

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**FLORIDA CLAIMED SOME MEDICAID
ADMINISTRATIVE COSTS THAT DID NOT
COMPLY WITH PROGRAM
REQUIREMENTS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Gloria L. Jarmon
Deputy Inspector General

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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 Federal requirements. In Florida, the Agency for Health Care Administration (Medicaid agency) administers the Medicaid program.

Section 1903(a)(7) of the Act permits States to claim 50-percent Federal financial participation (FFP) for the cost of certain Medicaid administrative activities that are necessary for the proper and efficient administration of the State plan.

The Agency for Persons With Disabilities (APD) is a Florida agency that serves individuals with developmental disabilities and their families. Because APD performed certain services required under the State plan on behalf of individuals with developmental disabilities, the allowable portion of its administrative costs allocable to Medicaid was eligible for FFP. On the quarterly Form CMS-64, the Medicaid agency claimed 50-percent FFP for APD Medicaid administrative costs, including costs allocated based on APD's quarterly random moment sampling (RMS).

Under the RMS, a computer program randomly selected the dates, times, and positions that made up individual sample moments. At the selected date and time, the employee in the sampled position would complete a form that reflected the function or activity that he or she was performing at the sampled moment (observation). APD used these observations to determine the percentage of time spent working on various programs, including Medicaid. APD calculated its Medicaid administrative costs by multiplying its total pooled administrative costs by the Medicaid observation percentage derived from the RMS. Therefore, the accuracy of observation forms supporting APD's Medicaid observation percentages was a key factor in determining the propriety of APD administrative costs assigned to Medicaid.

For Federal fiscal years (FY) 2007 through 2009, the Medicaid agency claimed APD Medicaid administrative costs totaling \$129,045,626 (\$67,447,162 FFP). Of this amount, \$44,449,066 (\$22,224,533 FFP) was allocated to Medicaid based on APD's RMS.

OBJECTIVE

Our objective was to determine whether the Medicaid agency claimed certain Medicaid administrative costs in accordance with Federal requirements.

SUMMARY OF FINDINGS

The Medicaid agency claimed some Medicaid administrative costs that did not comply with Federal requirements. Of the \$44,449,066 (\$22,224,533 FFP) in APD administrative costs that APD allocated to Medicaid and that the Medicaid agency claimed during FYs 2007 through 2009, we estimated that \$4,386,952 (\$2,193,476 FFP) did not comply with Federal requirements and therefore was unallowable for FFP. These costs did not comply because certain employees in sampled positions did not complete the RMS observation forms as specified in the Cost Allocation Plan, and the RMS coordinator's review did not detect noncompliance. As a result, APD's Medicaid-reimbursable observation percentages used to calculate its Medicaid administrative costs were overstated.

Furthermore, we could not determine whether the remaining \$40,062,114 (\$20,031,057 FFP) in costs allocated to Medicaid based on the RMS was allowable. Even though APD followed its Cost Allocation Plan, we could not quantify the effect of the following vulnerabilities that we identified in the RMS statistical sampling methods: limited work schedules, advance notification of observations, improper treatment of invalid responses and nonresponses, and exclusion of sampled employee's position number from observation forms.

RECOMMENDATIONS

We recommend that the Medicaid agency:

- refund \$2,193,476 to the Federal Government;
- ensure that APD follows procedures defined in its Cost Allocation Plan to ensure accurate completion and sufficient review of all observation forms;
- work with CMS to determine what portion of the remaining \$40,062,114 (\$20,031,057 FFP) in costs allocated to Medicaid based on RMS was allowable under Federal requirements; and
- require APD to amend its Cost Allocation Plan to help ensure that APD's RMS:
 - gives appropriate consideration to all hours worked by employees,
 - properly accounts for invalid responses and nonresponses, and
 - requires observation forms to include the sampled position number.

FLORIDA AGENCY FOR HEALTH CARE ADMINISTRATION COMMENTS

In written comments on our draft report, the Medicaid agency described actions that it was taking, or that it planned to take, to address the three recommendations with which it concurred; however, it disagreed with our first recommendation. Specifically, the Medicaid agency disagreed with 38 of the 47 errors identified in the findings on which we based our first

recommendation. The Medicaid agency stated that the findings did not provide sufficient evidence to support that exclusion of a date, which was the basis for the majority of the errors found, affected the validity of the selected Medicaid activities. The Medicaid agency asserted that APD supported all of the selected activities with comments provided by the individuals sampled and that the individuals followed the instructions provided to them. Furthermore, because neither 45 CFR § 95.507 nor 2 CFR part 225 require both initials and dates for changes or corrections made on reviewed samples, the Medicaid agency contends that APD complied with regulatory requirements for identifying, measuring, and allocating costs to programs it administers.

