

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**PENNSYLVANIA CLAIMED  
UNALLOWABLE MEDICAID  
ADMINISTRATIVE COSTS  
FOR THE REGIONAL HOUSING  
COORDINATOR INITIATIVE**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



**Gloria L. Jarmon  
Deputy Inspector General**

**December 2012  
A-03-11-00210**

# *Office of Inspector General*

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## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements. In Pennsylvania, the Department of Public Welfare (State agency) administers the Medicaid program.

Section 1903(a) of the Act permits States to claim Federal reimbursement for Medicaid administrative costs. These costs must be “for the proper and efficient administration of the State plan.” In a December 1994 letter to State Medicaid directors, CMS (formerly the Health Care Financing Administration) clarified its position on State claims for administrative costs, stating that “allowable claims ... must be directly related to the administration of the Medicaid program.” In State fiscal year 2010–2011, the State agency claimed \$924 million in Medicaid administrative costs, of which \$654 million was claimed as “Other Financial Participation.” This is the fifth report to address States’ claims for Medicaid administrative costs claimed as Other Financial Participation.

Section 1915(c) of the Act permits States to seek a waiver from their State plans to furnish an array of services that assist Medicaid beneficiaries to live in the community and avoid institutionalization. Pennsylvania’s eleven 1915(c) waivers provide home and community-based services that allow eligible beneficiaries in need of nursing-home-level care to remain in their homes and to transition back into the community from nursing homes.

The Regional Housing Coordinator Initiative (Initiative) provides services that facilitate access to housing options for individuals with disabilities. Through its regional offices, the Initiative’s housing coordinators provide information, referrals, training, and technical assistance to the State agencies, the local Area Agencies on Aging, and other organizations and stakeholders assisting individuals, including Medicaid beneficiaries, transitioning to a community-based setting.

From July 2008 through December 2011, the State agency claimed \$1,986,322 (Federal share) of the Initiative’s costs as Medicaid administrative costs.

### **OBJECTIVE**

Our objective was to determine whether the State agency complied with Federal requirements when it claimed Medicaid administrative costs for the Initiative.

## **SUMMARY OF FINDING**

The State agency did not comply with Federal requirements when it claimed \$1,986,322 (Federal share) of administrative costs for the Initiative. The claimed costs represented indirect support services to facilitate access to housing options to individuals with disabilities. Initiative services may have assisted in reducing the barriers for placing individuals in community-based settings, allowing them to receive benefits under a Medicaid waiver program; however, these services did not directly relate to the administration of Medicaid services under the waivers. Accordingly, the State agency's claims totaling \$1,986,322 (Federal share) for the Initiative were unallowable.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund \$1,986,322 in Federal funds for unallowable Initiative costs,
- refund the Federal share of unallowable Initiative costs claimed after our audit period, and
- discontinue all future claims of Initiative costs.

## **STATE AGENCY COMMENTS**

In its written comments on our draft report, the State agency said that technical assistance provided by the Initiative was a critical component of rebalancing the long-term-care system, as housing serves as the top barrier in transitioning consumers from nursing homes to the community. The State agency said it therefore believed that the Initiative's activities were directly related to the administration of the Medicaid program and should be an allowable administrative cost.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

As described in our report, the Initiative provides information, referrals, training, and technical assistance to support Pennsylvania's housing programs, including programs that provide housing services to Medicaid beneficiaries transitioning to waiver programs. These services were not directly related to the administration of the Medicaid program. Rather, they were unallowable indirect services. Nothing in the State agency's comments caused us to change our recommendations.

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# INTRODUCTION

## BACKGROUND

### Medicaid Program

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements. In Pennsylvania, the Department of Public Welfare (State agency) administers the Medicaid program.

Section 1903(a) of the Act permits States to claim Federal reimbursement for Medicaid administrative costs. These costs must be “for the proper and efficient administration of the State plan.” In a December 1994 letter to State Medicaid directors, CMS (formerly the Health Care Financing Administration) clarified its position on State claims for administrative costs, stating that “allowable claims ... must be directly related to the administration of the Medicaid program.” CMS’s letter provided a list of allowable administrative activities, but it was not all inclusive. Most Medicaid administrative costs are reimbursed at the 50-percent rate (section 1903(a)(7) of the Act). States claim medical assistance and administrative costs on Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (Form CMS-64).

### Pennsylvania’s Home and Community-Based Waivers

Section 1915(c) of the Act permits States to seek a waiver from their State plans to furnish an array of services that assist Medicaid beneficiaries to live in the community and avoid institutionalization. States have broad discretion to design waiver programs to address the needs of target populations.

Pennsylvania has eleven 1915(c) home and community-based waivers (waivers) providing services that allow eligible beneficiaries in need of nursing-home-level care to remain in their homes and to transition back into the community from nursing homes. Within the State agency, the Office of Long-Term Living<sup>1</sup> contracts with 52 local Area Agencies on Aging for daily management of services provided under the waivers.

