (See Appendix B.) This amount includes salaries of employees not related to the operation of the program, unidentifiable salaries, and projected not actual salaries.

Salaries of employees not related to the Program (1st Three Quarters)

Houston included salaries for instructional positions, such as bilingual teachers. Examples of other unrelated salaries included were for construction project managers, food service coordinators, housekeeping supervisors, and crafts trainers. These types of costs provided no benefit to the program, and as a result, were unallowable.

In the first three quarters, Houston included salaries of \$203,986,899 for employees not related to the operation of the program. According to the Act and the CFR, activities must be “found necessary by the Secretary for the proper and efficient administration of the plan” (referring to the Medicaid State plan) for the cost to be allowable and reimbursable under Medicaid. The OMB Circular A-87 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.” The Circular also requires that costs be “necessary and reasonable” and “allocable” to the Medicaid program.

The CMS Technical Assistance guide provides that an activity unrelated to the Medicaid program, even if performed in the best interest of the beneficiary, is generally not allowable. Medicaid does not pay for administrative expenditures related to, or in support of, services that are not included in the State Medicaid plan or services that are not reimbursed under Medicaid.

According to a CMS transmittal notice issued on October 14, 1999, indirect costs “...may not include the operating costs of an agency whose purpose is other than the administration of the Medicaid program. As the purpose of a school is education, not the administration of the Medicaid program, the salaries of the superintendents, principals, teachers, ground maintenance and other staff, which are ordinary expenses for the operation of a school, cannot be claimed.”

Unidentifiable Salaries (1st Three Quarters)

A “plug” number was also included as administrative salaries for the first three quarters. Houston took the difference between an actual salary report and a projected salary report and included this amount as administrative costs. This amount could not be attributed to specific employee costs. The total “plug” number for these quarters was \$146,536,511.

Unidentifiable Salaries (Fourth Quarter)

In the fourth quarter (July 2000 through September 2000) Houston changed the method in which it determined salary costs. According to a Houston official, the report it used in the past to determine salary costs appeared too low so they took an average of the previous four quarters and added five percent to arrive at the salary cost for this quarter. Using this methodology, Houston included unidentifiable salary costs of \$144,453,562. These costs could not be directly attributed to specific employees salaries.

Operating Costs

During FFY 2000, Houston inappropriately included \$270,052,958 of operating costs not related to the operation of the program in the overhead cost pool. (See Appendix C.)

Houston included operating costs such as gasoline vehicles, supplies for maintenance, testing materials, United States Department of Agriculture (USDA) commodities, items for sale, and election costs. The USDA commodities were donated goods (spaghetti, cheese, milk, etc.) by the Federal government. Items for sale were items the school had on hand for resale, such as candy bars in snack machines. Examples of election costs were the cost of elections for Board of Trustee members, bond elections, or the cost of advertising an election in the Houston Chronicle.

As stated above, according to the Act and Federal regulations, activities must be “found necessary by the Secretary for the proper and efficient administration of the plan” for the cost to be allowable and reimbursable under Medicaid. In addition, the OMB Circular A-87 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.” The Circular also requires that costs be “necessary and reasonable” and “allocable” to the Medicaid program.

The CMS Technical Assistance guide provides that an activity unrelated to the Medicaid program, even if performed in the best interest of the beneficiary, is generally not allowable. Medicaid does not pay for administrative expenditures related to, or in support of, services that are not included in the State Medicaid plan or services that are not reimbursed under Medicaid. According to a CMS transmittal notice issued on October 14, 1999, indirect costs may not include the operating costs of an agency whose purpose is other than the administration of the Medicaid program.

Houston included land costs when it computed its use allowance costs for fixed assets. The OMB Circular A-87 states, "The computation of depreciation or use allowances will exclude the cost of land."

SKILLED PROFESSIONAL MEDICAL PERSONNEL

Houston billed Medicaid at the enhanced rate (75 percent versus 50 percent) for participants that were not qualified, services that did not require SPMP medical knowledge, and services that were not adequately supported.

Of the total claim (FFP \$2,792,575) that Houston was reimbursed, the portion claimed for activities rendered by SPMP was \$421,748. Federal regulations permit States to claim Federal match at an enhanced rate of 75 percent for those administrative activities that are performed by staff who have the education and training to qualify as SPMP and their professional knowledge is required. Examples of SPMPs include physicians, registered nurses, physical therapists, occupational therapists, and speech pathologists.

To claim SPMP activities, providers must adhere to the following regulations and guidelines:

- The CMS Administrative guide and the State MAC guide both state that, “professional education and training can be demonstrated by determining whether the provider has a medical license, certificate, or other document issued by a national or State medical licensure organization...”
- 42 CFR 432.2, 432.50, and 433.15 indicate the basic Federal Medicaid regulatory requirements for SPMPs. State qualification requirements for SPMPs can differ (be more stringent than) from the qualification requirements for participating as a Medicaid provider.
- The CMS Administrative guide provides that, “...only those administrative activities which require the use of medical expertise are matchable at the enhanced rate of 75 percent.”
- The CMS Administrative guide provides that, “there must be appropriate documentation to support all claims for enhanced FFP. Routinely maintained supporting records – day logs, case notes, case records, etc. – are needed to support the claim... These supporting records must be available when claims are audited. If the records available do not support the payment of the enhanced rate, the claim will be reduced to regular FFP. Checking a box on a time study form is insufficient to support a SPMP claim for it does not allow for verification.”

Qualifications

Houston claimed salaries at enhanced rates for participants not qualified to bill for those rates. Only SPMPs who are currently certified are allowed to bill at the enhanced rates. As a result, \$3,384,503 of salary costs was inappropriately included in the cost pool for unqualified SPMP participants during SFY 2000. Further, if these salaries are reclassified as non-SPMP costs, we have no assurance that these costs are accurate because, as previously stated, Houston incorrectly reported time study participant salaries and did not provide support for the benefits claimed for sampled job codes.

Houston billed unallowable SPMP activities for 61 speech pathologists that held a TEA teaching certificate and not a professional license. The Houston credentialing department was unaware of the Medicaid requirements and the Medicaid office did not maintain provider qualifications during our review period. Houston told us they were informed by the Texas Board of Examiners for Speech-Language Pathology and Audiology that speech therapists holding teaching certificates were given until 2003, and in some cases 2013, to obtain State licensure. However, according to discussions with CMS, participants who hold only a teaching certificate may not bill the enhanced rate.

Twenty-two speech therapists and one audiologist billed unallowable SPMP activities during a quarter in which their State license was not valid. Houston also billed SPMP activities for two

principals inappropriately coded as speech therapists. Additionally, one principal and two special education teachers were inappropriately coded as nurses.

SPMP Medical Knowledge

SPMP providers did not appear to have a clear understanding of when it was inappropriate to bill enhanced rates for their medical expertise. During our interviews, one SPMP told us that they billed all their activities at the enhanced rates. Another SPMP said the only time they did not bill the enhanced code was when they attended an in-service meeting. However, only those activities that required their medical expertise should have been billed at the enhanced rates. As a result, Houston was reimbursed at the enhanced rate of 75 percent for activities that did not require SPMP medical knowledge.

Services Not Adequately Supported

The SPMP participants did not maintain documentation (e.g., daily logs) to support activity codes billed to the program as required by the CMS Administrative guide. The only form of support maintained was the time study form to document SPMP activities billed to the program, which is not adequate support as stated in the CMS Administrative guide.

