

**Memorandum**

Date . JUL 30 1992

From Richard P. Kusserow
Inspector General *For Bryan Titche*

Subject Federal Financial Participation in Nebraska's Medicaid
Management Information System, Nebraska Department of Social
Services, Lincoln, Nebraska (A-07-92-00526)

To William Toby
Acting Administrator
Health Care Financing Administration

This is to alert you to the issuance on July 31, 1992, of our final audit report. A copy is attached. Our audit was of claims by the Nebraska Department of Social Services (DSS) for Medicaid Management Information System (MMIS) costs of \$14,342,201 at the enhanced 75 percent Federal financial participation (FFP) rate. We found that claims of \$4,903,199 were ineligible for the enhanced rate. The corresponding reduction in FFP was \$1,225,800.

The DSS claimed salaries and related direct costs of certain employees as being entirely related to the operation of MMIS even though their time was devoted partially or wholly to unrelated activities. The associated ineligible FFP was \$408,141.

Data transmission costs were billed to DSS by another State agency. The costs did not pertain to the operation of MMIS, or they were departmentwide costs ineligible for the enhanced rate. The costs primarily pertained to the maintenance of the Medicaid eligibility file which is an activity that is not part of MMIS according to the State Medicaid Manual. The balance of the costs pertained to post-payment reviews of claims, to other activities not related to the Medicaid program, or to departmentwide activities. The associated ineligible FFP was \$341,898.

Billings to DSS by the Division of Central Data Processing contained overhead costs not directly related to the operation of MMIS. As such, a portion of direct and shared billings to DSS were ineligible for the enhanced rate. The associated ineligible FFP was \$316,496.

A portion of the operating costs for the Data Processing Support and Information Systems Cost Centers was claimed at the enhanced rate. These cost centers included indirect salaries, departmentwide costs, and statewide costs. These

costs, not directly related to the operation of MMIS and departmentwide and statewide costs, were ineligible for the enhanced rate. The associated ineligible FFP was \$120,914.

Finally, costs allocated to the Surveillance and Utilization Review Subsystem from a series of cost pools developed in the cost allocation workpapers, consisted of departmentwide costs, statewide costs, and administrative salaries from the Medical Services Division. The departmentwide and statewide costs were ineligible for the enhanced rate. The administrative salaries were ineligible because there were no time and effort reports supporting the salary costs. The associated ineligible FFP was \$38,351.

All of the overclaims occurred as a result of DSS considering only whole cost centers (or accounting units) in determining costs to be claimed for enhanced FFP. The DSS did not consider that some activities, positions, or costs within a cost center or accounting unit might be ineligible for the enhanced rate. Also, DSS acted on the premise that the approval of its cost allocation plan automatically constituted approval of its claims for enhanced FFP.

We are recommending that DSS: (1) refund \$1,225,800, (2) identify and refund similar overclaims that may have occurred subsequent to the close of our audit, and (3) implement changes to ensure that only eligible costs are claimed at the enhanced rate of 75 percent.

The DSS stated that it appeared some costs may not have been eligible for enhanced FFP, that it was in the process of determining what, if any, adjustments should be made, and that it would make adjustments for appropriate amounts at the completion of its review. Regional Health Care Financing Administration officials agreed with our findings and recommendations.

Attachment

For further information contact:
Vincent R. Imbriani
Regional Inspector General for
Audit Services, Region VII
816-426-3591

Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

FEDERAL FINANCIAL PARTICIPATION IN
NEBRASKA'S MEDICAID MANAGEMENT
INFORMATION SYSTEM, NEBRASKA
DEPARTMENT OF SOCIAL SERVICES,
LINCOLN, NEBRASKA



Richard P. Kusserow
INSPECTOR GENERAL

A-07-92-00526



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

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CIN: A-07-92-00526

Ms. Mary Dean Harvey, Director
Nebraska Department of Social Services
P.O. Box 95026
Lincoln, Nebraska 68509-5026

Dear Ms. Harvey:

Enclosed for your information are two copies of an office of Inspector General (OIG), Office of Audit Services (OAS) report entitled "FEDERAL FINANCIAL PARTICIPATION IN NEBRASKA'S MEDICAID MANAGEMENT INFORMATION SYSTEM, NEBRASKA DEPARTMENT OF SOCIAL SERVICES, LINCOLN, NEBRASKA." Your attention is invited to the findings and recommendations contained in the report. The below named official will be communicating with you in the near future regarding implementation of necessary actions.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, 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 the above common identification number (CIN) in all correspondence relating to this report.

Sincerely,


Vincent R. Imbriani
Regional Inspector General for
Audit Services, Region VII

Enclosures

Action Official:
Mr. Gene Hyde
Regional Administrator
Health Care Financing Administration
601 E. 12th Street, Room 235
Kansas City, Missouri 64106

SUMMARY

The Nebraska Department of Social Services (DSS) claimed Medicaid Management Information System (MMIS) costs of \$14,342,201 at the enhanced 75 percent Federal financial participation (FFP) rate. We found that claims of \$4,903,199 were ineligible for the enhanced rate. The corresponding reduction in FFP was \$1,225,800.