APD commented that it has taken corrective actions to ensure accurate completion and sufficient review of all observation forms. These corrective actions include (1) ensuring consistency with the Cost Allocation Plan by updating written instructions to require that sampled individuals include both initials and dates on observation forms, (2) communicating these instructions, and (3) having APD's regional and revenue management staff review observation forms to ensure compliance with these instructions.

OFFICE OF INSPECTOR GENERAL RESPONSE

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." APD's Cost Allocation Plan states: "If information is incorrectly entered on the form, the sampled employee is required to make the necessary changes by placing a single line through the incorrect information and verifying who made the changes by initialing and dating the changes." Because APD did not comply with its Cost Allocation Plan, we maintain that the Medicaid agency claimed \$4,386,952 in Medicaid administrative costs that did not comply with Federal requirements and therefore was unallowable for FFP.

We commend the Medicaid agency and APD for their prompt corrective actions and prospective compliance with the Cost Allocation Plan and Federal regulations. However, for FYs 2007 through 2009, we continue to recommend that the Medicaid agency refund \$2,193,476.

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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 Federal requirements. In Florida, the Agency for Health Care Administration (Medicaid agency) administers the Medicaid program.

Section 1903(a)(7) of the Act permits States to claim 50-percent Federal financial participation¹ (FFP) to defray the costs of certain Medicaid administrative activities that are necessary for the proper and efficient administration of the State plan.

Agency for Persons With Disabilities

The Agency for Persons With Disabilities (APD) is a Florida agency that serves individuals with developmental disabilities and their families. Because APD performed certain services required under the State plan on behalf of individuals with developmental disabilities, the allowable portion of its administrative costs allocable to Medicaid was eligible for FFP. On the quarterly Form CMS-64, the Medicaid agency claimed 50-percent FFP for APD Medicaid administrative costs, including costs allocated based on APD's quarterly random moment sampling (RMS). For Federal fiscal years (FY) 2007 through 2009, the Medicaid agency claimed APD Medicaid administrative costs totaling \$129,045,626 (\$67,447,162 FFP). Of this amount, \$44,449,066 (\$22,224,533 FFP) was allocated to Medicaid based on APD's RMS as described in detail below.

Public Assistance Cost Allocation Plan and Random Moment Sampling Determine Medicaid Administrative Costs

APD allocated its pooled administrative costs to individual programs, including Medicaid, according to procedures included in its *Public Assistance Cost Allocation Plan* (Cost Allocation Plan). The Cost Allocation Plan established APD's procedures, including the RMS, for identifying, measuring, and allocating costs to each of the programs that the agency operated. Under the RMS, a computer program randomly selected the dates, times, and positions that made up individual sample moments. At the selected date and time, the employee in the sampled position would complete a form that reflected the function or activity that he or she was performing at the sampled moment (observation). These observations were used to determine the percentage of time spent working on various programs, including Medicaid. An instance in

¹ The Federal Government provides matching funds to States for specified percentages of Medicaid program expenditures. This matching is commonly known as "Federal financial participation."

which the RMS identified an employee in a sampled position as engaged in a Medicaid function or activity at the specific sample moment represented a Medicaid-reimbursable observation. APD calculated its Medicaid administrative costs by multiplying its total pooled administrative costs by the Medicaid observation percentage derived from the RMS.² The resulting product was included in total Medicaid administrative costs claimed for a given FY. Therefore, the accuracy of observation forms supporting APD's Medicaid observation percentages was a key factor in determining the propriety of APD administrative costs assigned to Medicaid.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the Medicaid agency claimed certain Medicaid administrative costs in accordance with Federal requirements.

Scope

For FYs 2007 through 2009, the Medicaid agency claimed APD Medicaid administrative costs totaling \$129,045,626 (\$67,447,162 FFP). Of this amount, we reviewed \$44,449,066 (\$22,224,533 FFP) allocated to Medicaid based on the RMS.

We limited our internal control review to APD's systems and procedures for claiming Medicaid administrative costs to the extent necessary to accomplish our objective.

We conducted our fieldwork at APD's offices in Tallahassee, Florida.