TRAVEL/TRAINING COSTS

Houston claimed unallowable travel and training costs for SPMP and non-SPMP participants. Houston changed their travel and training cost allocation method during the fourth quarter of our audit period. Houston allocated a percentage of the district's total travel and training costs to SPMP and non-SPMP participants as their direct travel costs. The allocation method used was based on the ratio of time-studied participants to total district employees. These travel and training costs were not actual costs related to the SPMP and non-SPMP participants. Therefore, travel and training costs totaling \$107,469 were inappropriately included in the SPMP and non-SPMP cost pools during the fourth quarter for SPMP and non-SPMP participants because they were not actual costs.

The CMS Administrative guide states, "...in no case should a program or claiming unit in a local jurisdiction be reimbursed more than the actual cost of that program or claiming unit, including State, local, and Federal funds." Only actual costs should be included in the cost pools. If travel and training costs are directly charged for staff, evidence linking the costs must be maintained. We believe using percentages does not represent actual costs.

DUPLICATE REIMBURSEMENTS

The Medicaid program should not pay for an activity already paid for or otherwise reimbursable under another mechanism. The CMS Administrative guide provided that, "Payments 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 local, State or Federal program."

Three areas where Houston claimed duplicate reimbursements were: 1) donated USDA commodities, 2) physician prescriptions/referrals, and 3) ARD- IEP meetings.

Donated USDA Commodities

Houston was reimbursed through the Medicaid administrative program for the value of USDA commodities provided to the school by another Federal grant. The USDA commodities were donated goods (spaghetti, cheese, milk, etc.) by the Federal Government. Houston received free USDA commodities from one Federal program and improperly included the value of these commodities totaling \$3,592,141 as an operating cost in the overhead cost pool through the administrative program.

Physician Prescriptions/Referrals

Schools are entitled to reimbursement for Medicaid administration and medical assistance payments. Houston was reimbursed by both the Medicaid administrative program and the SHARS program (Texas' Medicaid medical assistance program) for physician prescriptions and referrals. Houston claimed physician prescription/referral costs as an operating cost to the administrative program and as a medical assistance service to the SHARS program.

Houston contracts with a physician to write prescriptions for students. Houston bills the Medicaid SHARS program for each prescription written for Medicaid beneficiaries. Houston also bills the physician contract fee as an operating cost to the Medicaid administrative program. As a result, these costs were being claimed twice. A Houston official advised us that extensive analysis would be required to determine the total dollars duplicated. Therefore we did not quantify the amount. However, based on our review, we found they included the costs in both programs.

ARD-IEP Meetings

The ARD-IEP meetings were the review of a child's IEP and were an educational requirement of the IDEA program. The CMS Technical Assistance guide states, "Expenses cannot be claimed as administration if they are an integral part or extension of a direct medical or remedial service, such as...development of the medical portion of the IEP or IFSP..." For purposes of the Medicaid program, IDEA/IEP related activities are considered to be education program related activities and generally are not considered necessary for the proper and efficient administration of the Medicaid State plan.

Houston was reimbursed by both the Medicaid administrative program and SHARS program for ARD-IEP meetings. Participants were instructed by Houston to claim these activities through both Medicaid programs.

Employees participating in the administrative time studies charged Medicaid for the time spent participating in an ARD-IEP meeting. Further, if the employees were qualified as SPMP, the school would receive reimbursement at the enhanced 75 percent rate rather than the 50 percent rate through the administrative program. We found that these employees also routinely billed the

Medicaid SHARS program 3 hours for the same service. However, since Houston did not maintain daily activity logs to support the time studies we were unable to determine the amount duplicated in the administrative program.

As a result, Houston was claiming duplicate costs that were not allowable to either program.

REVENUE OFFSETS

The Program does not require Medicaid to fund those costs that should be offset by other program revenues.

Budgeted Revenues

Houston used budgeted Federal program revenues instead of actual revenues to offset Medicaid costs. A claiming unit should not be reimbursed more than the actual cost of the program or claiming unit. The Houston official responsible for developing the Program claim stated that, "they were never instructed to use actual revenues and has always used budgeted revenues." Using budgeted Federal revenues caused Houston to understate the amount of Medicaid costs offset by \$13,792,527 against the cost pools.

SHARS Revenues and State or Local Matching Funds

Houston did not include SHARS revenues or State or local matching funds when determining revenues to offset Medicaid costs. All Federal funds, along with the maintenance of effort and other State or local matching funds required by the federal grant must be applied as revenue offsets in developing the net cost of claims. Houston received Federal reimbursement (SHARS revenue) for the cost of school health services provided to Medicaid eligible students. However, when applying revenue offsets Houston included their SHARS revenues in the non-Medicaid cost pool, which was not offset against the costs claimed. Houston was also unaware that State or local matching funds must be applied in developing the claim. Omitting the SHARS revenues and State or local matching funds required for Federal grants understates the revenues used to offset Medicaid costs.

TRACKING ADMINISTRATIVE EXPENDITURES

We could not determine if Houston used State or local funds for their share of administrative costs. School districts were required to provide the State's share of matching funds. However, the district was not aware they needed to track administrative expenditures. Also, Houston did not provide the State with an annual report describing how the MAC revenues were used to reimburse administrative expenses for the project and/or to enhance health-related services for clients. Texas schools must submit a report to the State annually showing MAC funds are dedicated to providing or expanding health services.

HOUSTON IMPLEMENTATION PLAN

The Houston implementation plan did not contain all the elements as required by the State. The State MAC guide specifies all the required elements that should be included in the implementation plans. One requirement of the implementation plan is to maintain an audit file.

For example, the audit file must contain:

- copies of computations used to calculate the percentage of time claimable to Medicaid administration,
- copies of any worksheets or spreadsheets used in developing the claim,
- a detailed listing of all revenues offset from the claim, by source,
- a copy of the methodology used to reconcile the facility general ledger,
- a signed copy of the Approved Implementation Plan in effect for the quarter,
- a copy of any appropriate license or certificate that is medically related, and
- a duty statement and SPMP survey for those participants certified to bill the enhanced rate. The SPMP survey determines if a participant qualifies as a SPMP.

Houston did not maintain a complete audit file; therefore, they could not readily provide the documentation to sufficiently support their calculations of the quarterly claims.

RECOMMENDATIONS

Accordingly, we recommend that Houston:

- 1) make a financial adjustment of \$2,792,575 through the Medicaid State agency for the Federal share of costs not in compliance with Federal and State guidance,
- 2) ensure time study participants are properly trained and understand activity codes,
- 3) ensure administrative salary and overhead costs claimed are allowable, allocable, and reasonable,
- 4) ensure SPMP participants meet Federal and State provider qualifications,
- 5) claim actual costs,
- 6) offset costs claimed by SHARS revenues and State/local matching funds,
- 7) track Medicaid administrative expenditures, and
- 8) update the Implementation Plan to include all required elements.

OTHER MATTERS

Houston utilizes the full absorption method to claim Program costs which includes 100 percent of the agency's costs and revenues in the claim. We believe the full absorption method is not an accurate claiming method because it includes costs that are not allocable to the Medicaid program.

Houston currently contracts with other Texas school districts as a consultant for the administrative program. The services being provided to other school districts by Houston include compiling documentation and calculating the quarterly claim in the same manner that Houston calculates its quarterly claims. Houston also uses the full absorption method for the contracted schools.

AUDITEE'S COMMENTS AND OIG EVALUATION

We summarized Houston's comments and included the Office of Inspector General's response at the end of the FINDINGS AND RECOMMENDATIONS section of the report. We did not include their comments in their entirety, which consisted of 65 pages of detailed comments and 20 appendices containing an additional 186 pages. We included Houston's transmittal letter, table of contents, introduction and background, and executive summary in Appendix D. The executive summary of Houston's response contains the major issues they are raising with our report. We have forwarded a complete copy of their response and our detailed analysis to the responsible action official.