The DSS claimed salaries and related direct costs of certain employees as being entirely related to the operation of MMIS even though their time was devoted partially or wholly to unrelated activities. The associated ineligible FFP was \$408,141.

Data transmission costs were billed to DSS by another State agency. These costs either did not pertain to the operation of MMIS, or they were departmentwide costs ineligible for the enhanced rate. The costs primarily pertained to the maintenance of the Medicaid eligibility file which is an activity that is not part of MMIS according to the State Medicaid Manual (SMM). The balance of the costs pertained to post-payment reviews of claims, to other activities not related to the Medicaid program, or to departmentwide activities. The associated ineligible FFP was \$341,898.

Billings to DSS by the Division of Central Data Processing (CDP) contained overhead costs not directly related to the operation of MMIS. As such, a portion of direct and shared billings to DSS was ineligible for the enhanced rate. The associated ineligible FFP was \$316,496.

A portion of the operating costs for the Data Processing Support and Information Systems Cost Centers was claimed at the enhanced rate. These cost centers included indirect salaries, departmentwide costs, and statewide costs. These costs, not directly related to the operation of MMIS and departmentwide and statewide costs, were ineligible for the enhanced rate. The associated ineligible FFP was \$120,914.

Finally, costs allocated to the Surveillance and Utilization Review Subsystem (SURS), from a series of cost pools developed in the cost allocation workpapers, consisted of departmentwide costs, statewide costs, and administrative salaries from the Medical Services Division. The departmentwide and statewide costs were ineligible for the enhanced rate. The administrative salaries were ineligible because there were no time and effort reports supporting the salary costs. The associated ineligible FFP was \$38,351.

All of the overclaims occurred as a result of DSS considering only whole cost centers (or accounting units) in determining costs to be claimed for enhanced FFP. The DSS did not consider that some activities, positions, or costs within a cost center or accounting unit, might be ineligible for the enhanced rate. Also, DSS acted on the premise that the approval of its cost allocation plan automatically constituted approval of its claims for enhanced FFP.

We are recommending that DSS: (1) refund \$1,225,800, (2) identify and refund similar overclaims that may have occurred subsequent to the close of our audit, and (3) implement changes to ensure that only eligible costs are claimed at the enhanced rate of 75 percent. The DSS stated that it was reviewing its claims for enhanced FFP and that any inappropriate claims would be adjusted.

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	i
INTRODUCTION	1
BACKGROUND	1
SCOPE OF AUDIT	1
FINDINGS AND RECOMMENDATIONS	3
SALARIES AND RELATED COSTS	3
Recommendations	5
Auditee Comments	5
DATA TRANSMISSION COSTS BILLED BY THE DIVISION OF COMMUNICATIONS	5
Recommendations	6
Auditee Comments	7
DATA PROCESSING DIRECT AND SHARED BILLINGS	7
Recommendations	11
Auditee Comments	11
DATA PROCESSING SUPPORT AND INFORMATION SYSTEMS DIRECT AND INDIRECT COSTS	11
Recommendations	12
Auditee Comments	12
COSTS ALLOCATED TO THE SURS COST CENTER	13
Recommendations	14
Auditee Comments	14
INSTRUCTIONS FOR AUDITEE RESPONSE	14
APPENDIX A - RECOMMENDED FINANCIAL ADJUSTMENTS FOR THE PERIOD OCTOBER 1, 1988 THROUGH SEPTEMBER 30, 1991	
APPENDIX B - RECOMMENDED FINANCIAL ADJUSTMENTS FOR THE PERIOD OCTOBER 1, 1988 THROUGH SEPTEMBER 30, 1989	
APPENDIX C - RECOMMENDED FINANCIAL ADJUSTMENTS FOR THE PERIOD OCTOBER 1, 1989 THROUGH SEPTEMBER 30, 1990	
APPENDIX D - RECOMMENDED FINANCIAL ADJUSTMENTS FOR THE PERIOD OCTOBER 1, 1990 THROUGH SEPTEMBER 30, 1991	
APPENDIX E - AUDITEE COMMENTS	

INTRODUCTION

BACKGROUND

The Medicaid program, enacted in 1965 under title XIX of the Social Security Act (the Act), is a medical assistance program financed by Federal and State funds and administered by States under approved State plans. In Nebraska, DSS is the single State agency responsible for the administration of the State plan.

In 1972, the Congress amended title XIX to include enhanced rates of FFP in administrative costs for operating mechanized claims processing and information retrieval systems such as MMIS. Section 1903(a) of the Act provides for 75 percent FFP in the operation of an approved MMIS. The 75 percent is an enhancement in relation to the 50 percent FFP rate available for other administrative expenditures necessary for the proper and efficient administration of State plans.

Federal regulations embodied in the Code of Federal Regulations (CFR) and Federal guidance contained in the SMM (Health Care Financing Administration [HCFA] Publication 45) augment provisions in the Act. Both the CFR and the SMM contain specifics on types of costs and activities which qualify for enhanced FFP claims. Generally, Federal regulations state that enhanced FFP at 75 percent is available for the "operation of mechanized claims processing and information retrieval systems." And, operation is defined as "the use of supplies, software, hardware, and personnel directly associated with the functioning of the mechanized system."