Methodology

To accomplish our objective, we:

- reviewed applicable laws, regulations, and guidelines;
- interviewed APD officials regarding its Medicaid administrative costs, Cost Allocation Plan, and related policies and procedures;
- reviewed the Cost Allocation Plan guidance outlining proper administration of the RMS;
- reviewed calculations supporting APD's Medicaid observation percentages;
- reconciled APD's Medicaid administrative costs to the quarterly Medicaid Expenditure reports (Form CMS-64);

² APD calculated its quarterly Medicaid-reimbursable observation percentage by dividing Medicaid-reimbursable observations by total valid observations.

- compiled from APD’s RMS a sampling frame of Medicaid-reimbursable observations for each FY under review, including 3,537 observations in FY 2007, 3,462 observations in FY 2008, and 3,572 observations in FY 2009;
- selected a random sample of 100 Medicaid-reimbursable observations from each of the 3 FYs (Appendix A);
- reviewed each observation form to determine whether the observation (1) complied with Federal requirements and (2) was properly classified as Medicaid reimbursable (Appendix B); and
- estimated excessive RMS-based Medicaid administrative costs claimed and related FFP overstatements for 2007, 2008, and 2009 (Appendix C).

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 RECOMMENDATIONS

The Medicaid agency claimed some Medicaid administrative costs that did not comply with Federal requirements. Of the \$44,449,066 (\$22,224,533 FFP) in APD administrative costs that APD allocated to Medicaid and that the Medicaid agency claimed during FYs 2007 through 2009, we estimated that \$4,386,952 (\$2,193,476 FFP) did not comply with Federal requirements and therefore was unallowable for FFP. These costs did not comply because certain employees in sampled positions did not complete the RMS observation forms as specified in the Cost Allocation Plan, and the RMS coordinator’s review did not detect noncompliance. As a result, APD’s Medicaid-reimbursable observation percentages used to calculate its Medicaid administrative costs were overstated.

Furthermore, we could not determine whether the remaining \$40,062,114 (\$20,031,057 FFP) in costs allocated to Medicaid based on the RMS was allowable. Even though APD followed its Cost Allocation Plan, we could not quantify the effect of the following vulnerabilities that we identified in the RMS statistical sampling methods: limited work schedules, advance notification of observations, improper treatment of invalid responses and nonresponses, and exclusion of sampled employee’s position number from observation forms.

FEDERAL REQUIREMENTS AND THE COST ALLOCATION PLAN

Federal Regulations

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

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

Attachment A (B)(17) of the Circular defines a “[p]ublic assistance cost allocation plan [as a] narrative description of the procedures that will be used in identifying, measuring and allocating all administrative costs to all of the programs administered or supervised by State public assistance agencies”

Sampling methods used to allocate salaries to Federal awards must meet acceptable statistical sampling methods.³ The sampling universe must include all of the employees whose salaries and wages are to be allocated based on the sample results, the entire time period involved must be covered by the sample, and the results must be statistically valid and applied to the period being sampled.⁴

Public Assistance Cost Allocation Plan

The Cost Allocation Plan describes APD’s procedures, including the RMS, used to identify, measure, and allocate costs to each of the programs operated by the agency. Attachment C, Random Moment Sampling Operation, states: “The application of the [RMS] system results for the allocation is executed via a two-step procedure resulting in the production of the final program summary report.” It also states: “The final program summary represents the absolute percentage of time observed for each program area”

The Cost Allocation Plan, Attachment D, RMS Instructions, Sampling Form and Allocation Matrix, provides specific instructions for accurately completing and sufficiently reviewing RMS observation forms. Among other things, it states:

- “Once a sample has been selected, no changes are made to the sample data during the quarter.”
- The sampled employee will complete the observation form by marking the activity they were engaged in at the exact time of the sample moment. This includes writing a description of the activity engaged in at the exact time of the sample moment in the “Comments” section, signing the form, and reflecting the time and date in which the sample was completed.⁵
- “If information is incorrectly entered on the form, the sampled employee is required to make the necessary changes by placing a single line through the incorrect information and verifying who made the changes by initialing and dating the changes.”

³ Attachment B 8.h.6.a of the Circular.

⁴ Attachment B 8.h.6.a(i), (ii), and (iii) of the Circular.

⁵ The time and date should correspond to the time and date of the sampled moment.

