



DEPARTMENT OF HEALTH & HUMAN SERVICES  
OFFICE OF INSPECTOR GENERAL  
OFFICE OF AUDIT SERVICES  
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FEB 28 2006

Report Number: A-03-05-00202

S. Anthony McCann  
Secretary  
Maryland Department of Health and Mental Hygiene  
201 W. Preston Street  
Baltimore, Maryland 21201

Dear Mr. McCann:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Medicaid Administrative Costs Claimed through Maryland's Statewide Cost Allocation Plan." A copy of this report will be forwarded to the HHS action official noted on the next page for review and any action deemed necessary.

The HHS action official will make the final determination as to actions taken on all matters reported. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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

Page 2 – S. Anthony McCann

If you have any questions or comments about this report, please do not hesitate to contact me at (215) 861-4470 or through e-mail at [stephen.virbitsky@oig.hhs.gov](mailto:stephen.virbitsky@oig.hhs.gov) or Robert Baiocco, Audit Manager, at (215) 861-4486 or through e-mail at [robert.baiocco@oig.hhs.gov](mailto:robert.baiocco@oig.hhs.gov). Please refer to report number A-03-0500202n all correspondence.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Stephen Virbitsky", with a horizontal line extending to the right.

Stephen Virbitsky  
Regional Inspector General  
for Audit Services

Enclosures

**Direct Reply to HHS Action Official:**

Nancy B. O'Connor, Regional Administrator  
Centers for Medicare & Medicaid Services, Region III  
Department of Health and Human Services  
The Public Ledger Building, Suite 216  
150 S. Independence Mall West  
Philadelphia, Pennsylvania 19106

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF MEDICAID  
ADMINISTRATIVE COSTS CLAIMED  
THROUGH MARYLAND'S STATEWIDE  
COST ALLOCATION PLAN**



**Daniel R. Levinson  
Inspector General**

**February 2006  
A-03-05-00202**

# ***Office of Inspector General***

<http://oig.hhs.gov>

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# *Notices*

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## **OAS FINDINGS AND OPINIONS**

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



## **EXECUTIVE SUMMARY**

### **BACKGROUND**

In 1965, Congress established Medicaid as a jointly funded State and Federal program that provides medical assistance to low-income people who qualify pursuant to Title XIX of the Social Security Act (the Act). In Maryland, the Department of Health and Mental Hygiene (Maryland) administers the Medicaid program with Federal oversight from the Centers for Medicare & Medicaid Services (CMS).

Maryland's Department of Human Resources (DHR) makes Title XIX eligibility determinations, provides social and prevention services to needy recipients, and protects vulnerable children and adults. Through a cost allocation plan, DHR calculates the cost of these services that pertain to Medicaid recipients. Each quarter, DHR submits its Medicaid costs for Maryland to include in its report of expenditures that requests Federal-matching funds.

During our audit period, from October 2003 to September 2004, Maryland claimed \$50.7 million in Federal funding for Medicaid administrative services provided by DHR. CMS requested this audit to determine whether Maryland claims for administrative costs were made in accordance with its cost allocation plan.

### **OBJECTIVE**

Our objective was to determine whether Maryland claimed Medicaid administrative costs through its cost allocation plan in accordance with Federal statutes, regulations, and guidelines.

### **SUMMARY OF FINDINGS**

Maryland did not claim Medicaid administrative costs totaling \$666,694 (Federal share) in accordance with Federal statutes, regulations, and guidelines. Maryland did not amend its cost allocation plan to add 24 cost centers used to distribute DHR costs. These claims included:

- \$541,654 (Federal share) in Office of Technology for Human Services costs allocated through 19 cost centers not identified in the cost allocation plan, and
- \$125,040 (Federal share) in various social services costs allocated through five cost centers not identified in the cost allocation plan.

### **RECOMMENDATIONS**

We recommend that Maryland:

- refund to the Federal Government \$666,694 in administrative costs incorrectly claimed between October 2003 and September 2004.
- identify additional claims made subsequent to our audit period for unapproved cost centers and make the appropriate refunds.
- discontinue claiming costs that have not been approved as part of the State's cost allocation plan, or amend the State's cost allocation plan to include all cost centers not currently approved.

## **MARYLAND'S COMMENTS**

In its comments on our draft report, Maryland concurred with our recommendations. Maryland's comments are included in their entirety in Appendix B.

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## **INTRODUCTION**

### **BACKGROUND**

#### **Medicaid Overview**

In 1965, Congress established Medicaid as a jointly funded Federal and State program that provides medical assistance to low-income people who qualify under Title XIX of the Social Security Act (the Act). In Maryland, the Department of Health and Mental Hygiene (Maryland) administers the Medicaid program with Federal oversight from the Centers for Medicare & Medicaid Services (CMS).

Maryland's Department of Human Resources (DHR) makes Title XIX eligibility determinations, provides social and prevention services to needy recipients, and protects vulnerable children and adults. DHR calculates the cost of these services that pertain to Medicaid recipients through a cost allocation plan. Each quarter, DHR submits its Medicaid costs for Maryland to include in its report of expenditures requesting Federal-matching funds.