The Departmental Appeals Board (DAB), acting in response to appellants' claims, has issued several decisions concerning costs and activities which qualify for enhanced FFP. Basically, the DAB's rulings differentiate between direct and indirect activities and conclude that only activities directly related to MMIS operations qualify for the enhanced FFP rate.

For the period October 1, 1988 through September 30, 1991, Nebraska claimed enhanced FFP on \$14,342,201 of MMIS costs. The costs claimed for enhanced FFP represented salaries and related costs, direct planner costs, SURS costs, data processing costs, and other charges and credits.

SCOPE OF AUDIT

Our audit was made in accordance with the generally accepted government auditing standards. Our purpose was to determine if expenditures claimed at the enhanced FFP rate by DSS for the operation of its MMIS were eligible for the rate. Achieving our audit objective did not require a review of the entire internal control structure of DSS. We only reviewed controls relating to DSS's claims for enhanced FFP for its MMIS operations.

Our audit covered costs claimed for the period October 1, 1988 through September 30, 1991. We examined accrued expenditures of \$14,342,201 claimed by DSS for enhanced FFP in its MMIS operations for the period.

We reconciled quarterly expenditure reports (HCFA-64) to DSS's accounting records. We categorized costs as being (1) salaries and related costs, (2) data processing and related costs, (3) SURS indirect costs, (4) direct planner costs, and (5) adjustments and other costs.

With regard to salaries claimed for enhanced FFP, we reviewed employee job descriptions, interviewed current employees (except for data entry personnel), and interviewed supervisors of past employees and of the data entry unit. Costs related to salaries were considered eligible for enhanced FFP based on the percentage of total salaries eligible for enhanced FFP.

For data processing costs, we evaluated CDP billings and costs, Division of Communications data transmission billings, and costs recorded in or allocated to the Data Processing Support and Information Services Cost Centers. We traced billings and costs to the cost centers of origin and examined cost allocation methodologies. We interviewed CDP and Division of Communications officials. We also interviewed DSS officials at the central, district, and local offices with regard to data transmission billings.

Costs allocated to the SURS unit were traced to cost allocation workpapers and cost pools of origin. We considered the nature of costs and cost allocation methodologies in evaluating whether costs were directly related to MMIS operations.

Field work was performed during the period October 1991 through February 1992 at the central office of the State agency and at CDP, a Division in the Department of Administrative Services. Both are in Lincoln, Nebraska. Field work was also performed at selected district and local offices of the State agency at sites outside of Lincoln, Nebraska.

FINDINGS AND RECOMMENDATIONS

SALARIES AND RELATED COSTS

The DSS's claims for enhanced FFP contained salaries and related costs which were either not directly related to MMIS operations or were not supported by an adequate reporting system. Such costs were ineligible for enhanced FFP under Federal regulations and guidelines. The application of the enhanced FFP rate to these claimed costs resulted in a Medicaid overpayment of \$408,141 (Federal share). The overpayments occurred because DSS considered whole accounting units, rather than individual employees or positions, in identifying costs for enhanced FFP.

Federal regulations (42 CFR 432.50) provide enhanced FFP of 75 percent for personnel directly engaged in operating a MMIS. For personnel whose time is partially related to the operation of a MMIS, the regulations provide:

"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."

Additionally, Office of Management and Budget (OMB) Circular A-87, entitled "Cost Principles for State and Local Governments," requires reports supporting the distribution of activity for such employees. Decisions of the DAB indicate that States have the burden for adequately documenting the propriety of costs claimed at the 75 percent FFP rate.

The DSS claimed \$3,606,720 in salaries and related costs at the enhanced FFP rate. Salaries and fringe benefits were \$3,015,247 and direct costs related to salaries were \$591,473. Related costs consisted of travel, temporary employees, and contractual services. The salaries and related costs were recorded in seven cost centers. Six cost centers were claimed in their entirety for enhanced FFP. An allocated portion of the other cost center was claimed for enhanced FFP.

We found that DSS incorrectly identified efforts eligible for enhanced FFP and did not maintain adequate documentation supporting allocations when only portions of employees' efforts were eligible for enhanced FFP. The incorrectly identified and unsupported salaries also affected the eligibility of related costs for enhanced FFP.

Of the salary cost of \$3,015,247 claimed at 75 percent FFP, we identified \$1,521,488 which was eligible for only 50 percent FFP. Unallowable FFP of \$380,372 (\$1,521,488 x 25 percent) consisted of \$26,556 for efforts which did not qualify for enhanced FFP and \$353,816 where documentation was inadequate to support the

salaries claimed for enhanced FFP. The following summarizes our review of positions for which DSS claimed enhanced FFP during our audit period:

<u>Eligibility for Enhanced FFP</u>	<u>Number of Positions</u>
Not Eligible	6
Partially Eligible (but not adequately documented)	27
Eligible	<u>41</u>
Total	<u>74</u>

Of the six positions found ineligible for enhanced FFP, three involved positions claimed to be directly related to MMIS operations, but the employees occupying those positions actually worked in cost centers not related to MMIS. The other three positions were temporary, involving clerks and secretaries who did not work directly on MMIS operations. We considered the \$26,556 in enhanced FFP for these salaries to be unallowable.