AUDITEE'S COMMENTS

Houston generally did not agree with our findings. In the executive summary of their response, stated that the draft report suffered from major methodological and substantive errors that undermined its validity. Houston asserted that:

- The draft report relied upon a sample size of only 16 individuals that was several orders of magnitude smaller than the minimum needed to support statistical validity.
- The draft report's use of the unapproved Draft CMS guidelines was the most basic flaw of the audit and undermines its validity. Houston stated that had the auditors consulted with TDHS, the regulatory body with primary responsibility for auditing Houston, the draft report's conclusions would have been much more favorable to Houston. They also stated that the draft report virtually ignores TDHS' jurisdiction over Houston and that TDHS would reject most of the draft reports findings as inconsistent with CMS approved procedures.
- The draft report also had factual errors. The draft report failed to include the very substantial cost of benefits, which effectively reversed the overcharge finding. Houston did indicate that the draft report identified some areas that will need adjustments and/or corrections, those were, have been, or will be adjusted where necessary.

OIG COMMENTS

After we received the auditee response to our draft report, we requested additional information to support Houston's comments on two different findings in their detailed response. We received no additional documentation for one issue and only some applicable documentation for the second issue. Also, Houston's response contained information inconsistent with documentation that we were provided during our review. Additionally, Houston's comments in the written portion of their response did not agree with their attachments to their response.

The issues that Houston raised with our draft report regarding sampling and the use of the CMS Administrative guide are not valid. We did not use statistical sampling in our review of Houston's time study system. We conducted an assessment of their time study system by evaluating job codes and interviewing staff. Based upon our overall assessment, we determined that Houston's time study system did not support their claims.

The basic foundation for claiming FFP for Medicaid administrative activities is to use valid time studies to allocate supported costs. Based on our review of the time studies, 12 selected job codes, and a judgmental selection of 16 participant interviews to confirm our results, we found:

- participants charged incorrect activity codes,
- training requirements were not met,
- the Houston Medicaid department inappropriately changed time study results without the required support,
- incorrectly reported units per activity code (Over 50 percent of the time study units claimed for the 12 job codes reviewed were in error.),
- incorrectly reported time study participant salaries, and
- Houston did not provide support for the benefits claimed for sampled job codes.

Houston claimed a percentage of benefits for which we were provided no support. Officials from Houston's benefits department told us the percentage used appeared too high. The officials stated they would analyze the percentage, however, we were never provided the requested information.

Because Houston was unable to retrieve the necessary payroll reports from their own payroll department, we provided them with the support needed to analyze the salary and benefits costs for the selected 12 job codes. They did include in their response benefits for 1 of the 12 job codes; however, they did not provide the necessary support for the benefits claimed. We repeatedly requested this information and never received it.

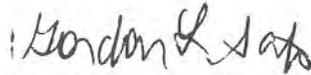
Contrary to Houston's comments, we did not use the CMS Administrative guide as the overall basis for questioning costs. The CMS guide does not supersede any statutory or regulatory

requirements. Rather, it clarifies and consolidates CMS's guidance on how to meet these statutory and regulatory requirements and explains the application of such requirements in the context of current practices. The statutory and regulatory requirements contained in the CMS Administrative guide were applicable prior to its issuance and even though the CMS guide was still in draft does not preclude our use of these previously issued requirements.

Also, contrary to Houston's comments, the State was aware of the issues we identified during the course of our review. However, the State did not indicate that Houston's practices were acceptable

Lastly, we gave consideration to all comments provided by Houston and made appropriate adjustments in our final report to any initial questioned amounts. However, the entire claimed amount is still insufficiently supported and we continue to believe that the total FFP of \$2,792,575 is in question and we continue to believe our recommendations remain appropriate and are discussed in detail in the report.

Sincerely,

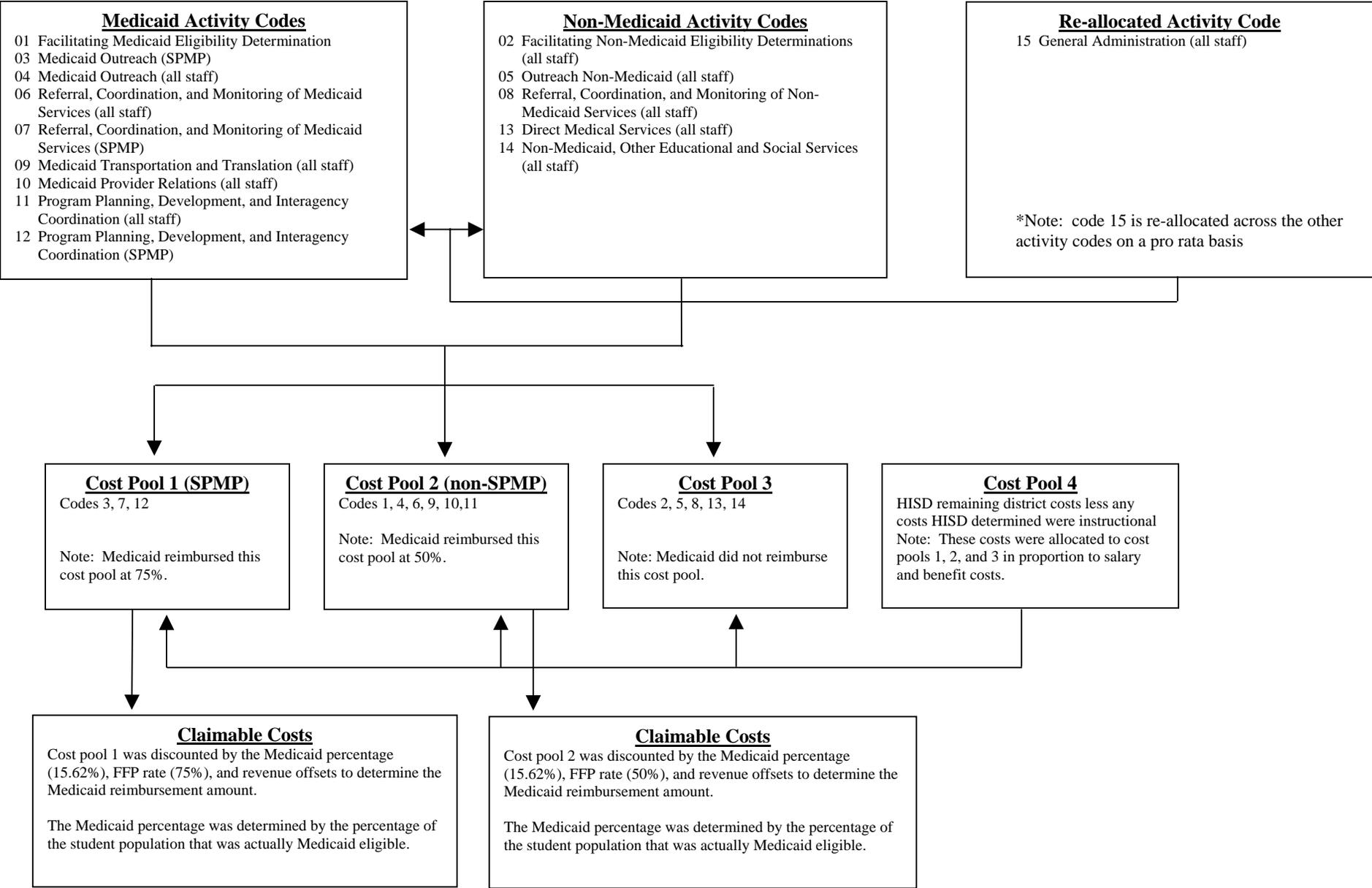
A handwritten signature in black ink that reads "Gordon L. Satō". The signature is written in a cursive style with a distinct "S" and "o" at the end.

