



Office of Audit Services, Region IV  
61 Forsyth Street, SW, Suite 3T41  
Atlanta, GA 30303

May 26, 2010

Report Number: A-04-07-00028

Secretary Tom Arnold  
Agency for Health Care Administration  
2727 Mahan Drive – Mail Stop 8  
Tallahassee, FL 32308

Dear Mr. Arnold:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Florida's Developmental Disabilities Medicaid Administrative Claiming Costs for the Period October 1, 2003, Through September 30, 2006*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (404) 562-7800, or contact Eric Bowen, Audit Manager, at (404) 562-7789 or through email at [Eric.Bowen@oig.hhs.gov](mailto:Eric.Bowen@oig.hhs.gov). Please refer to report number A-04-07-00028 in all correspondence.

Sincerely,

/Peter J. Barbera/  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Jackie Garner  
Consortium Administrator  
Consortium for Medicaid and Children's Health Operations (CMCHO)  
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Department of Health & Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF FLORIDA'S DEVELOPMENTAL  
DISABILITIES MEDICAID  
ADMINISTRATIVE CLAIMING COSTS FOR  
THE PERIOD OCTOBER 1, 2003,  
THROUGH SEPTEMBER 30, 2006**



Daniel R. Levinson  
Inspector General

May 2010  
A-04-07-00028

# *Office of Inspector General*

<http://oig.hhs.gov>

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

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

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Pursuant to Title XIX of the Social Security 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 Federal requirements.

At the State level, the Florida Agency for Health Care Administration (Medicaid agency) administers the Medicaid program. In 2003, Florida's Department of Financial Services entered into a revenue maximization agreement with a contractor to develop programs which identify State costs that are eligible for Federal reimbursement and the efforts required to claim the Federal revenue for various State Agencies, including the Medicaid agency and its sub-agency, the Department of Children and Families (DCF).

In this regard, the State implemented the Developmental Disabilities Medicaid administrative claiming (DDMAC) program initiative to maximize administrative claiming for DCF's Developmental Disabilities program. The program was designed to allocate administrative costs to the agencies benefiting from DCF's Developmental Disabilities program and then to claim the costs for Federal reimbursement. To support the various agencies' claim for administrative costs, the contractor worked with DCF to document staff activities and relate them directly to program functions using a Random Moment Sampling System (RMSS).

Under the RMSS, sampled functions or activities in which a particular samplee was engaged at a specific time (strikes) were used to determine how to allocate pooled Developmental Disabilities administrative costs to the various agencies, including the Medicaid agency. The portion of administrative costs allocated to the Medicaid agency was based on its percentage of Medicaid strikes in relation to total RMSS strikes.

For Federal fiscal years 2004 through 2006, the Medicaid agency claimed \$34,169,896 in DDMAC costs and received \$16,985,259 in Federal financial participation (FFP) attributable to the DDMAC program.

### **OBJECTIVE**

Our objective was to determine whether the Florida Medicaid agency claimed DDMAC costs in accordance with Federal and State requirements.

### **SUMMARY OF FINDINGS**

The Florida Medicaid agency did not always claim DDMAC costs in accordance with Federal and State requirements. Based on our sample results of the RMSS Medicaid-reimbursable

strikes, we estimated that the Medicaid agency received \$1,190,949 in FFP for \$2,606,617 in administrative costs that did not comply with Federal and State requirements during Federal fiscal years 2004 through 2006. We are not recommending recovery of the estimated overpayment because, although our stratified random sample was statistically valid, it did not identify a minimum of six errors per strata as required by our statistical policy.

Our sample of 105 RMSS Medicaid-reimbursable strikes identified the following eight strikes that did not comply with Federal and State requirements and, therefore, were not Medicaid-reimbursable:

- three strikes for which the comments did not support a Medicaid-reimbursable activity code,
- three strikes for which the sample failed to annotate the correct sample time and/or date,
- one strike which was not properly validated, and
- one strike that contained unauthorized changes.