Five of the 27 positions where there was inadequate documentation involved the SURS unit. Efforts within this unit involved first line review of SURS reports (eligible for 75 percent FFP) and follow-up investigations (eligible for 50 percent FFP). The majority of efforts involved follow-up investigations. The other 22 positions involved claims processing cost centers, of which a portion involved answering general information WATS line calls. The DSS claimed the 27 positions in their entirety for enhanced FFP when only an allocable portion was eligible. The DSS did not develop or maintain documentation for allocating efforts between those eligible and ineligible for enhanced FFP. The DAB rulings place the burden of responsibility on the State for adequately documenting claims for enhanced FFP. We considered the \$353,816 in enhanced FFP claimed for the 27 positions to be unallowable.

Also determined unallowable were related costs of \$111,076 (enhanced FFP of \$27,769) applicable to \$591,473 in direct costs related to salaries. The total FFP overclaim, considering both salaries and related direct costs, was \$408,141 (\$380,372 + \$27,769).

The overclaim of enhanced FFP occurred because DSS treated the cost centers as wholly related to the operation of MMIS, even though only a portion of the cost center charges were related.

Recommendations

We recommend that DSS:

- o Implement changes to ensure that only eligible salaries and related costs are claimed for enhanced FFP.
- o Refund \$408,141 in enhanced FFP for ineligible salaries and related costs.
- o Identify ineligible salaries and related costs claimed after September 30, 1991, and refund the enhanced FFP.

Auditee Comments

Nebraska did not directly respond to these specific recommendations contained in our draft report. Instead, Nebraska provided us with the general comments:

"...it appears some costs may not have been eligible for the enhanced FFP. Those activities in question are being reviewed to determine what, if any, of the costs are not claimable at the enhanced FFP. Once that review is completed, claims will be adjusted for those costs determined not eligible for the enhanced FFP."

Nebraska's response is included with this report as Appendix E.

DATA TRANSMISSION COSTS BILLED BY THE DIVISION OF COMMUNICATIONS

The DSS claimed ineligible data transmission costs at the enhanced rate. As a result, DSS overclaimed \$341,898 in enhanced FFP. The overclaim occurred because DSS believed that approval of its cost allocation plan for charging costs constituted approval for claiming costs at the enhanced rate. Inclusion of the data transmission costs was inconsistent with Federal regulations which provide that only costs directly related to MMIS operations are eligible for enhanced FFP.

Federal regulations (42 CFR 433.15) provide for 75 percent FFP in the "operation of mechanized claims processing and information retrieval systems." The regulations (45 CFR 95.605) define operation as "the automated processing of data used in the administration of the State plans" including "the use of supplies, software, hardware, and personnel directly associated with the functioning of the mechanized system."

Section 11275.24 of part 11, chapter 2, of the SMM dated July 1986, provided that enhanced FFP "would not be available for the master eligibility file maintenance and update." That section was replaced by section 11276.1 effective June 29, 1990, which

states that the rate of funding for "design, development, installation, enhancement and operation of eligibility determination systems" would be 50 percent. In addition, both sections specified that costs associated with departmentwide functions were not eligible for enhanced FFP.

The DSS claimed enhanced FFP on allocations of data transmission costs billed by the Nebraska Department of Administrative Services, Division of Communications. The billings to DSS were for computer modems, telephone lines, installation charges, circuit charges, and administrative fees. The billings totaled \$2,774,855. The DSS allocated \$1,367,591 to its MMIS operations and claimed FFP of \$1,025,693 ($\$1,367,591 \times 75$ percent).

The billed costs pertained to DSS local and district offices, a DSS central office telephone line, two subcontractors performing post-payment reviews of Medicaid claims, and the Nebraska Center for Children and Youth. About 97 percent of the billed charges were for local and district offices located outside the geographical boundaries of Lincoln, Nebraska which housed DSS's MMIS operations. Interviews with DSS personnel indicated that data transmission costs of local and district offices related to eligibility determinations.

Our review showed that none of the billed data transmission costs were eligible for enhanced FFP. In fact, most of the billings related to eligibility determination, which according to the SMM, was eligible for 50 percent FFP. As such, enhanced FFP of \$341,898 ($\$1,367,591 \times 25$ percent) was unallowable.

The DSS claimed data transmission costs for enhanced FFP because the costs had been included in a cost allocation plan approved by the Department of Health and Human Services, Division of Cost Allocation, in 1984. The DSS officials assumed that approval of the cost allocation plan constituted approval to charge the costs for enhanced FFP. However, as noted by DAB, a cost allocation plan is a means for charging costs to programs; it does not establish eligibility for certain FFP rates.

Recommendations

We recommend that DSS:

- o Discontinue claiming enhanced FFP for data transmission costs not directly related to the operation of MMIS.
- o Refund \$341,898 in enhanced FFP for ineligible data transmission costs.
- o Identify ineligible data transmission costs claimed after September 30, 1991, and refund the enhanced FFP.

Auditee Comments

Nebraska did not respond directly to the specific recommendations.