GORDON L. SATO
Regional Inspector General
for Audit Services

APPENDICES

TIMESTUDY

(Employee time logged in 15-minute increments by 15 activity codes).



ADMINISTRATIVE COST ANALYSIS BY OIG

SPECIFIC ADMINISTRATIVE COSTS NOT ALLOWED BY THE OIG	NO JOB DESCRIPTION PROVIDED BY HOUSTON TO SUPPORT COSTS ARE RELATED TO SCHOOL-BASED SERVICES	COSTS NOT RELATED TO SCHOOL-BASED SERVICES PER THE OIG
ACP INTAKE ASST	\$28,989.00	
AFFIRMATIVE ACTION SPECIALIST	\$44,412.00	
Analyst	\$571,239.00	
APPLICATION SPECIALIST	\$687,587.00	
ASBESTOS ABATEMAN WORKER		\$107,232.00
ASPHALT JOURNEYMEN		\$116,325.00
ASSISTANT ELIGIBILITY REP,11M	\$12,712.00	
ASST CHIEF OF POLICE		\$71,691.00
ASST ELIGIBILITY REP	\$47,128.00	
ASST ELIGIBILITY REP-12Mo	\$23,296.00	
ASST GENERAL COUNCEL		\$229,426.00
ASST PRESS SECRETARY		\$46,068.00
ASST SUPT BENE		\$78,435.00
ASST SUPT BUDGET		\$77,397.00
ASST SUPT COMM & PUBLIC		\$83,472.00
ASST SUPT H/R		\$87,006.00
ASST SUPT PLAN		\$75,240.00
ASST SUPT SPEC		\$75,201.00
ASST SUPT TECH		\$31,248.00
AUDIO VISUAL EQUIPMENT SPECIALIST		\$46,731.00
AUDIO VISUAL EQUIPMENT TECH		\$23,028.00
BRICKLAYER		\$147,969.00
BUYER		\$70,425.00
BUYER ASST	\$54,495.00	
CABINETMAKER		\$19,360.00
CAPT		\$167,109.00
CARPENTER		\$1,781,836.00
CEMENT FINISHER		\$89,434.00
CHIEF OF POLICE		\$79,854.00
CLAIMS PROCESSOR	\$49,182.00	
CLIENT/SERVER NETWORK ARCHITECT		\$79,221.00
CLIENT/SERVER SPEC		\$163,116.00
COMPUTER OPERATOR		\$92,337.00

ADMINISTRATIVE COST ANALYSIS BY OIG

SPECIFIC ADMINISTRATIVE COSTS NOT ALLOWED BY THE OIG	NO JOB DESCRIPTION PROVIDED BY HOUSTON TO SUPPORT COSTS ARE RELATED TO SCHOOL-BASED SERVICES	COSTS NOT RELATED TO SCHOOL-BASED SERVICES PER THE OIG
COMPUTER TECH		\$62,085.00
Consultant	\$81,059.00	
COOR COMM ENGAGE	\$69,258.00	
COOR COMPLIANCE	\$24,540.00	
COOR DATA MGT		\$50,919.00
COOR EMP APPRAISAL		\$70,749.00
COOR EMPL/CUSTOMER		\$87,160.00
COOR FAMILY INTER 10.5	\$48,711.00	
COOR INTERNET SERVICES		\$16,417.00
COOR LAN		\$77,871.00
COOR MEDIA		\$73,659.00
COOR MEDIA RESOURCES		\$27,876.00
COOR POLICY & EMP COMP		\$37,200.00
COOR QUALITY ASSURANCE		\$33,483.00
COOR SECURITY & DISASTER		\$59,982.00
COOR SP ED SEP COOR	\$42,876.00	
COOR STRATEGIC MGMT/QU		\$31,326.00
COOR TECH TRAINING		\$590,360.00
COOR TELECOMMUNICATIONS		\$68,770.00
COOR TRAINING	\$369,015.00	
COOR WIDE AREA NETWORK	\$105,768.00	
COORDINATOR, DATA QUALITY PROJECT		\$17,537.00
CUSTODIAL TEAM LEADER		\$78,042.00
CUSTODIAN		\$6,597,442.00
CUSTODIAN		\$8,569,231.00
DATA BASE ADMIN	\$59,595.00	
DATA BASE COORDINATOR		\$46,470.00
DATA CONTROL SPEC		\$74,994.00
DATA CONTROLLER		\$68,092.00
DATA ENTRY CLERK WAREHOUSE		\$20,481.00
DEPUTY SUPT FINANCE	\$32,988.00	
DEPUTY SUPT FMO	\$30,920.00	
DEPUTY SUPT HUMAN RESOURCES	\$86,360.00	
DEPUTY SUPT SCHOOL ADMIN	\$33,213.00	

ADMINISTRATIVE COST ANALYSIS BY OIG

SPECIFIC ADMINISTRATIVE COSTS NOT ALLOWED BY THE OIG	NO JOB DESCRIPTION PROVIDED BY HOUSTON TO SUPPORT COSTS ARE RELATED TO SCHOOL-BASED SERVICES	COSTS NOT RELATED TO SCHOOL-BASED SERVICES PER THE OIG
DIR EXTERNAL FUNDING	\$67,692.00	
DIR FMO SUPPT MGT		\$54,177.00
DIR PROFESSIONAL STANDARDS	\$74,949.00	
DIR PROJECT RECON/PARENT IN	\$69,948.00	
DIR SCHOOL OPERATIONS	\$81,501.00	
DIR SOUTH/NORTH MAINT.		\$52,446.00
DIR STRATEGIC MGT		\$65,478.00
DIST LIAISON	\$195,942.00	
DIST OFFICE COMM/COMP LIAISON		\$38,838.00
DOCUMENTATION TECH	\$35,229.00	
DRAFTER		\$27,570.00
DUPLICATING CLERK 10		\$69,822.00
DUPLICATING CLERK 10.5		\$26,946.00
ED PROGRAM MGR		\$371,223.00
EDP AUDITOR		\$55,146.00
ELECTRICIAN JOURNEYMAN		\$806,249.00
ELECTRONIC MESSAGING SPECIALIST		\$72,023.00
EMP APPRAISAL ASST		\$38,967.00
EMP EMPLOYMENT VERIFICATION		\$18,692.00
ENERGY SPECIALIST		\$125,781.00
EPA COMPLIANCE ASST		\$25,956.00
EXPEDITIOR	\$28,695.00	
EXTERMINATOR		\$59,961.00
FACILITY & SPEC PROJ COORD		\$34,640.00
FIELD SAFETY REP		\$133,053.00
FINANCE CLERK	\$89,272.00	
FINANCIAL CLERK 10 M	\$782,927.00	
FINANCIAL CLERK 10.5	\$212,802.00	
FINANCIAL REPORT ANALYST	\$48,453.00	
FIRE EXTINGUISH TECH		\$76,419.00
FLOOR TILE JOURNEYMAN		\$227,268.00
FURNITURE REPAIRER		\$62,363.00
GARDNER		\$33,876.00
GENERAL CLERK	\$569,476.00	