- “The hours selected for the RMS sample are selected from the agency core work hours. Currently, the sample hours are 8 a.m. – 12 p.m. and 1 p.m. – 5 p.m., Monday through Friday.”
- The sample coordinator administers the RMS and is responsible for reviewing “all observation forms to ensure accuracy in the following areas:
 - Correct activity code checked;
 - Dated signature and sample time of [sampled employees];
 - ... [W]hiteout has not been used on the form;
 - [Sampled employee] has put a single line through any accidental mistakes within the comment section and/or any wrongly selected code;
 - [Sampled employee] had initialed and dated any changes made as detailed above[.]”

UNALLOWABLE MEDICAID ADMINISTRATIVE COSTS

Of the 300 Medicaid-reimbursable observations sampled, 45 did not comply with Federal requirements and therefore were unallowable for FFP.⁶ (See the table and detailed description of noncompliant observations on the next page.) We did not identify any errors in the remaining 255 Medicaid-reimbursable observations.

⁶ Two of these observations included 2 errors; thus, we identified 47 total errors involving 45 observations.

Summary of Random Moment Sampling Errors

FY	Employee in Sampled Position Initialed But Did Not Date Corrections	Employee in Sampled Position Neither Initialed Nor Dated Corrections	Employee in Sampled Position Did Not Include Date or Time With Signature	Signature Time or Date Did Not Match Sampled Moment	Medicaid Activity Code Not Supported by Accounting and Other Records	Name of Employee in Sampled Position Changed After the Sample Was Selected	Sampled Moment Was Not Within Core Hours	Total Errors
2007	7	1	4	4	1	3	2	22
2008	6	6	1	0	0	0	0	13
2009	7	2	0	0	3	0	0	12
Total	20	9	5	4	4	3	2	47

We found the following areas of noncompliance with Federal requirements:

- If information was incorrectly entered on the form, the Cost Allocation Plan required the employee to place a single line through the incorrect information and initial and date the changes. For 20 observations, the employee in the sampled position initialed but did not date the corrections. For example, on August 5, 2008, an employee selected an activity that was not Medicaid reimbursable. The activity was subsequently changed to a Medicaid-reimbursable activity. The employee initialed but did not date this correction.
- The Cost Allocation Plan required employees in a sampled position to complete the observation form by marking the activity that they were engaged in at the exact time of the sample moment. This included writing a description of the activity in the “Comments” section, signing the form, and noting the time and date when the sample was completed.
 - For nine observations, the employee in the sampled position neither initialed nor dated corrections. For example, on October 10, 2006, an employee did not initial or date a correction to the activity code selected.
 - For five observations, the employee in the sampled position did not include the date or the time with the signature. For example, on January 12, 2007, an employee signed the form and included the date but omitted the time. In another example, on September 20, 2006, an employee signed the form and included the time but omitted the date.⁷

⁷ APD completed its RMS on a quarterly basis, with a 1-month offset to the sampling period. For example, for the quarter ended December 31, 2006, the sample period was September through November 2006.

- For four observations, the signature time or date did not match the sampled moment. For example, an employee in a sampled position signed an observation form for a moment sampled on July 13, 2007, but incorrectly dated it August 13, 2007.
- The Circular, Attachment A (C)(1)(j), states that costs must be adequately documented to be allowable. Contrary to this requirement, for four observations, APD entered into the RMS a Medicaid activity code that was not supported by adequate documentation. For example, on September 13, 2006, an employee in a sampled position selected code N, defined in the Cost Allocation Plan as “Supervisory Conference and General Administration.” However, APD entered code E in the RMS, defined as “Facilitating Access to Medicaid Eligibility.”
- The Cost Allocation Plan states: “Once a sample has been selected, no changes are made to the sample data during the quarter.” For three observations, the employee name (sample data) was changed after sample selection. For example, on October 17, 2006, the name of the employee in the sampled position was crossed out and another name was written above it. This employee, not originally in the sampled position, completed the observation form.
- The Cost Allocation Plan defined the hours that may be selected for RMS as any minute that occurs on Monday through Friday from 8 a.m. through 12 p.m. or from 1 p.m. through 5 p.m. For two observations, the sampled moment was not within core hours. For example, a sampled moment on April 12, 2007, indicated a time of 5:11 p.m.