CMS requires States to report their Medicaid expenditures, both medical assistance and administrative, on form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64). The Federal Government pays its share of medical assistance expenditures according to a formula defined in section 1905(b) of the Act. That share, known as the Federal medical assistance percentage, depends upon each State's relative per capita income and ranges between 50 and 83 percent. The Federal share for most administrative services is 50 percent.

#### **Maryland's Cost Allocation Plan**

Maryland's cost allocation plan describes the procedures used to identify, measure, and allocate administrative and training costs among benefiting Federal and State programs. Maryland claimed costs, accumulated in 205 cost centers, based on proposed cost allocation plans submitted to the Division of Cost Allocation (DCA). As permitted under Federal regulations (45 CFR § 95.517), Maryland implemented its proposed cost allocation plans while approval was pending. The Grants Management Division within DHR is responsible for submitting to the Federal Government any needed amendments to the cost allocation plan.

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

#### **Objective**

Our objective was to determine whether Maryland claimed Medicaid administrative costs through its cost allocation plan in accordance with Federal statutes, regulations, and guidelines.

## **Scope**

Our review covered the \$50.7 million in Federal funding for DHR's administrative costs claimed by Maryland for the period October 2003 through September 2004. We reviewed internal controls considered necessary to achieve our objective.

We performed our fieldwork at the Maryland Department of Health and Mental Hygiene and the Maryland Department of Human Resources, Baltimore, MD.

## **Methodology**

To accomplish our objective:

- We reviewed relevant criteria including: the Act, OMB Circular A-87, Federal Medicaid regulations, CMS's State Medicaid Manual, Departmental Appeals Board (DAB) decisions, and Maryland's cost allocation plan and amendments.
- We reconciled the DHR administrative costs allocated to Medicaid to those claimed on form CMS-64 for our audit period.
- We identified the cost centers DHR used to allocate administrative costs to Medicaid and compared the identified cost centers to those in the cost allocation plan.
- We reviewed the cost allocation methodologies DHR used to allocate administrative costs.

We performed our review in accordance with the generally accepted government auditing standards.

## **FINDING AND RECOMMENDATIONS**

### **DEFICIENCIES IN COST ALLOCATION PLAN**

Maryland did not claim Medicaid administrative costs totaling \$666,694 (Federal share) in accordance with Federal statutes, regulations, and guidelines. Maryland did not amend its cost allocation plan to add 24 cost centers used to distribute DHR costs. These claims included:

- \$541,654 (Federal share) in Office of Technology for Human Services costs allocated through 19 cost centers not identified in the cost allocation plan, and
- \$125,040 (Federal share) in various social services costs allocated through five cost centers not identified in the cost allocation plan.

## **Federal Regulations Require States Adherence to Cost Allocation Plans**

State and local governments, including Maryland's Department of Human Resources, allocate administrative costs to the Medicaid program in accordance with a cost allocation plan approved by the Department of Health and Human Services, Division of Cost Allocation (DCA) after CMS reviews and comments on the fairness of the allocation methodologies. Federal regulations (45 CFR § 95.507) require that cost allocation plans conform to the accounting principles and standards in Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments" (A-87).

OMB Circular A-87 states that costs are allocable to particular cost objectives (programs) only to the extent of the benefits received by such objectives. Only allocable costs are allowable, and costs must be reasonable and necessary for proper administration of the program. A-87 also requires that the cost allocation plan establish groupings of related costs, called cost centers, and must describe the methods used to allocate the cost centers to social services programs.

Federal regulations also require that the cost allocation plan must contain sufficient detailed information for Federal officials to reach an informed judgment about the correctness and fairness of the methods employed by the State (45 CFR § 95.507). The Federal Government will disallow costs not claimed in accordance with the cost allocation plan (45 CFR § 95.519). However, the State may claim costs based on a proposed cost allocation plan or plan amendment, provided that the State makes retroactive adjustments to its claims, if necessary, in accordance with the subsequently approved plan (45 CFR § 95.517).

### **Cost Centers Not Identified in the Cost Allocation Plan**

Maryland claimed \$666,694 (Federal share) in DHR costs allocated through 24 cost centers that were not identified in the State's cost allocation plan. Nineteen cost centers represented \$541,654 (Federal share) in Office of Technology for Human Services expenditures. This department administers the statewide computer system that allocates expenditures to various Federal programs. The remaining five cost centers represented \$125,040 (Federal share) for various social services. A listing of the cost centers and the associated Federal share of the expenditures is included in Appendix A.

### **Maryland Did Not Amend Its Cost Allocation Plan**

To add cost centers to the cost allocation plan, DHR requires its Grants Management Division to write a brief description of the cost center and submit an amendment for approval. The Grants Management Division did not follow its procedure for these 24 cost centers. DHR officials confirmed and agreed these cost centers were not included in the cost allocation plan.

### **Maryland Incorrectly Claimed \$666,694 in Federal Matching Funds**

By not adhering to its cost allocation plan, Maryland incorrectly claimed \$666,694 in Federal matching funds for Medicaid administrative costs. These improperly claimed costs are not allowable.