ADMINISTRATIVE COST ANALYSIS BY OIG

SPECIFIC ADMINISTRATIVE COSTS NOT ALLOWED BY THE OIG	NO JOB DESCRIPTION PROVIDED BY HOUSTON TO SUPPORT COSTS ARE RELATED TO SCHOOL-BASED SERVICES	COSTS NOT RELATED TO SCHOOL-BASED SERVICES PER THE OIG
GENERAL CLERK I 10 M	\$3,976,833.00	
GENERAL CLERK I 10.5 M	\$66,509.00	
GENERAL CLERK I 11.5	\$12,129.00	
GENERAL CLERK I/ RECORDS- 10 Mo	\$10,740.00	
GENERAL CLERK II	\$2,482,991.00	
GENERAL CLERK II 10 M	\$1,236,067.00	
GENERAL CLERK II 10.5 M	\$429,355.00	
GENERAL CLERK II 11 M	\$142,475.00	
GENERAL CLERK II 11.5	\$43,884.00	
GENERAL CLERK II 11.5 TBP	\$24,900.00	
GENERAL CLERK II RECORDS 10	\$380,515.00	
GENERAL CLERK II RECORDS I	\$38,898.00	
GENERAL CLERK II TECH	\$70,971.00	
GENERAL CLERK II/RECORDS 10 S	\$301,275.00	
GENERAL CLERK III	\$1,040,166.00	
GENERAL CLERK III 10	\$86,910.00	
GENERAL CLERK III 10 M	\$25,842.00	
GENERAL CLERK III 10.5 M	\$125,068.00	
GENERAL CLERK III 11 M	\$50,067.00	
GENERAL CLERK III TECH	\$87,733.00	
GENERAL CLERK III TECH	\$117,822.00	
GENERAL CLERK III TECH	\$15,993.00	
GENERAL COUNSEL		\$30,635.00
GENERAL MAINTENANCE II		\$148,104.00
GENERAL MGR		\$220,374.00
GLAZIER		\$183,640.00
HAZARDOUS MATERIALS		\$27,843.00
HEAVY EQUIPMENT JOURNEYMAN		\$132,408.00
HELPER	\$4,848.00	
HELPER CARPENTER		\$37,131.00
HELPER CEMENT FINISHER		\$32,036.00
HELPER COMM	\$9,234.00	
HELPER FENCING		\$96,057.00
HELPER FURNITURE SERVICES		\$14,544.00
HELPER GAS ATTENDANT		\$37,593.00

ADMINISTRATIVE COST ANALYSIS BY OIG

SPECIFIC ADMINISTRATIVE COSTS NOT ALLOWED BY THE OIG	NO JOB DESCRIPTION PROVIDED BY HOUSTON TO SUPPORT COSTS ARE RELATED TO SCHOOL-BASED SERVICES	COSTS NOT RELATED TO SCHOOL-BASED SERVICES PER THE OIG
HELPER GROUNDS		\$912,261.00
HELPER MECHANICAL		\$116,508.00
HELPER MEDIA SERVICES		\$14,544.00
HELPER PLUMBER		\$234,349.00
HELPER ROOFING		\$34,425.00
HELPER SHEET METAL		\$69,476.00
HELPER WATER TREATMENT		\$17,244.00
HOME INSTR PROGRAM ASST	\$23,028.00	
INFO MGT ASST		\$30,171.00
INSULATOR		\$147,804.00
INSURANCE ASST	\$27,570.00	
INTERNET/INTRANET SPEC		\$46,064.00
INV CONTROL SPEC		\$27,807.00
INVENTORY CLERK		\$133,164.00
INVENTORY SPECIALIST		\$32,442.00
INVESTIGATOR		\$183,820.00
LAB ASST		\$22,170.00
LAB TECH		\$25,659.00
LAN SPECIALIST		\$183,610.00
LAUNDRY OPERATOR		\$19,335.00
LEAD MAIL SPECIALIST		\$16,686.00
LECTURER	\$157,092.00	
LOCKSMITH JOURNEYMAN		\$140,262.00
MANAGER FED & STATE COMPL	\$20,117.00	
MANAGER, PROCUREMENT SERVICES		\$20,521.00
MECHANIC		\$1,696,142.00
MEDIA EQUIP OPERATOR		\$40,254.00
MEDIA TECH		\$89,166.00
MEM SYSTEMS ANALYST		\$41,788.00
MEM SYSTEMS CONTROL SPECIALIST		\$503,887.00
MGR APPLICATION	\$79,329.00	
MGR AUXILIARY SYSTEMS MAN	\$44,190.00	
MGR CITIZENS INFO		\$48,516.00

ADMINISTRATIVE COST ANALYSIS BY OIG

SPECIFIC ADMINISTRATIVE COSTS NOT ALLOWED BY THE OIG	NO JOB DESCRIPTION PROVIDED BY HOUSTON TO SUPPORT COSTS ARE RELATED TO SCHOOL-BASED SERVICES	COSTS NOT RELATED TO SCHOOL-BASED SERVICES PER THE OIG
MGR DA MGT		\$38,070.00
MGR DELIVERY SERVICES		\$59,046.00
MGR EEOC	\$47,568.00	
MGR ELEC SERVICES		\$46,158.00
MGR ENERGY CONSERVATION		\$38,346.00
MGR FMOT ADMIN SERVICES	\$50,535.00	
MGR GRAPHICS		\$54,240.00
MGR GROUNDS		\$15,672.00
MGR HAZARDOUS MATERIALS		\$44,502.00
MGR MAIN FRAME	\$63,531.00	
MGR NETWORK OPERATIONS	\$81,708.00	
MGR PLUMBING		\$42,963.00
MGR PROCUREMENT SERV		\$57,053.00
MGR PROGRAM DEVELOPMENT	\$56,922.00	
MGR PROP MGT/M		\$70,918.00
MGR PURCHASING		\$54,072.00
MGR RISK MGT		\$62,853.00
MGR STAFFING/RECRUITING		\$117,534.00
MGR TECH SUPPORT SERVICES		\$49,422.00
MGR TECH SUPPORT SERVICES		\$72,558.00
MGR ZONE		\$496,931.00
MICROGRAPHIC OP I		\$103,118.00
MICROGRAPHIC OP II	\$25,446.00	
MOBILE LAB TECHNICIAN	\$7,399.00	
NETWORK COMM SPECIALIST		\$72,636.00
NETWORK SPECIALIST		\$403,418.00
NETWORK SPECIALIST, 11 MONTHS		\$75,692.00
OFFICER 11 M		\$2,904,079.00
OFFICER 12 M		\$1,519,859.00
OMBUDSMAN	\$85,674.00	
OPERATING AND TRAINING REP		\$40,131.00
PAINT & BODY REPAIR TECH		\$50,973.00
PAINTER		\$1,234,201.00
PARENT INVOLVEMENT REP	\$541,198.00	
PARENT INVOLVEMENT SPECIALIST	\$666,166.00	

ADMINISTRATIVE COST ANALYSIS BY OIG

SPECIFIC ADMINISTRATIVE COSTS NOT ALLOWED BY THE OIG	NO JOB DESCRIPTION PROVIDED BY HOUSTON TO SUPPORT COSTS ARE RELATED TO SCHOOL-BASED SERVICES	COSTS NOT RELATED TO SCHOOL-BASED SERVICES PER THE OIG
PARENT STAR COOR		\$36,183.00
PARTS TECH		\$327,325.00
PAVEMENT MARKER		\$42,534.00
PLANNER		\$234,000.00
PLANT OPERATOR 2		\$1,294,094.00
PLANT OPERATOR I		\$5,438,876.00
PLANT OPERATOR II COMPUTER		\$81,918.00
PLASTER JOURNEYMAN		\$245,094.00
PLUMBER JOURNEYMAN		\$780,654.00
POLICE DISPATCH CLERK		\$99,579.00
POLICE DISPATCHER		\$124,848.00
PRESS SECRETARY		\$34,950.00
PRG COOR TITLE IV	\$147,873.00	
PRGM TECHNOLOGY		\$28,188.00
COORDINATOR		
PRODUCER/DIRECTOR		\$123,869.00
PRODUCER/DIRECTOR 10 M		\$27,441.00
PRODUCER/WRITER		\$39,780.00
PROFESSIONALS STANDARD SPEC		\$53,844.00
PROJECT COOR		\$236,883.00
PROJECT MANAGER SAP	\$73,350.00	
PROJECT MGR SCHOOL OP	\$299,214.00	
SUPPORT		
PURCHASING ASST		\$86,667.00
PURCHASING SPECIALIST		\$239,028.00
QUALITY CONTROL ASST FS		\$30,378.00
RECEIVING WAREHOUSER		\$112,653.00
RECORD ANALYST	\$29,337.00	
RECORDS MGT SPEC		\$16,656.00
Recruiter		\$383,332.00
REPAIRER I FENCING		\$133,923.00
REPAIRER I HOUSEKEEPING		\$21,540.00
REPAIRER I PEST CONTROL		\$19,473.00
REPAIRER II HVAC		\$580,325.00
REPAIRER II MECHANIC		\$121,752.00