We did not find errors in the remaining 97 RMSS Medicaid-reimbursable strikes.

The Medicaid agency inappropriately claimed FFP for administrative costs because the State agency and its partners in the DDMAC program initiative did not have adequate controls to prevent non-qualifying strikes (about an 8 percent error rate) from being counted as Medicaid-eligible strikes. Furthermore, RMSS participants were not adequately trained in RMSS procedures.

## **RECOMMENDATION**

We recommend that the Medicaid agency strengthen existing procedures to ensure that all RMSS participants are sufficiently trained in RMSS procedures.

## **FLORIDA AGENCY FOR HEALTH CARE ADMINISTRATION COMMENTS**

In written comments on our draft report, the Medicaid agency stated it would work diligently to address the recommendations. The Medicaid agency's comments are included in their entirety as Appendix B.

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## **INTRODUCTION**

### **BACKGROUND**

#### **Medicaid Medical Assistance Programs**

Pursuant to Title XIX of the Social Security 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 Federal requirements.

#### **Florida Agency for Health Care Administration**

The Florida Agency for Health Care Administration (Medicaid agency) administers the Medicaid program in Florida. For Federal fiscal years 2004 through 2006, the Medicaid agency claimed \$34,169,896 in Developmental Disabilities Medicaid administrative claiming (DDMAC) costs and received \$16,985,259 in Federal financial participation (FFP) attributable to the DDMAC program.

#### **Medicaid Contingency Fee Arrangements in Florida**

In 2003, the Florida Department of Financial Services engaged a contractor to “maximize Federal revenues from all appropriate funding sources.” The contract period was for 5 years, beginning in September 2003. According to the contract terms, the contractor was to develop program initiatives to identify and recover Federal funding for several different State Agencies, including the Medicaid agency.

#### **Developmental Disabilities Medicaid Administrative Claiming Program Initiative**

One of the contractor’s initiatives applicable to the Medicaid agency was the DDMAC program initiative. According to the contractor, the scope of the DDMAC program was to “Maximize Medicaid administrative claiming for the Developmental Disabilities Program offices at the [S]tate and district levels.”

In July 2003, the contractor began the DDMAC program initiative with the Department of Children and Families (DCF). DCF is Florida’s largest social service agency. In late 2005, the DDMAC program initiative was transitioned from DCF to the Agency for Persons with Disabilities (APD), formerly a component of DCF.

The implementation of the DDMAC program initiative required the contractor to assist the State in modifying its approved Cost Allocation Plan (CAP). Section 14 of the CAP contained guidance on proper administration of the Random Moment Sampling System (RMSS) as it

related to the Developmental Disabilities program.<sup>1</sup> According to the contractor, the RMSS is used to document staff activities and relate them directly with program functions. The information is then used to determine how funds should be claimed among the various programs for Federal reimbursement.

### **Administrative Cost Allocation Methodology**

The ultimate purpose of the RMSS was to allocate costs to the benefiting agencies. Under the RMSS, random dates and times for individual sample moments were chosen by a computer program. At the selected date and time, the worker completed a response form that reflected the task being performed at the moment and the activity being conducted within the Developmental Disabilities program. Sampled functions or activities in which a particular samplee was engaged at a specific time (strikes) were used to determine how to allocate pooled Developmental Disabilities administrative costs to the various agencies, including the Medicaid agency. The portion of administrative costs allocated to the Medicaid agency was based on its percentage of Medicaid strikes in relation to total RMSS strikes.

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

### **Objective**

Our objective was to determine whether the Florida Medicaid agency claimed DDMAC costs in accordance with Federal and State requirements.

### **Scope**

We reviewed DDMAC costs for DCF from October 1, 2003, through December 31, 2005. Due to the transfer of the DDMAC program initiative from DCF to APD, we also reviewed DDMAC costs for APD from July 1, 2005, through September 30, 2006.

We limited our internal control review to DCF's and APD's systems and procedures for claiming administrative costs to the extent necessary to accomplish our objectives. Further, we concluded that our review of the Medicaid agency's internal control structure could be conducted more efficiently by substantive testing.