### Pennsylvania Regional Housing Coordinator Initiative

The Regional Housing Coordinator Initiative (Initiative) is administered by the Pennsylvania Housing Finance Agency (Pennsylvania Housing) in collaboration with Pennsylvania’s Office of Long-Term Living. The Initiative provides services for various State programs that facilitate

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<sup>1</sup> The State agency and the Pennsylvania Department of Aging share oversight of the Office of Long-Term Living.

access to housing options for individuals with disabilities. Through its regional offices, the Initiative’s housing coordinators provide information, referrals, training, and technical assistance to the State agencies, the local Area Agencies on Aging, and other organizations and stakeholders assisting individuals, including Medicaid beneficiaries, transitioning to a community-based setting.

The Initiative contracts with The Self-Determination Housing Project, a statewide nonprofit agency in Downingtown, Pennsylvania, to coordinate housing services in 10 of its 11 regional offices. The Philadelphia Housing Authority, a municipal agency, provides housing services in the Philadelphia region. During our audit period, the initiative also used the consulting services of the Rackham Group.<sup>2</sup>

### **Audits of States’ Medicaid Administrative Costs**

In State fiscal year 2010–2011, the State agency claimed \$924 million in Medicaid administrative costs, of which \$654 million was claimed as “Other Financial Participation.” This is the fifth report to address States’ claims for Medicaid administrative costs claimed as Other Financial Participation. Appendix A lists the first four reports, which identified programs for which States inappropriately claimed administrative costs as “Other Financial Participation.”

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

### **Objective**

Our objective was to determine whether the State agency complied with Federal requirements when it claimed Medicaid administrative costs for the Initiative.

### **Scope**

We reviewed \$1,986,322 (Federal share) of the Initiative’s costs that the State agency claimed from July 2008 through December 2011. We did not review the overall internal control structure of the State agency. We limited our review to those controls related to the State agency’s methodology for claiming Initiative expenditures.

We performed our fieldwork at the State agency in Harrisburg, Pennsylvania, and the Self-Determination Housing Project in Downingtown, Pennsylvania, in October 2011.

### **Methodology**

To accomplish our objective, we:

- reviewed relevant criteria, including the Act, Federal Medicaid regulations, CMS letters to State Medicaid directors, and the Medicaid State plan and waivers;

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<sup>2</sup> The Rackham Group is a private entity in Cranberry Township, Pennsylvania, with expertise in housing issues.

- interviewed State agency officials, Pennsylvania Housing officials, and Self-Determination Housing Project officials to gain an understanding of the Initiative;
- reconciled State agency accounting records that supported its Form CMS-64 claims with Initiative expenditures;
- reviewed the State agency’s Memorandum of Understanding with Pennsylvania Housing that defines the oversight responsibilities of Pennsylvania Housing and the Office of Long-Term Living in administering the Initiative and identifies the activities of the Self-Determination Housing Project, Philadelphia Housing Authority, and the Rackham Group; and
- discussed our findings with officials from CMS, the State agency, and Pennsylvania Housing.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

## **FINDING AND RECOMMENDATIONS**

The State agency did not comply with Federal requirements when it claimed \$1,986,322 (Federal share) of administrative costs for the Initiative. The claimed costs represented indirect support services to facilitate access to housing options to individuals with disabilities. Initiative services may have assisted in reducing the barriers for placing individuals in community-based settings, allowing them to receive benefits under a Medicaid waiver program; however, these services did not directly relate to the administration of Medicaid services under the waivers. Accordingly, the State agency’s claims totaling \$1,986,322 (Federal share) for the Initiative were unallowable.

### **FEDERAL REQUIREMENTS**

Section 1903(a) of the Act permits States to claim Federal reimbursement for Medicaid administrative costs. Federal cost principles state that, for administrative costs to be allowable, they must be necessary and reasonable for the proper and efficient administration of the Medicaid program, be allocable to Federal awards, and be adequately documented (2 CFR part 225, App. A, § C.1).<sup>3</sup> Section C.3.a of the cost principles specifies that “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.”

CMS guidance issued in a December 1994 letter to State Medicaid directors (Number 122094) clarified its policy concerning State claims for administrative costs. CMS stated that “[w]e have consistently held that allowable claims under this authority must be directly related to the

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<sup>3</sup> OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, was relocated to 2 CFR part 225.

administration of the Medicaid program.” CMS’s letter also provided a list of allowable administrative activities, but it was not all inclusive. CMS did state that “an allowable administrative cost must be *directly* related to Medicaid State plan or waiver services.” (Emphasis added.)

## **UNALLOWABLE INITIATIVE COSTS CLAIMED**

The State agency’s claims did not reflect administrative costs as defined in the Act and later clarified by CMS in its letter to State Medicaid directors. The claimed costs represented indirect support services to facilitate access to housing options for individuals with disabilities. The Initiative provided information, referrals, training, and technical assistance to support Pennsylvania’s housing programs, including programs that provide housing services to Medicaid beneficiaries transitioning to waiver programs. However, Initiative costs are not directly related to the administration of any of the waivers. The indirect services may have assisted in reducing the barriers for placing individuals in community-based settings, allowing them to receive benefits under a Medicaid waiver program; however, these services did not provide direct administrative support to Medicaid services. Therefore, for the period July 1, 2008, through December 31, 2011, the State agency improperly claimed \$1,986,322 (Federal share) in Medicaid administrative costs for the Initiative.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund \$1,986,322 in Federal funds for unallowable Initiative costs,
- refund the Federal share of unallowable Initiative costs claimed after our audit period, and
- discontinue all future claims of Initiative costs.