ADMINISTRATIVE COST ANALYSIS BY OIG

SPECIFIC ADMINISTRATIVE COSTS NOT ALLOWED BY THE OIG	NO JOB DESCRIPTION PROVIDED BY HOUSTON TO SUPPORT COSTS ARE RELATED TO SCHOOL-BASED SERVICES	COSTS NOT RELATED TO SCHOOL-BASED SERVICES PER THE OIG
REPAIRER II SMALL ENGINES		\$151,398.00
REPAIRER III COMM		\$568,417.00
REPAIRER III FOOD SERVICE		\$219,942.00
REPAIRER III HVAC		\$2,283,418.00
REPROGRAPHICS OP II		\$224,536.00
REPROGRAPHICS OPERATOR I		\$79,060.00
REPROGRAPHICS OPERATOR III		\$192,495.00
RESEARCH SPECIALIST		\$502,639.00
RESUMIX OPERATOR		\$25,554.00
ROOF JOURNEYMAN		\$31,689.00
SAFETY SPEC		\$24,384.00
SAP BUSINESS ANALYST		\$75,177.00
SAP SPECIALIST		\$325,146.00
SCHOOL BUSINESS MGR		\$327,847.00
SECURITY AND DISASTER RECOVERY		\$113,875.00
SECURITY GUARD		\$245,350.00
SECURITY GUARD 10 M		\$9,044.00
SERVICE DESK TECH I		\$119,158.00
SERVICE DESK TECH II		\$96,125.00
SERVICE DESK TECH III		\$174,533.00
SGT		\$467,163.00
SHADE JOURNEYMAN		\$33,245.00
SHIFT LEADER COMPUTER OPERATOR		\$92,303.00
SHIPPING RECEIVING WAREHOUSER		\$20,364.00
SMALL EQUIP REPAIRER III		\$74,052.00
SOFTWARE DIST CLERK		\$13,233.00
SOFTWARE EVALUATOR REP		\$39,696.00
SPEC TIME & LABOR	\$13,455.00	
SPRAY OPERATOR		\$80,811.00
SR APPLICATION SPECIALIST		\$320,293.00
SR ASST GEN COUNSEL		\$26,663.00
SR COMP OPERATOR		\$91,252.00

ADMINISTRATIVE COST ANALYSIS BY OIG

SPECIFIC ADMINISTRATIVE COSTS NOT ALLOWED BY THE OIG	NO JOB DESCRIPTION PROVIDED BY HOUSTON TO SUPPORT COSTS ARE RELATED TO SCHOOL-BASED SERVICES	COSTS NOT RELATED TO SCHOOL-BASED SERVICES PER THE OIG
SR COMPENSATION ANALYST		\$149,814.00
SR CONSTRUCTION AUDITOR	\$13,463.00	
SR LAUNDRY OPERATOR		\$25,143.00
SR PROJECT EXECUTIVE	\$50,676.00	
SR TECH SERVICE REP	\$41,301.00	
STAFF COOR		\$38,838.00
STAFFING & RECRUITING REP		\$25,857.00
STANDARD SPEC COOR		\$44,412.00
STUDENT ADVOCATE ASST II	\$29,235.00	
STUDENT ELIG SPECIALIST	\$45,471.00	
SUPER I FILE ROOM	\$28,884.00	
SUPERINTENDENT I ACCT		\$232,560.00
SUPERINTENDENT ZONE	\$821,740.00	
SUPERVISOR II, STRUCTURAL		\$28,728.00
SUPERVISOR II, TRUCK SERVICE C		\$21,748.00
SUPR I DATA MGT	\$67,330.00	
SUPV A CAD DRAFTING		\$32,622.00
SUPV ELECTRICAL SHOP		\$38,253.00
SUPV FENCE/PAVEMENT MAIN		\$39,999.00
SUPV GROUNDS MAINT		\$156,136.00
SUPV I BENEFITS	\$31,998.00	
SUPV I BOARD SERVICES	\$51,216.00	
SUPV I CERTIFICATION	\$45,276.00	
SUPV I COMM		\$77,703.00
SUPV I COMPUTER OPERATOR		\$49,242.00
SUPV I CRAFTS		\$174,377.00
SUPV I EXTERNAL FUNDING	\$52,524.00	
SUPV I FURNITURE SERV		\$26,154.00
SUPV I GRAPHICS		\$24,658.00
SUPV I HOUSEKEEPING & G		\$273,513.00
SUPV I HOUSEKEEPING & G		\$238,110.00
SUPV I HVAC	\$142,470.00	
SUPV I INSURANCE	\$55,119.00	
SUPV I PARENTAL ASST	\$32,622.00	
SUPV I POLICE DEPT		\$24,534.00

ADMINISTRATIVE COST ANALYSIS BY OIG

SPECIFIC ADMINISTRATIVE COSTS NOT ALLOWED BY THE OIG	NO JOB DESCRIPTION PROVIDED BY HOUSTON TO SUPPORT COSTS ARE RELATED TO SCHOOL-BASED SERVICES	COSTS NOT RELATED TO SCHOOL-BASED SERVICES PER THE OIG
SUPV I PREV CONTROL	\$9,984.00	
SUPV I PRODUCTION		\$24,627.00
SUPV I PROP MGT		\$32,622.00
SUPV I PURCHASING		\$43,647.00
SUPV I QUALITY CONTROL		\$25,892.00
SUPV I RECORDS	\$26,463.00	
SUPV I RELIEF CUSTODIAN		\$20,472.00
SUPV I RISK MGT		\$40,233.00
SUPV I ROUTING & SCHEDULING		\$28,788.00
SUPV I SAFETY REP		\$44,313.00
SUPV I SMALL ENGINES		\$35,115.00
SUPV I TRANSPORT A		\$31,074.00
SUPV I VEHICLE MAINTENCE		\$254,682.00
SUPV I WAREHOUSE		\$32,478.00
SUPV I WAREHOUSE		\$249,538.00
SUPV I WORKERS COMP COOR INST MED		\$38,820.00
SUPV II APPLICATIONS		\$293,652.00
SUPV II ASBESTOS CONSULTING		\$41,064.00
SUPV II CENTRAL WAREHOUSE		\$77,985.00
SUPV II CUSTOMER SERVICE	\$59,106.00	
SUPV II DATA CENTER SERVICES	\$41,886.00	
SUPV II DATA MGT	\$96,579.00	
SUPV II EDP AUDITING	\$56,829.00	
SUPV II EXTERNAL FUNDING	\$118,485.00	
SUPV II FMO STAFF TRAINING	\$53,520.00	
SUPV II FURNITURE		\$83,808.00
SUPV II HAZARD MATERIALS		\$85,728.00
SUPV II HOUSEKEEPING		\$84,006.00
SUPV II INSTRU M	\$102,984.00	
SUPV II LAN		\$49,824.00
SUPV II MEDIA CENTER		\$51,150.00
SUPV II MEDICARE		\$39,060.00
SUPV II MGR SERV	\$37,200.00	
SUPV II POLICE		\$65,244.00