DATA PROCESSING DIRECT AND SHARED BILLINGS

The DSS's claims for enhanced FFP contained ineligible indirect data processing costs of \$1,265,984 which were passed by CDP to DSS through billing rates developed in accordance with an approved cost allocation plan. These indirect costs, as part of the billing rates, were incurred in another State agency, the Department of Administrative Services, which had no direct responsibility for operation of MMIS. As a result, the related enhanced FFP of \$316,496 was unallowable.

According to the SMM, only direct overhead costs resulting from the operation or development of a MMIS are eligible for the enhanced rate. In two recent DAB decisions (see page 8), this provision was interpreted to mean that indirect activities, such as recording leave and submitting payroll forms, etc., were eligible when performed by MMIS unit staff. However, tasks that supported all divisional activities and were performed in a unit not directly responsible for MMIS operations were ineligible for enhanced FFP.

The overclaim occurred because DSS considered only whole cost centers when determining what costs were to be claimed for enhanced FFP. As was the case for salaries and related costs, DSS did not consider, on an individual basis, that certain activities, positions, or costs may be ineligible for enhanced FFP.

With regards to overhead costs, the 1986 SMM, section 11275.30, provides:

"Only the direct overhead costs resulting from the operation or development of an MMIS are eligible for the enhanced FFP rates. Such costs are usually the non-personnel costs such as electricity, rent, shared facilities, caused by the operation or development of the MMIS.

"Overhead costs not directly resulting from the MMIS cost center are reimbursed at the 50-percent FFP rate. Such costs are the statewide overhead (A-87) costs and the costs associated with the State agency's overhead functions (personnel staff, budget staff, legal staff, commissioner's office, etc.) assigned to the MMIS cost

center through the State Agency's cost allocation plan. This applies also with respect to a fiscal agent's costs."

This provision was renumbered to section 11276.9 and the wording was slightly changed in a 1990 revision to the SMM:

"Only direct costs allocable to the development or operation of an MMIS are eligible for reimbursement at enhanced FFP rates. Such costs are usually nonpersonnel costs such as utilities, rent, telephone service, etc., necessitated by either the development or operation of an MMIS.

"Costs not directly allocable to the development or operation of an MMIS are matched at the 50-percent FFP rate. Such costs are usually indirect costs including the staff costs associated with agency-wide functions such as accounting, budgeting, legal affairs, general administration, etc.

"This differentiation in the funding rates for these two types of costs is also applicable to the reimbursement of fiscal agent costs."

The 1986 version of the SMM also provided a test for determining whether the cost of a given function was directly related to the operation of MMIS:

"As long as the function is one which has otherwise been done by the State (in the absence of the MMIS), the State will not receive 75 percent FFP in its expenditures for performing the function manually..."

The DAB has ruled on the issue of indirect MMIS costs in two recent decisions.

In Decision No. 1188 dated August 24, 1990, DAB ruled that section 11275.30 of the 1986 version of the SMM did "not preclude reimbursement for personnel costs of an indirect nature incurred by the unit operating MMIS and which are not statewide or departmentwide central services costs allocated through a cost allocation plan." The costs at issue in that ruling were those relating to the "activities performed by MMIS unit staff, such as recording leave, submitting payroll forms, participating in employee evaluations, requisitioning and distributing supplies, and distributing mail."

In Decision No. 1205 dated November 7, 1990, DAB ruled on personal services and travel costs for certain overhead functions when those costs were incurred at the divisional level in the department which administered the Medicaid program, but not in

the division that administered MMIS. The DAB described the two divisions as "peer components of the department." The costs were deemed eligible for enhanced FFP by the appellant because management and administration staff within the (peer) division support all of the program areas for which the division is responsible. The DAB ruled against the appellant stating that enhanced FFP is not available for "activities that support all departmental or divisional activities." In addition, DAB ruled that the test regarding whether the activity would be performed in the absence of a MMIS was a valid test for determining whether an activity qualified as a direct operational activity of a MMIS, thereby being eligible for enhanced FFP. Finally, DAB ruled that the functions and the resultant costs in question were "either department-wide costs or analogous to department-wide overhead costs; the accounts distributed costs of overall program management of a division not directly responsible for MMIS operations."

The DSS entered into an agreement with CDP which closely paralleled the situation in Decision No. 1205. The agreement required CDP to perform the automated data processing functions associated with the operation of MMIS, with the exception of data entry of claims. Under the agreement, CDP was to bill DSS for data processing work performed, utilizing billing rates developed in their annual cost allocation plan. The cost allocation plan determined the charges associated with each data processing function billed.

In the development of the rates, the cost allocation plan categorized CDP's cost centers as direct or indirect. Indirect cost centers were allocated either to direct cost centers or other indirect cost centers. All indirect costs were eventually accumulated in direct cost centers. Rates to be billed for each data processing function were determined from costs accumulated in the direct cost centers. These billing rates contained administrative and overhead costs from the indirect cost centers.