The accuracy of observation forms supporting APD’s Medicaid observation percentages was a key factor in determining the propriety of APD administrative costs assigned to Medicaid. Accordingly, the sample coordinator administered the RMS and was responsible for reviewing all observation forms to ensure accuracy of activity codes, dated signature and sample time, and correction of errors. These errors occurred because certain employees in sampled positions did not complete the RMS observation form as specified in the Cost Allocation Plan. Furthermore, the sample coordinator’s review did not detect these errors and therefore did not ensure the accuracy of the RMS as required by the Cost Allocation Plan.⁸

APD calculated its Medicaid administrative costs by multiplying its total pooled administrative costs by the Medicaid observation percentage derived from the RMS.⁹ Because the RMS results included Medicaid-reimbursable observations that did not comply with Federal requirements, APD overstated its Medicaid observation percentage and its costs allocated to Medicaid based on

⁸ In addition to the 13 other errors identified, sampled employees omitted initials, date, or time for 34 of the 47 errors. Of these 34 errors, 29 involved corrections. Although these omissions may have been oversights, observation forms related to all 47 errors did not comply with specific Cost Allocation Plan instructions designed to ensure accurate completion, including verifying who made corrections and sufficiently reviewing all observation forms.

⁹ APD’s quarterly Medicaid-reimbursable observation percentage equaled Medicaid-reimbursable observations divided by total valid observations.

the RMS. As a result of this noncompliance, for FYs 2007 through 2009, we estimated that the Medicaid agency claimed \$4,386,952 (\$2,193,476 FFP) in costs that did not comply with program requirements and therefore was unallowable for FFP.

VULNERABILITIES IN STATISTICAL SAMPLING METHODS

We could not determine whether the remaining \$40,062,114 (\$20,031,057 FFP) in costs allocated to Medicaid based on the Cost Allocation Plan was allowable because we could not quantify the effect of the vulnerabilities that we identified in the RMS statistical sampling methods.

Even though APD followed its Cost Allocation Plan in claiming the remainder of its Medicaid administrative costs, we identified the following vulnerabilities:

- **Limited Work Schedules:** Some observations did not have a chance of selection because the sampling universe did not account for the entire work period. The Cost Allocation Plan defines the RMS work schedule as “8 a.m. – 12 p.m. and 1 p.m. – 5 p.m., Monday – Friday.” Although this represents an 8-hour day, it does not account for flextime schedules, observed by some employees within a Monday – Friday, 7 a.m. – 5 p.m. work schedule.
- **Advance Notification of Observations:** From October 2006 through February 2007, the Cost Allocation Plan allowed advance notice of selected observations to be given to employees in sampled positions.¹⁰ The employee could be provided with forms showing the moment selected any time from the day of the observation to 1 week before the observation. Providing advance notice of the observation may result in biased RMS results.
- **Improper Treatment of Invalid Responses and Nonresponses:** Except for the last quarter of our audit period, APD excluded all invalid responses and nonresponses, including those attributable to employees in sampled positions who did not return the observation form, when deriving its Medicaid observation percentage. The exclusion of all nonresponses potentially biased the sample results.¹¹

¹⁰ APD revised the Cost Allocation Plan to stop advance notification in March 2007.

¹¹ “Invalid” observations that occurred for a vacant position or for time not scheduled to work should be removed from the sample because sample results are applied to personnel costs, and sample moments for unpaid time distort the results. However, “nonresponses” that occurred because (1) the employee in the sampled position did not complete the form, (2) the activity could not be determined, or (3) the observation was otherwise unreliable should be included in the sample and treated as non-Medicaid-reimbursable in order to ensure proper allocation of costs.

- **Exclusion of Sampled Employee’s Position Number From Observation Forms:** In contrast to 2007, printed observation forms for 2008 and 2009 omitted the sampled position number.¹² As stated in the Cost Allocation Plan, the observation forms were “used to document the activity performed by selected positions at designated times.” Therefore, this omission potentially biased the sample results.

Because of these vulnerabilities in the RMS statistical sampling methods, APD’s RMS data were unreliable and could not accurately identify Medicaid administrative costs.

RECOMMENDATIONS

We recommend that the Medicaid agency:

- refund \$2,193,476 to the Federal Government;
- ensure that APD follows procedures defined in its Cost Allocation Plan to ensure accurate completion and sufficient review of all RMS observation forms;
- work with CMS to determine what portion of the remaining \$40,062,114 (\$20,031,057 FFP) in costs allocated to Medicaid based on RMS was allowable under Federal requirements; and
- require APD to amend its Cost Allocation Plan to help ensure that APD’s RMS:
 - gives appropriate consideration to all hours worked by employees,
 - properly accounts for invalid responses and nonresponses, and
 - requires observation forms to include the sampled position number.