ADMINISTRATIVE COST ANALYSIS BY OIG

SPECIFIC ADMINISTRATIVE COSTS NOT ALLOWED BY THE OIG	NO JOB DESCRIPTION PROVIDED BY HOUSTON TO SUPPORT COSTS ARE RELATED TO SCHOOL-BASED SERVICES	COSTS NOT RELATED TO SCHOOL-BASED SERVICES PER THE OIG
SUPV II PROFESSIONAL ST	\$41,463.00	
SUPV II PROJECT IMPLEMENT	\$133,466.00	
SUPV II PURCHASING		\$49,173.00
SUPV II RECORDS MGT	\$34,479.00	
SUPV II RISK MGT		\$46,956.00
SUPV II SITE SERVICES	\$43,044.00	
SUPV II STRATEGY/ORG		\$72,558.00
SUPV II TECH SUPPORT SE		\$76,290.00
SUPV II UTILITY MGT		\$44,373.00
SUPV II VEHICLE MGT		\$134,739.00
SUPV II WAREHOUSE		\$39,381.00
SUPV II WEST GROUNDS		\$48,507.00
SUPV II WIDE AREA NETWORK	\$69,705.00	
SUPV MEDIA		\$40,890.00
SUPV MEM SYSTEM UNIT	\$35,781.00	
SUPV MOTOR POOLS		\$35,205.00
SUPV OPERA/MAINT		\$66,678.00
SUPV PLUMBING		\$35,277.00
SUPV REAL ESTATE ACQUIS		\$49,634.00
SUPV SMALL EQUIP SH		\$35,346.00
SUPV/MICROGRAPHIC	\$37,536.00	
TAX & FINANCE ATTORNEY		\$86,292.00
TECH ECH SUPP SPEC		\$248,023.00
TECH IS ASST	\$38,154.00	
TECH SUPPORT REP		\$433,863.00
TECH TRAINER		\$221,362.00
TECHNICAL WRITER I		\$27,606.00
TECHNICAL WRITER II		\$148,043.00
TECHNOLOGY SPECIALIST-ACP		\$24,704.00
TELEPHONE OPERATOR		\$72,114.00
TIS REPORT ANALYST		\$12,593.00
TITLE VII REP	\$22,348.00	
TRACTOR JOURNEYMAN		\$762,290.00
TRAINER I		\$414,573.00
TRAINER I FMO		\$87,702.00

ADMINISTRATIVE COST ANALYSIS BY OIG

SPECIFIC ADMINISTRATIVE COSTS NOT ALLOWED BY THE OIG	NO JOB DESCRIPTION PROVIDED BY HOUSTON TO SUPPORT COSTS ARE RELATED TO SCHOOL-BASED SERVICES	COSTS NOT RELATED TO SCHOOL-BASED SERVICES PER THE OIG	
TRAINER I RISK MGT		\$63,890.00	
TRAINER I, CRAFTS		\$23,368.00	
TRAINER II		\$29,596.00	
TRAINER III		\$758,456.00	
TREE PRUNER		\$88,137.00	
TRUCK DRIVER		\$129,715.00	
UPHOLSTER		\$47,538.00	
URBAN SYSTEMS INCENTIVE SPEC	\$211,107.00		
USER SUPPORT SPECIALIST		\$51,817.00	
VEHICLE MAINT COOR		\$22,542.00	
WAN SPECIALIST	\$134,040.00		
WAREHOUSE DRIVER		\$416,248.00	
WAREHOUSE OPERATIONS MGR		\$46,092.00	
WAREHOUSER I		\$323,862.00	
WAREHOUSER II		\$718,229.00	
WEBSITE SOFTWARE DESIGNER		\$49,590.00	
WELDER		\$84,291.00	
WORD PROCESSOR		\$373,983.00	
WORD PROCESSOR I		\$59,135.00	
WORK FORCE DEVELOPMENT ASST		\$22,352.00	
Total Specific Administrative Costs Not Allowed by the OIG (Quarters 1-3):	\$20,995,640.00	\$64,772,971.00	\$85,768,611.00*
Remaining Unallowed Administrative Costs:			
Unallowed costs (Quarters 1-3)		\$118,218,288.00	
Unallowed plug number (Quarters 1-3)		\$146,536,510.66	
Unallowed projected administrative costs (Quarter 4)		\$144,453,562.09	
Total Remaining Unallowed Administrative Costs:			\$409,208,360.75
Total Unallowed Administrative Costs:			<u>\$494,976,971.75</u>

*This represents the OIG adjustment of the \$110,027,867 that Houston stated supported the Medicaid program.

OPERATING COST ANALYSIS BY OIG

<u>Specific Operating Costs Not Allowed by the OIG</u>	<u>Costs Not Related to the Operation of the Program Per the OIG</u>
Consultant Prof Svcs	\$87,065,737.08.
Cont Maint & Repair	\$6,543,945.05
Bldg/Land rental/Oper Leases	\$8,561,367.75
Misc Contract Services	\$69,807,041.79
Supplies for maintenance	\$11,789,314.27
Dues Fees-Registration	\$3,546,767.24
L/T Debt Principal	\$23,583,800.70
Lease Interest	\$13,776.60
Interest on Debt	\$3,444,538.26
Other Debt Fees/for issue costs	<u>\$412,585.42</u>
Total Specific Operating Costs Not Allowed by the OIG	\$214,768,874.16
Remaining Unallowed Operating Costs:	<u>\$55,284,084.00</u>
Total Unallowed Operating Costs	<u>\$270,052,958.16</u>

APPENDIX D

**HOUSTON INDEPENDENT SCHOOL DISTRICT'S
RESPONSE TO OIG DRAFT REPORT
“AUDIT OF HOUSTON ADMINISTRATIVE COSTS
CLAIMED FOR MEDICAID SCHOOL-BASED HEALTH SERVICES”**

(Transmittal Letter plus Table of Contents and Executive Summary)
(11 pages)

We summarized Houston’s comments and responded to those comments at the end of the Findings and Recommendations section of the report. We did not include their comments in their entirety, which consisted of 65 pages of detailed comments and 20 appendices containing an additional 186 pages. We have forwarded a complete copy of their response to the responsible action official.



HOUSTON INDEPENDENT SCHOOL DISTRICT

HATTIE MAE WHITE ADMINISTRATION BUILDING
3830 RICHMOND AVENUE · HOUSTON, TEXAS 77027-5838

KAYE STRIPLING, Ed.D.
Superintendent of Schools

March 28, 2003

Mr. Gordon Sato
Regional Inspector General for Audit Services
Office of Inspector General
Department of Health and Human Services
1100 Commerce, Room 632
Dallas, Texas 75242

Dear Mr. Sato:

REFERENCE: Draft Audit Report from the US Department of Health and Human Services Dated January 30, 2003, Common Identification No. A-06-02-00037 ("Draft Report")

On behalf of the Houston Independent School District ("HISD"), please find the enclosed HISD's response ("Response") to the Draft Report. HISD welcomes the review of the Office of Inspector General and is very proud of its Medicaid Administrative Claiming process. While the Draft Report was helpful in identifying a few areas where HISD can improve its claims process, the Draft Report did not adhere to governmental auditing standards, and its conclusions suffer from methodological and substantive deficiencies. Moreover, the Draft Report does not consider the controlling guidance and interpretations provided to HISD by the Texas Department of Health Services. (TDHS).