We performed our fieldwork at the DCF offices in Tallahassee, Florida.

### **Methodology**

To accomplish our objective, we:

- reviewed Federal requirements on Medicaid contingency fee arrangements;
- interviewed CMS, DCF, and APD officials;

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<sup>1</sup> For purposes of this report, RMSS refers to the Developmental Disabilities Random Moment Sampling System.

- reviewed the Medicaid agency’s contract with the consultant involved in the development and implementation of the DDMAC program initiative;
- reviewed contingency fee payments made by the State to the contractor;
- reviewed the approved CAP guidance outlining proper administration of the RMSS;
- reviewed calculations supporting Developmental Disabilities Medicaid administrative costs;
- reconciled the Medicaid agency’s earnings for DDMAC expenditures to the costs claimed by the Medicaid agency on the “Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program” (Form CMS–64);
- compiled from the RMSS a population of 12,076 Medicaid-reimbursable strikes<sup>2</sup> reported during the audit period;
- selected a random sample of 105 Medicaid-reimbursable strikes, reviewed the corresponding RMSS response sheets, and determined whether the strikes complied with Federal and State requirements and were, therefore, Medicaid-reimbursable; and
- used an estimation plan to estimate overpayments to the Medicaid agency (Appendix).

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 findings and conclusions based on our audit objective.

## **FINDINGS AND RECOMMENDATION**

The Florida Medicaid agency did not always claim DDMAC costs in accordance with Federal and State requirements. Based on our sample results of the RMSS Medicaid-reimbursable strikes, we estimated that the Medicaid agency received \$1,190,949 in FFP for \$2,606,617 in administrative costs that did not comply with Federal and State requirements during Federal fiscal years 2004 through 2006. We are not recommending recovery of the estimated overpayment because, although our stratified random sample was statistically valid, it did not identify a minimum of six errors per strata as required by our statistical policy.

Our sample of 105 RMSS Medicaid-reimbursable strikes identified the following eight strikes that did not comply with Federal and State requirements and, therefore, were not Medicaid reimbursable:

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<sup>2</sup> A Developmental Disabilities program RMSS “Medicaid-reimbursable strike” represents an instance in which the samplee was engaged in a Medicaid administration activity at the specific moment sampled.

- three strikes for which the comments did not support a Medicaid-reimbursable activity code,
- three strikes for which the samplee failed to annotate the correct sample time and/or date,
- one strike which was not properly validated, and
- one strike that contained unauthorized changes.

We did not find errors in the remaining 97 RMSS Medicaid-reimbursable strikes.

The Medicaid agency inappropriately claimed FFP for administrative costs because the State agency and its partners in the DDMAC program initiative did not have adequate controls to prevent non-qualifying strikes (about an 8 percent error rate) from being counted as Medicaid-eligible strikes. Furthermore, RMSS participants were not adequately trained in RMSS procedures.

## **PROGRAM REQUIREMENTS**

Federal and State Medicaid administrative costing requirements are contained in Federal law and a U.S. Department of Health & Human Services guide (below). Random Moment Sampling requirements specific to Florida’s DDMAC Program are contained in section 14 of Florida’s approved CAP.

### **Federal Law**

Office of Management and Budget (OMB) Circular A-87, Attachment A (C)(1)(j), states that costs must be adequately documented to be allowable.

OMB Circular A-87, Attachment C (A)(1), states “ ... there needs to be a process whereby these central service costs can be identified and assigned to benefitted activities on a reasonable and consistent basis. The central service cost allocation plan provides that process. All costs and other data used to distribute the costs included in the plan should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.”

Federal regulations (45 CFR § 95.517(a)) state, “A State must claim FFP for costs associated with a program only in accordance with its approved cost allocation plan.”