## **STATE AGENCY COMMENTS**

In its written comments on our draft report, the State agency said that technical assistance provided by the Initiative was a critical component of rebalancing the long-term-care system, as housing serves as the top barrier in transitioning consumers from nursing homes to the community. The State agency said it therefore believed that the Initiative’s activities were directly related to the administration of the Medicaid program and should be an allowable administrative cost.

The State agency’s comments are included in their entirety as Appendix B.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

As described in our report, the Initiative provided information, referrals, training, and technical assistance to support Pennsylvania’s housing programs, including programs that provide housing

services to Medicaid beneficiaries transitioning to waiver programs. These services were not directly related to the administration of the Medicaid program. Rather, they were unallowable indirect services. Nothing in the State agency's comments caused us to change our recommendations.

# **APPENDIXES**

## **APPENDIX A: PREVIOUSLY ISSUED REPORTS RELATED TO THIS AUDIT**

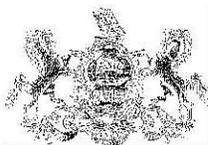
*Review of Medicaid Administrative Costs Claimed for the Pennsylvania Department of Aging's Healthy Steps Program (A-03-10-00205, issued July 13, 2011).*

*Review of Medicaid Administrative Costs Claimed for the Pennsylvania Department of Aging's Direct Care Worker Initiative (A-03-10-00206, issued July 14, 2011).*

*Pennsylvania Claimed Medicaid Administrative Costs for Provider Training Under Its Restraint Reduction Initiative (A-03-11-00209, issued July 24, 2012).*

*Maryland Claimed Medicaid Administrative Costs for Unallowable Remedial and Training Services for the Maryland Poison Center (A-03-12-00204, issued September 27, 2012).*

**APPENDIX B: STATE AGENCY COMMENTS**



COMMONWEALTH OF PENNSYLVANIA  
DEPUTY SECRETARY FOR ADMINISTRATION

October 19, 2012

Mr. Stephen Virbitsky  
Regional Inspector General for Audit Services  
Department of Health & Human Services Office  
of Inspector General  
Office of Audit Services, Region III  
Public Ledger Building, Suite 316  
150 South Independence Mall West  
Philadelphia, Pennsylvania 19106

Dear Mr. Virbitsky:

The Department of Public Welfare (DPW) has received the draft report number A-03-11-00210 titled, "Pennsylvania Claimed Unallowable Medicaid Administrative Costs for the Regional Housing Coordinator Initiative". The objective of this audit was to determine whether Pennsylvania complied with Federal requirements when it claimed Medicaid administrative costs for the Regional Housing Coordinator Initiative.

**Office of Inspector General (OIG) Recommendation:** We recommend that the State agency refund \$1,986,322 in Federal funds for unallowable Initiative costs, refund the Federal share of unallowable Initiative costs claimed after our audit period, and discontinue all future claims of Initiative costs.

**Department of Public Welfare (DPW) Response:** The purpose of the Regional Housing Coordinator Initiative is to create a bridge between the Medicaid home and community based waiver programs and the housing sector throughout the Commonwealth. Five Regional Housing Coordinators (RHC) work with state agencies, organizations, housing professionals, and others to facilitate access to housing options and opportunities for people with disabilities and for consumers residing in nursing homes who wish to live in the community.

Technical assistance provided through this initiative to the Nursing Home Transition (NHT) coordinators and the Area Agencies on Aging (AAAs) is a critical component of rebalancing the Commonwealth's long term care system as housing serves as the top barrier in transitioning consumers back into the community.

Transitioning these consumers back into the community ultimately results in decreased nursing home utilization, which results in both Federal and State budgetary savings.

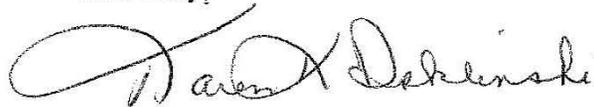
Mr. Steven Virbitsky

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The Department of Public Welfare continues to believe these activities are directly related to the administration of the Medicaid program in particular the Nursing Home Transition program and are thereby allowable. This initiative, since its inception, has increased the availability of housing options for Pennsylvania consumers and continues to be a critical component of NHT and rebalancing the long term living system in the Commonwealth.

Thank you for the opportunity to respond to this draft audit report. If you have questions or concerns regarding this response, please contact David R. Bryan, Audit Resolution Section, at (717) 783-7217 or via email at [davbryan@pa.gov](mailto:davbryan@pa.gov).

Sincerely,

A handwritten signature in black ink, appearing to read "Karen K. Deklinski". The signature is fluid and cursive, with a large initial "K" and "D".

Karen K. Deklinski  
Deputy Secretary for Administration

cc: Mr. Robert Baiocco, Audit Manager