HISD appreciates the opportunity to comment on the Draft Report, and hopes that the Response will allow the Final Report to fully and accurately credit the state-of-the-art program HISD has created under the close oversight, and with the concurrence of TDHS.

Sincerely,


Kaye Stripling
Superintendent of Schools

KS/MG:cc
Enclosure

cc: Melinda Garrett, CFO
Michael Gonzalez, Medicaid Finance

HOUSTON INDEPENDENT SCHOOL DISTRICT
MEDICAID FINANCE DEPARTMENT

MARCH 29, 2003

RESPONSE TO THE DRAFT REPORT FROM THE
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL
AUDIT OF HOUSTON ADMINISTRATIVE COST CLAIMED
FOR MEDICAID SCHOOL-BASED HEALTH SERVICES
JANUARY 30, 2003

Common Identification Number: A-06-02-00037

Houston Independent School District
Medicaid Finance Department
3830 Richmond Avenue
Houston, TX 77027

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I. INTRODUCTION AND BACKGROUND

On behalf of the Board of Trustees and Dr. Kaye Stripling, Superintendent of Schools of the Houston Independent School District ("HISD"), HISD appreciates the opportunity to respond to the January 30, 2003 Draft Report from the Office of Inspector General ("OIG"), Office of Audit Services. ("Draft Report")

The Houston Independent School District is the largest district in Texas and the seventh largest in the United States. It serves 211,000 students who are predominantly minority—56% Hispanic, 31% African American and 13% White and Asian. Seventy-one percent qualify for the Free and Reduced Price Meal Program, and 11% are served in special education programs. The district has participated in the School Health and Related Services ("SHARS") Medicaid program since 1992, and the Medicaid Administrative Case Management ("MACM") Medicaid program since 1994. These two Medicaid programs have contributed significantly to the delivery of health and related services to HISD students and particularly to HISD students with special needs. With the additional Medicaid reimbursement funding, HISD has been able to enhance, improve, and expand the level and quality of health and related services being delivered to HISD's students.

HISD serves a vital role in providing outreach services, coordination, medical referral services, and the actual delivery of basic health and medical services to students in general, and more specifically to HISD students with disabilities and special needs. HISD's federally mandated and non-mandated school-based health services costs annually exceed \$38 million. HISD's annual expenditures for services to disabled students are approximately \$100 million annually or \$4,545 per disabled student, while HISD's federal Individuals With Disabilities Education Act ("IDEA") allocation is only \$8 million or \$363 per disabled student.

On a daily basis, HISD encounters a significant number of at-risk children in need of health, medical and mental care. The district provides outreach and case-finding services that subsequently initiate the coordination and referral process toward the delivery of clinical or medical intervention. The district understands the Medicaid System's objective of making the Medicaid System more effective and efficient by ensuring Medicaid patients receive

covered medical, mental and health care service at the appropriate level of intervention with early illness detection, primary care or wellness care. HISD shares in this vision by providing outreach services and direct Medicaid-covered services. Healthier children are able to achieve greater academic success, because their basic and most fundamental health care needs are met while concurrently receiving a free and unencumbered education.

HISD welcomes the external review and audit performed by the OIG. HISD takes pride in the performance and financial integrity of its programs, and welcomes any review of them. HISD understands the need for the detailed requirements of the programs, and believes it is in compliance with them.

HISD is an organization that is committed to excellence, and HISD takes pride in the financial and programmatic integrity of its programs.

A fair review of HISD's programs will show that HISD is in compliance with applicable current Texas Department of Human Services ("TDHS") requirements, and the negative conclusions in the Draft Report are unwarranted. HISD believes the TDHS will concur with this view. HISD is always looking for ways to improve its programs, and as requirements and circumstances change, HISD will continue to work to make its programs even better. In this spirit, HISD welcomes the suggestions offered by the OIG, by Centers for Medicare & Medicaid Services ("CMS") and the Texas Medicaid program.

II. EXECUTIVE SUMMARY

The Medicaid Administrative Claiming program ("MAC") is designed to provide Medicaid reimbursement for actual expenditures related to activities performed by schools that support the Medicaid program. According to Federal policy, Medicaid reimbursement is available for activities such as Medicaid outreach, eligibility, information, referral, coordination and monitoring. These are administrative activities and are completely separate from medical services. Medicaid reimbursement is based on Medicaid's share of actual administrative expenditures for qualifying activities. At issue in the Draft Report is

the process of identifying actual expenditures for qualifying activities and the process for determining the Medicaid share.

Unfortunately, the Draft Report suffers from major methodological and substantive errors that undermine its validity. Almost without exception, HISD has properly documented and supported the federal reimbursement of \$2,792,575 for FY 2000. While the Draft Report identified some areas that will need adjustments and/or corrections, those were, have been, or will be adjusted where necessary.

From a methodological standpoint, the Draft Report improperly relied upon a sample size of only sixteen (16) individuals, a sample several orders of magnitude smaller than the minimum needed to support statistical validity. The selection process used by the auditors, with no explanation of either the selection criteria or method, was not in accordance with government or commercial auditing standards. Because the audit suffered from major methodological defects, virtually none of the conclusions resting on statistical analysis should be given any weight. Notwithstanding this, HISD has provided its own correct statistical analysis that demonstrates that, with few exceptions, its claim fell within recognized audit guidelines.

Substantively, HISD has responded fully to each audit exception and has shown that it was in compliance with applicable standards. In the few instances where the Draft Report correctly identified areas of potential adjustment, HISD's analysis shows that in some instances, HISD actually under-claimed for the federal participation.

The Draft Report's utilization of the unapproved Draft CMS Guidelines ("Guidelines") is the most basic flaw of the audit, and undermines its validity. Reliance on the unapproved Guidelines is erroneous. Had the auditors consulted with the TDHS, the regulatory body with primary responsibility for auditing HISD, the Draft Report's conclusions would necessarily have been much more favorable to HISD.

For example, the Draft Report cites HISD for improperly changing mis-entered time study codes. However, HISD's contract with TDHS specifically requires the correction of mis-entered codes as an element of its quality control procedures. HISD is surprised that the

Draft Report virtually ignores TDHS' jurisdiction over HISD, ignores TDHS approval of HISD procedures and methods, ignores TDHS' binding interpretations of CMS reimbursement protocols and ignores the results of multiple TDHS audits of HISD. Indeed, HISD believes that TDHS would reject most of the Draft Report's findings as inconsistent with CMS approved procedures.

The Draft Report also has factual errors. As an example, the Draft Report challenges HISD salary claims, however the auditors failed to include the very substantial cost of benefits, a major error which effectively reversed the overcharge finding. Example after example of similar misplaced audit exceptions pervade the Draft Report.

HISD prides itself on maintaining a fully compliant, state of the art reimbursement program. HISD welcomes the oversight of regulatory bodies and desires to continuously improve its service and performance. While HISD does not claim to operate error free, the District believes it follows the very best practices in its school Medicaid program administration. HISD has invested significantly in developing a very accurate training, coding and accounting system to comply with the highly complex Medicaid reimbursement rules, but the success of that investment is, unfairly, not reflected in the Draft Report. Since the Draft Report is only a draft, there is a great opportunity for the OIG, TDHS and HISD to work cooperatively to inform the Secretary of the Department of Health and Human Services on HISD's record of compliance and administration. We invite the OIG to accept this opportunity.

ACKNOWLEDGMENTS

This report was prepared under the direction of Gordon Sato, Regional Inspector General for Audit Services, Region VI. Other principal Office of Audit Services staff who contributed include:

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For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619-1343.