### **U.S. Department of Health & Human Services Guide**

The U.S. Department of Health & Human Services guide entitled *A Guide for State and Local Government Public Assistance Agencies/Departments: Procedures for the Preparation and Submission of Cost Allocation Plans* states in *The Standards and Procedures for Random Moment Sampling*, section II *General Concepts*, that “[i]t is imperative that a sample design,

once developed, be strictly adhered to. Violation in application of the sample design will introduce a bias that can invalidate the sample.”

### **Florida’s Cost Allocation Plan**

Florida’s CAP, section 14, page 14.9 requires that a participant complete three items on the RMSS response form as follows:

- The participant must select the appropriate code for the activity they were engaged in at the exact time of the sample moment.
- The participant must provide a one sentence description of the activity engaged in at the exact time of the sample moment in the “Comments” section of the form.
- The participant must sign and reflect the time and date the sample was completed, which should correspond with the time and date of the sampled moment.

The CAP, section 14, page 14.8 states: “The Samplee, Sample Coordinator, or the designated Alternate Sample Coordinator must sign and date when the RMS form is part of the 10 [percent Quality Assurance] validation .... Thus, the Samplee and the Coordinator will sign and reflect the date and time in which the sample was completed. This should correspond to the time and date on the observation form.”

The CAP, section 14, page 14.9 states: “You should not make any changes to information that has been incorrectly entered on the form. Only the District/Region Coordinator can correct errors and they have been provided with specific instructions on how to correct mistakes.”

## **UNALLOWABLE MEDICAID ADMINISTRATIVE COSTS**

### **Random Moment Sampling System Errors**

Our sample of 105 RMSS Medicaid-reimbursable strikes identified eight strikes that did not comply with Federal and State requirements and, therefore, were not reimbursable for Medicaid as follows:

- Comments supporting three strikes did not support a Medicaid-reimbursable activity. For example, on a response form completed for a moment sampled in November 2003, the samplee selected code J, which is defined in section 14 of the CAP as “Program Planning, Development, and Agency Coordination.” The samplee entered “Program Planning” in the “Comments” section of the RMSS form. The State’s sample design as outlined in section 14 of its CAP requires that the samplee provide a one sentence description of the activity engaged at the exact time of the sample moment. In this case, the samplee’s comment merely repeated a portion of the code definition instead of complying with the CAP requirement to provide a one sentence description of the activity engaged in at the sampled moment.

- The samplees failed to annotate the correct sample time and/or date on the response form for three strikes on November 8, 2004; January, 18, 2006; and August 28, 2006; respectively. This was contrary to Florida's CAP, which requires the participant to sign and enter the time and date the sample was completed. This time and date should correspond with the time and date of the sampled moment.
- The Sample Coordinator did not properly validate one moment. The moment was identified as one of the 10 percent of RMSS moments that required Quality Assurance validation by the Sample Coordinator or designated alternate. While validating the response form, the Sample Coordinator entered a different date and time than the actual sample moment time. This was contrary to Florida's CAP, which requires that the Sample Coordinator sign and reflect the date and time in which the sample was completed and that the date and time entered corresponds to the sample moment date and time.
- The response form for one moment included an unauthorized change. The samplee originally dated and timed the moment with a date and time different from the sample moment date and time. The samplee then made changes to information that had been incorrectly entered on the form by writing over the incorrect date, lining through the incorrect time, initialing the changes, and annotating the sample moment date and time. This was contrary to Florida's CAP, which requires that the samplee should not make any changes to information that has been incorrectly entered on the form.

### **Noncompliance with Program Requirements**

The Medicaid agency inappropriately claimed FFP for administrative costs because the State agency and its partners in the DDMAC program initiative did not have adequate controls to prevent non-qualifying strikes (about an 8 percent error rate) from being counted as Medicaid-eligible strikes. Furthermore, RMSS participants were not adequately trained in RMSS procedures.