As CDP billings were paid by DSS, the billed amounts were allocated to the various State and Federal programs administered by DSS. The amount of costs claimed as being applicable to the operation of MMIS was \$8,435,134. This total included \$5,960,230 for direct billings (jobs applicable solely to the operation of MMIS), and \$2,474,904 for shared billings (jobs applicable to both the operation of MMIS as well as other DSS programs).

The DSS agreement with CDP resulted in CDP's indirect costs being charged to DSS through the cost allocation plan. In turn, DSS claimed those costs for enhanced FFP. Cost centers deemed to be indirect according to CDP's cost allocation plan were Administration, Education and Training, VM/CMS Systems Management, MVS Management, Teleprocessing System Management,

Computer Operations, Communication Network Technical Support, and Application Information Center.

With the exception of the Education and Training and the Computer Operations Cost Centers, the cost centers were ineligible for enhanced FFP. The Education and Training Cost Center was eligible in accordance with DAB Decision No. 1071 dated July 19, 1989, and the Computer Operations Cost Center was eligible because the salaries in the cost center included positions listed in part 11, chapter 2, of the SMM. These positions were primarily console operators and computer operators. The other cost centers were ineligible, because even though they supported the activities of MMIS, they did not participate directly in the operation of MMIS. And, the costs in those centers were either departmentwide costs or analogous to departmentwide overhead costs.

The nature of the indirect cost centers ineligible for enhanced FFP was as follows:

-- Administration. Costs associated with administrators, managers, accountants, and clerical and secretarial support staff.

-- VM/CMS Systems Management and MVS Management. Costs associated with divisionwide managers and programmers who were not directly related to MMIS.

-- Communication Network Technical Support and Application Information Center. Costs associated with employees not specifically listed in part 11, chapter 2, of the SMM as directly related to MMIS. The positions primarily included systemwide applications analysts and managers.

The ineligible overhead costs related to the preceding three cost centers totaled \$1,265,984. The related enhanced FFP was \$316,496. This overclaim of enhanced FFP included \$251,304 applicable to direct billings and \$65,192 applicable to shared billings.

The overclaim of FFP occurred because DSS considered only whole cost centers when determining what costs were to be claimed for enhanced FFP. As was the case with salaries and related costs and with CDP direct and shared billings, DSS did not consider, on an individual basis, that certain activities, positions, or costs were ineligible for enhanced FFP. Also, DSS acted on the premise that the approval of their cost allocation plan automatically constituted approval of the enhanced FFP claim.

Recommendations

We recommend that DSS:

- o Ensure that ineligible indirect costs are excluded from enhanced FFP claims.
- o Refund \$316,496 in enhanced FFP for ineligible indirect costs.
- o Identify ineligible indirect costs claimed after September 30, 1991, and refund the enhanced FFP.

Auditee Comments

Nebraska did not respond directly to the specific recommendations.

DATA PROCESSING SUPPORT AND INFORMATION SYSTEMS DIRECT AND INDIRECT COSTS

The DSS's claims for ineligible enhanced FFP of \$120,914 consisted of indirect costs, departmentwide costs, and statewide costs of the Data Processing Support and Information Systems Cost Centers. The SMM disqualifies both overhead costs not directly allocable to the operation of a MMIS and indirect costs from consideration at the enhanced FFP rate.

Costs recorded in the Data Processing Support Cost Center included office supplies, printing expense, repairs of automated data processing equipment, and repairs of office equipment. Also added to this cost center for the quarters ended June 1991 and September 1991 were costs for a long-range Information Strategy Plan (the Plan). The stated mission of the Plan was to "efficiently and effectively provide accurate and timely information to the appropriate staff and support the functions of the agency."

Costs recorded in the Information Systems Cost Center included salaries, charges related to data base access in Omaha and Lincoln, and departmentwide and statewide indirect costs from several cost pools developed in the cost allocation workpapers. Excluded from the cost center were the salaries directly identified to various State and Federal programs including Medicaid, IV-D (Child Support) and IV-E (Foster Care). The directly identified salaries were determined by a quarterly time study done by DSS.

The departmentwide costs included general support services, word processing center, graphics, mail room, personnel, training, research, accounting, and legal services. Also included were allocations of costs from the statewide cost allocation plan and

the DSS Director's Office. Salary costs of the administrator of the Administrative Services Division and his assistant were also included in the cost pools.

The types of costs ineligible for the enhanced rate of FFP were:

--Long-range Information Strategy Plan costs added to the Data Processing Support Cost Center. These costs were not directly related to the operation of MMIS.

--Salaries remaining in the Information Systems Cost Center after salaries directly identified to various State and Federal programs were excluded. These salaries were indirect costs.

--Departmentwide costs, except for departmental training costs. A recent DAB ruling stated that allocated departmental training costs were eligible for the enhanced FFP rate.

We allocated other costs in the Information Systems Cost Center according to the ratio of direct Medicaid salaries to all direct program salaries in the departmental time study. The total ineligible enhanced FFP of \$120,914 was comprised of \$10,208 related to the Data Processing Cost Center and \$110,706 related to the Information Systems Cost Center.

As with data processing direct and shared billings, the DSS acted on the premise that approval of their cost allocation plan automatically constituted approval of the enhanced rate.

