

## Report in Brief

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Report No. A-03-17-00200

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES  
**OFFICE OF INSPECTOR GENERAL**



### Why OIG Did This Review

Previous OIG reviews of Medicaid administrative costs found that several States did not always claim administrative costs according to Federal requirements. As part of a Medicaid risk assessment, we noted that Virginia claimed \$342.6 million (\$220 million Federal share) for Medicaid administrative costs associated with Virginia's Medicaid Managed Care Medallion 3.0 waiver program for State fiscal years (SFYs) 2016 and 2017. We conducted this audit because of the significant amount that Virginia claimed and because of our previous findings related to Medicaid administrative costs.

Our objective was to determine whether Virginia claimed Medicaid administrative costs for its waiver program for SFYs 2016 and 2017 in accordance with Federal requirements.

### How OIG Did This Review

We reviewed Virginia's supporting documentation to determine whether the administrative costs claimed for the waiver program were identified in Virginia's Cost Allocation Plan (CAP), whether the administrative costs claimed were directly related to the administration of the waiver program, and whether the administrative costs claimed were allocated according to the approved CAP methodology.

## Virginia Did Not Claim Some Medicaid Administrative Costs for Its Medallion 3.0 Waiver Program In Accordance With Federal Requirements

### What OIG Found

Of the \$342.6 million (\$220 million Federal share) in administrative costs claimed for Virginia's waiver program in SFYs 2016 and 2017, Virginia correctly claimed \$324.9 million (\$211.2 million Federal share). However, we found that Virginia claimed \$15.3 million (\$7.7 million Federal share) in unallowable waiver program administrative costs not identified in the CAP. In addition, Virginia incorrectly claimed \$2.3 million (\$1.2 million Federal share) in administrative costs that were misclassified as waiver program administrative costs. The misclassified expenditures did not directly benefit the waiver program but directly benefited a separate public welfare program, Virginia's Children's Health Insurance Program (CHIP).

### What OIG Recommends and Virginia Comments

We recommend that Virginia (1) refund to the Federal Government \$7.7 million for administrative costs that were not identified in the CAP and (2) reclassify \$2.3 million (\$1.2 million Federal share) in administrative costs that directly benefited Virginia's CHIP program and not the waiver program. In written comments on our draft report, the State agency agreed to reclassify administrative costs that directly benefited the State's CHIP program and not the waiver program. The State agency did not concur with our recommendation that it refund \$7,674,910 in questioned costs. The State agency stated that only one section of its CAP contained cost centers, and that the section addressed personnel costs only. The State agency contended that only personnel-related cost centers (i.e., cost centers 018, 041, 068, and 090C) should have been included in the CAP. The State agency stated that any disallowance should be limited to personnel-related costs allocated to these omitted cost centers, reducing the potential disallowance to \$607,529. In addition, the State agency contended that no disallowance is required because Federal law allows retroactive approval of corrections for a deficient CAP. The State agency requested a retroactive revision of its CAP on November 17, 2017; as of March 30, 2018, the revision had not been approved. After reviewing the State agency's comments, we maintain that our disallowance recommendation is valid. The DAB and Federal regulations require State agencies to include all of their program administrative costs, not just personnel costs, in their CAPs. However, the costs associated with the remaining missing cost centers we identified in our findings were not included anywhere in the CAP. We acknowledge that some costs might be allowable if the State agency receives retroactive approval of amendments to its CAP. However, the State has not received such approval.