## **RECOMMENDATIONS**

We recommend that Maryland:

- refund to the Federal Government \$666,694 in administrative costs incorrectly claimed between October 2003 and September 2004.
- identify additional claims made subsequent to our audit period for unapproved cost centers and make the appropriate refunds.
- discontinue reporting expenditures that have not been approved as part of the State's cost allocation plan, or amend the State's cost allocation plan to include all cost centers not currently approved.

## **MARYLAND'S COMMENTS**

Maryland concurred with our recommendations and agreed to make the appropriate refunds. In addition, Maryland stated that it had revised its cost allocation plan to include all active cost centers and are allocating costs in accordance with the cost allocation plan.

Maryland's comments are included in their entirety in Appendix B.

# **APPENDIXES**

## QUESTIONED COST CENTERS

Table 1. Office of Technology for Human Services Cost Centers (19)

Cost Center Code	Cost Center Title	Federal Share
F1010	Salary – Telecommunications	\$ 2,016
F1020	Salary - Systems & Programming	105,775
F1040	Salary – Operations	12,443
F1060	Salary - Operations Administration	4,300
F1070	Salary – Data Entry	3,397
F1090	Salary - General Administration	17,310
F1200	Salary – Development Unit	1,219
F1300	Salary – Social Services Administration (SSA)/Client D-Base Development	5,029
F1400	Salary – User Support	7,614
F1500	Salary – Central Distribution Center – Benefit Issuance Division (CCBID) Mailroom	(6,756)
F1700	Department of Human Resources Information System (DHRIS) Project Management Team	0
F4400	Data Center Services	0
F4790	Central Distribution Center – Benefit Issuance Division (CCBID) Mailroom	69
F4850	General Non-Personnel Services (NPS)- Non Systems Specific	10,596
F4900	AT&T Equipment –Saratoga State Center (SSC) Offices	812
F7010	Office Systems –Office of Secretary	231
F7060	Office Systems	373,235
F7100	Management Information Systems (MIS) Systems Administrative Systems	4,364
F9010	Client Automated Resource & Eligibility System (CARES)/Client Information System (CIS) Operations (OP) 50 Federal Fund/50 General Fund-Except Equipment	0
<b>Total</b>		<b>\$541,654</b>

**Table 2. Social Services Cost Centers (5)**

<b>Cost Center Code</b>	<b>Cost Center Title</b>	<b>Federal Share</b>
A2030	Constituent Services Office	\$ 38,311
A7040	Office of Legislation	13,543
G0080	Department of Juvenile Service (DJS) Medical APPS Staff	4,886
G3700	Baltimore City Community Services	29,137
I5260	Disability Determination Services	39,163
<b>Total</b>		<b>\$125,040</b>



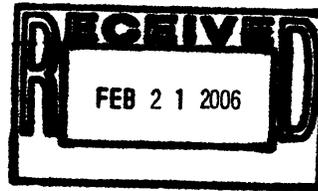
STATE OF MARYLAND

Maryland Department of Health and Mental Hygiene  
 201 W. Preston Street • Baltimore, Maryland 21201

Robert L. Ehrlich, Jr., Governor – Michael S. Steele, Lt. Governor – S. Anthony McCann, Secretary

February 16, 2006

Mr. Stephen Virbitsky  
 U.S. Department of Health and Human Services  
 Office of the Inspector General  
 Office of Audit Services  
 150 S. Independence Mall West, Suite 316  
 Philadelphia, Pennsylvania 19106-3499



RE: Response to Draft OIG Report  
 "Review of Medicaid Administrative Costs Claimed  
 Through Maryland's Statewide Cost Allocation Plan"  
 Report Number A-03-05-00202

Dear Mr. Virbitsky:

Thank you for permitting the Department of Health and Mental Hygiene to review your draft report issued subsequent to your audit of the above referenced matter. The Department of Health and Mental Hygiene and the Department of Human Resources are in concurrence with the audit findings detailed in the above referenced report.

The Department of Health and Mental Hygiene will return the federal share of \$666,694 for administrative costs incorrectly claimed by the Department of Human Resources for the period of October 2003 through September 2004.

The Department of Human Resources is in the process of identifying the federal share amount for subsequent claims for unapproved cost centers. The Department of Health and Mental Hygiene will return the federal share of unapproved cost centers identified by the Department of Human Resources as recommended.

Finally, the Department of Human Resources has added the active cost centers to the Cost Allocation Plan. The Department of Human Resources now conducts a quarterly review of its cost allocation plan to ensure all costs centers are included and all costs are being allocated in accordance with the Plan.

If you have any additional questions or would like to discuss this further, please contact William Watts of my staff at (410) 767-5203.

Sincerely,

*S. Anthony McCann*  
 S. Anthony McCann  
 Secretary

cc: William Watts, Audit Manager, OPF

Toll Free 1-877-4MD-DHMH • TTY for Disabled - Maryland Relay Service 1-800-735-2258  
 Web Site: [www.dhmm.state.md.us](http://www.dhmm.state.md.us)

# ACKNOWLEDGMENTS

This report was prepared under the direction of Stephen Virbitsky, *Regional Inspector General for Audit Services*. 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.