Recommendations

We recommend that DSS:

- o Implement appropriate changes to ensure that indirect, departmentwide, and statewide costs allocated to the Data Processing Support and Information Systems Cost Centers are not claimed for enhanced FFP.
- o Refund \$120,914 in enhanced FFP for ineligible Data Processing Support and Information Systems costs.
- o Identify ineligible Data Processing Support and Information Systems costs claimed after September 30, 1991, and refund the enhanced FFP.

Auditee Comments

Nebraska did not respond directly to the specific recommendations.

COSTS ALLOCATED TO THE SURS COST CENTER

The DSS's claims for enhanced FFP contained \$153,404 (enhanced FFP \$38,351) in ineligible SURS costs. These costs were departmentwide, statewide, and administrative salaries of the Medical Services Division. The SMM disqualifies such costs for enhanced FFP.

The SMM provides for enhanced FFP for "costs directly attributable to the Medicaid program for ongoing automated processing of claims, payments, and reports." The SMM provides that program management costs are eligible for enhanced FFP only when the manager is involved in the actual processing of claims. This provision is in both the 1986 and 1990 versions of the SMM (section 11275.28 and section 11276.7 of part 11, chapter 2). In addition, to be eligible for the enhanced rate, the manager's salary cost has to be supported by reports reflecting the distribution of his/her time.

The SMM also provides for 75 percent FFP for direct overhead costs resulting from the operation of MMIS. It also states that statewide overhead costs allocated according to OMB Circular A-87 are not eligible for FFP at the enhanced rate.

The DAB has ruled that departmentwide training costs allocated to personnel engaged directly in the operation of a MMIS are eligible for the enhanced rate. This ruling was DAB Decision No. 1071 dated July 19, 1989.

From the cost allocation workpapers, we identified allocations of ineligible costs from a number of cost pools. These cost pools contained administrative salaries of the Medical Services Division and departmentwide and other indirect costs. The departmentwide costs included training costs allocated from the DSS Personnel and Training Cost Center.

The administrative salaries were ineligible because they were not supported by time reports which reflected the employees' work efforts as required by OMB Circular A-87. The departmentwide and indirect costs, except for departmentwide training, were ineligible according to the SMM. These costs included personnel and training, research accounting, legal services, general support services, word processing center, graphics, and mail room. Also included was an allocation from the DSS Director's Office.

The DSS believed that approval of their cost allocation plan automatically constituted approval of the enhanced rate.

Recommendations

We recommend that DSS:

- o Ensure that ineligible SURS costs are excluded from enhanced FFP claims.
- o Refund \$38,351 in enhanced FFP for ineligible SURS costs.
- o Identify ineligible SURS costs claimed after September 30, 1991, and refund the enhanced FFP.

Auditee Comments

Nebraska did not respond directly to the specific recommendations.

INSTRUCTIONS FOR AUDITEE RESPONSE

The HHS action official will contact you to resolve the issues in this audit report. Any additional comments or information that you believe may have a bearing on the resolution of this audit may be presented at that time.

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In accordance with the principles of the Freedom of Information Act (Public Law 90-23), Office of Inspector General, Office of Audit Services reports issued to the Department's grantees and contractors are made available, if requested, 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).

FEDERAL FINANCIAL PARTICIPATION
IN NEBRASKA'S
MEDICAID MANAGEMENT INFORMATION SYSTEM

NEBRASKA DEPARTMENT OF SOCIAL SERVICES
LINCOLN, NEBRASKA

RECOMMENDED FINANCIAL ADJUSTMENTS
FOR THE PERIOD
OCTOBER 1, 1988 THROUGH SEPTEMBER 30, 1991

	<u>TOTAL COMPUTABLE</u>			
	(1)	(2)	(3) Not	(4)
	<u>Examined</u>	<u>Eligible For Enhanced FFP</u>	<u>Eligible For Enhanced FFP</u>	<u>Reduction In FFP</u> <u>1/</u>
Salaries and Related Costs	\$ 3,606,720	\$1,974,155	\$1,632,565	\$ 408,141
Data Transmission	1,367,591	0	1,367,591	341,898
CDP Direct and Shared Billings	8,435,134	7,169,150	1,265,984	316,496
Data Processing Support and Information Systems Direct and Indirect Costs	638,168	154,513	483,655	120,914
Costs Allocated to the Surveillance and Utilization Review Subsystem	154,499	1,095	153,404	38,351
Other Charges and Credits	<u>140,089</u>	<u>140,089</u>	<u>0</u>	<u>0</u>
TOTAL EXPENDITURES	<u>\$14,342,201</u>	<u>\$9,439,002</u>	<u>\$4,903,199</u>	<u>\$1,225,800</u>