### **Excessive Medicaid Administrative Costs and Estimated Overpayments**

The State determined DDMAC costs by multiplying total pooled Developmental Disabilities administrative costs by the percentage of RMSS Medicaid-reimbursable strikes in relation to total RMSS strikes. The inclusion of the eight non-qualifying strikes in the Medicaid count overstated Medicaid's share of DDMAC costs that the State agency claimed for Federal reimbursement. As a result, we estimated that the Medicaid agency received \$1,190,949 in FFP for \$2,606,617 in administrative costs that did not comply with Federal and State requirements during Federal fiscal years 2004 through 2006. We are not recommending recovery of the estimated overpayment because, although our stratified random sample was statistically valid, it did not identify a minimum of six errors per strata as required by our statistical policy.

## **RECOMMENDATION**

We recommend that the Medicaid agency strengthen existing procedures to ensure that all RMSS participants are sufficiently trained in RMSS procedures.

### **FLORIDA AGENCY FOR HEALTH CARE ADMINISTRATION COMMENTS**

In written comments on our draft report, the Medicaid agency stated it would work diligently to address the recommendations. The Medicaid agency's comments are included in their entirety as Appendix B.

# **APPENDIXES**

## APPENDIX A: ESTIMATION METHODOLOGY

Using the State's quarterly data and submitted methodology, we calculated estimates consistent with the estimated allowable RMSS strike percentage as determined by our review of RMSS strikes.

For Federal fiscal years 2004 through 2006,<sup>1</sup> we determined a single estimated allowable RMSS strike percentage based on a review for allowability of a stratified random sample of 105 RMSS strikes from a population of 12,076 Medicaid-reimbursable strikes from October 1, 2003, through September 30, 2006. Stratifying the population by State fiscal year disclosed 4,266, 4,138, and 3,672 Medicaid-reimbursable strikes, respectively, for the audit period. We randomly selected 35 Medicaid-reimbursable strikes from each year and reviewed the selected strikes for allowability.<sup>2</sup>

In addition, we:

- applied the estimated allowable RMSS strike percentage to the quarterly RMSS strikes submitted by the State to determine estimated allowable quarterly RMSS strikes,
- divided estimated allowable quarterly strikes by total quarterly strikes submitted by the State to determine the estimated allowable quarterly RMSS percentage,
- multiplied the estimated allowable quarterly RMSS percentage by the quarterly Developmental Disabilities administrative cost pool (submitted by the State) to determine estimated allowable quarterly DDMAC costs,
- added the estimated allowable quarterly DDMAC costs for the 12 quarters to determine the total estimated allowable DDMAC costs for the audit period, and
- compared actual Federal reimbursement claimed via the Form CMS-64 to the estimated allowable payments to determine estimated RMSS overpayments.

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<sup>1</sup> The audit period included 12 quarters beginning with the quarter ended December 31, 2003, and ending with the quarter ended September 30, 2006.

<sup>2</sup> We determined allowability of sampled strikes by reviewing the corresponding RMSS response sheets and determining whether the strikes complied with Federal and State requirements and, if so, were Medicaid-reimbursable.

APPENDIX B: FLORIDA AGENCY FOR HEALTH CARE ADMINISTRATION COMMENTS



CHARLIE CRIST  
GOVERNOR

*Better Health Care for all Floridians*

THOMAS W. ARNOLD  
SECRETARY

April 13, 2010

Mr. Peter J. Barbera  
Regional Inspector General, Region IV  
Department of Health and Human Services  
Office of Inspector General  
61 Forsyth Street, SW Suite 3T41  
Atlanta, GA 30303

Dear Mr. Barbera:

Thank you for the opportunity to respond to the draft report entitled *Review of Florida's Developmental Disabilities Medicaid Administrative Claiming Costs for the Period October 2003, Through September 30, 2006*. We appreciate the efforts of your staff during the course of this audit. The Agency for Health Care Administration continuously looks for opportunities to improve operations and is committed to providing cost-effective and efficient health care services to the citizens of Florida, and we will work diligently to address your recommendations.

If you have any questions regarding our response, please contact [REDACTED], Audit Director, at (850) 412-3977

Sincerely,

Thomas W. Arnold  
Secretary

TWA/mb