1/ column 3 x 25%

FEDERAL FINANCIAL PARTICIPATION
IN NEBRASKA'S
MEDICAID MANAGEMENT INFORMATION SYSTEM

NEBRASKA DEPARTMENT OF SOCIAL SERVICES
LINCOLN, NEBRASKA

RECOMMENDED FINANCIAL ADJUSTMENTS
FOR THE PERIOD
OCTOBER 1, 1988 THROUGH SEPTEMBER 30, 1989

	<u>TOTAL COMPUTABLE</u>			
	(1)	(2)	(3)	(4)
	<u>Examined</u>	<u>Eligible For Enhanced FFP</u>	<u>Not Eligible For Enhanced FFP</u>	<u>Reduction In FFP</u>
				<u>1/</u>
Salaries and Related Costs	\$1,028,192	\$ 510,532	\$ 517,660	\$129,415
Data Transmission	464,482	0	464,482	116,121
CDP Direct and Shared Billings	2,933,234	2,446,417	486,817	121,704
Data Processing Support and Information Systems Direct and Indirect Costs	182,612	34,943	147,669	36,917
Costs Allocated to the Surveillance and Utilization Review Subsystem	46,001	348	45,653	11,413
Other Charges and Credits	<u>66,931</u>	<u>66,931</u>	<u>0</u>	<u>0</u>
TOTAL EXPENDITURES	<u>\$4,721,452</u>	<u>\$3,059,171</u>	<u>\$1,662,281</u>	<u>\$415,570</u>

1/ column 3 x 25%

FEDERAL FINANCIAL PARTICIPATION
IN NEBRASKA'S
MEDICAID MANAGEMENT INFORMATION SYSTEM

NEBRASKA DEPARTMENT OF SOCIAL SERVICES
LINCOLN, NEBRASKA

RECOMMENDED FINANCIAL ADJUSTMENTS
FOR THE PERIOD
OCTOBER 1, 1989 THROUGH SEPTEMBER 30, 1990

	<u>TOTAL COMPUTABLE</u>			
	(1)	(2)	(3)	(4)
	<u>Examined</u>	<u>Eligible For Enhanced FFP</u>	<u>Not Eligible For Enhanced FFP</u>	<u>Reduction In FFP</u>
				<u>1/</u>
Salaries and Related Costs	\$1,258,066	\$ 721,595	\$ 536,471	\$134,118
Data Transmission	461,789	0	461,789	115,447
CDP Direct and Shared Billings	2,956,597	2,512,182	444,415	111,104
Data Processing Support and Information Systems Direct and Indirect Costs	196,274	38,017	158,257	39,564
Costs Allocated to the Surveillance and Utilization Review Subsystem	50,473	376	50,097	12,524
Other Charges and Credits	<u>19,085</u>	<u>19,085</u>	<u>0</u>	<u>0</u>
TOTAL EXPENDITURES	<u>\$4,942,284</u>	<u>\$3,291,255</u>	<u>\$1,651,029</u>	<u>\$412,757</u>

1/ column 3 x 25%

FEDERAL FINANCIAL PARTICIPATION
IN NEBRASKA'S
MEDICAID MANAGEMENT INFORMATION SYSTEM

NEBRASKA DEPARTMENT OF SOCIAL SERVICES
LINCOLN, NEBRASKA

RECOMMENDED FINANCIAL ADJUSTMENTS
FOR THE PERIOD
OCTOBER 1, 1990 THROUGH SEPTEMBER 30, 1991

	<u>TOTAL COMPUTABLE</u>			
	(1)	(2)	(3)	(4)
	<u>Examined</u>	<u>Eligible For Enhanced FFP</u>	<u>Not Eligible For Enhanced FFP</u>	<u>Reduction In FFP</u>
				<u>1/</u>
Salaries and Related Costs	\$1,320,462	\$ 742,028	\$ 578,434	\$144,608
Data Transmission	441,320	0	441,320	110,330
CDP Direct and Shared Billings	2,545,303	2,210,551	334,752	83,688
Data Processing Support and Information Systems Direct and Indirect Costs	259,282	81,553	177,729	44,433
Costs Allocated to the Surveillance and Utilization Review Subsystem	58,025	371	57,654	14,414
Other Charges and Credits	<u>54,073</u>	<u>54,073</u>	<u>0</u>	<u>0</u>
TOTAL EXPENDITURES	<u>\$4,678,465</u>	<u>\$3,088,576</u>	<u>\$1,589,889</u>	<u>\$397,473</u>

1/ column 3 x 25%

STATE OF NEBRASKA

APPENDIX E

DEPARTMENT OF SOCIAL SERVICES
Mary Dean Harvey
Director



E. Benjamin Nelson
Governor

May 15, 1992

Vincent R. Imbriani
Regional Inspector General
for Audit Services, Region VII
Department of Health and Human Services
601 East 12th Street, Room 284A
Kansas City, MO 64106

Dear Mr. Imbriani:

In response to your letter dated April 29, 1992, concerning Audit CIN A-07-92-00526, and as stated in Jerry Bahr's comments contained in his letter of March 25, 1992, to Mr. Terry Eddleman, it appears some costs may not have been eligible for the enhanced FFP. Those activities in question are being reviewed to determine what, if any, of the costs are not claimable at the enhanced FFP. Once that review is completed, claims will be adjusted for those costs determined not eligible for the enhanced FFP.

If you have questions or need additional information, please contact Don Gerber at (402) 471-9166.

Sincerely,

A handwritten signature in cursive script that reads "Mary Dean Harvey".

Mary Dean Harvey, Director
Nebraska Department of Social Services

MDH/DEG/le