FLORIDA AGENCY FOR HEALTH CARE ADMINISTRATION COMMENTS

In written comments on our draft report, the Medicaid agency described actions that it was taking, or that it planned to take, to address the three recommendations with which it concurred; however, it disagreed with our first recommendation. Specifically, the Medicaid agency disagreed with 38 of the 47 errors identified in the findings on which we based our first recommendation. The Medicaid agency stated that the findings did not provide sufficient

¹² APD sampled by position for certain position classes eligible to be considered under the RMS. RMS sample data included control number, date, minute, position number, name, position classification, and location code. The position number is a five-digit number assigned for each position used in the RMS. With the position number on the observation form (2007), the name of the employee in the sampled position could be traced to personnel action requests to ensure compliance with the Cost Allocation Plan, which states: “Once a sample has been selected, no changes are made to the sample data during the quarter.” The omission of the position number from the observation form (2008 and 2009), however, would allow an employee not officially in the sampled position to complete the observation form and potentially distort the RMS results.

evidence to support that exclusion of a date, which was the basis for the majority of the errors found, affected the validity of the selected Medicaid activities. The Medicaid agency asserted that APD supported all of the selected activities with comments provided by the individuals sampled and that the individuals followed the instructions provided to them. Furthermore, because neither 45 CFR § 95.507 nor 2 CFR part 225 required both initials and dates for changes or corrections made on reviewed samples, the Medicaid agency contends that APD complied with regulatory requirements for identifying, measuring, and allocating costs to programs it administers.

APD commented that it has taken corrective actions to ensure accurate completion and sufficient review of all observation forms. These corrective actions include (1) ensuring consistency with the Cost Allocation Plan by updating written instructions to require that sampled individuals include both initials and dates on observation forms, (2) communicating these instructions, and (3) having APD's regional and revenue management staff review observation forms to ensure compliance with these instructions.

The Medicaid agency's comments are included in their entirety as Appendix D.

OFFICE OF INSPECTOR GENERAL RESPONSE

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." APD's Cost Allocation Plan states: "If information is incorrectly entered on the form, the sampled employee is required to make the necessary changes by placing a single line through the incorrect information and verifying who made the changes by initialing and dating the changes." Because APD did not comply with its Cost Allocation Plan, we maintain that the Medicaid agency claimed \$4,386,952 in Medicaid administrative costs that did not comply with Federal requirements and therefore was unallowable for FFP.

We commend the Medicaid agency and APD for their prompt corrective actions and prospective compliance with the Cost Allocation Plan and Federal regulations. However, for FYs 2007 through 2009, we continue to recommend that the Medicaid agency refund \$2,193,476.

APPENDIXES

APPENDIX A: SAMPLING METHODOLOGY

For Federal fiscal years (FY) 2007 through 2009,¹ we stratified the population by Federal FY and estimated the annual allowable/unallowable Medicaid observation percentage based on a review of sampled observations.² We randomly selected 100 observations from each year and reviewed them for allowability.³

POPULATION

For FYs 2007 through 2009, each year's population consisted of 10,000 total observations, including 2,500 observations per quarter, used to distribute direct costs and related administrative costs appropriate to the various programs and services administered by the Agency for Persons With Disabilities (APD).

SAMPLING FRAME

For each year, we obtained Microsoft Excel files detailing total observations by quarter. We refined our sampling frame by excluding observations that did not impact APD's calculation of Medicaid administrative costs. Our sampling frame for each year was an Excel spreadsheet consisting of Medicaid-reimbursable observations used to calculate APD's Medicaid administrative costs and Federal financial participation (FFP) claimed for FYs 2007 through 2009. The annual sampling frames included:

- 3,537 Medicaid-reimbursable observations for FY 2007,
- 3,462 Medicaid-reimbursable observations for FY 2008, and
- 3,572 Medicaid-reimbursable observations for FY 2009.

SAMPLE UNIT

The sample unit was a Medicaid-reimbursable observation.

SAMPLE DESIGN

For FYs 2007 through 2009, we used a simple random sample for each year.

¹ The audit period included 12 quarters beginning with the quarter ended December 31, 2006, and ending with the quarter ended September 30, 2009.

² In the report, we refer to a sampled function or activity in which an employee in a sampled position was engaged at a specific time as an "observation."

³ We determined allowability of an observation by reviewing the corresponding observation form and determining whether the observation complied with Federal requirements and was, therefore, a Medicaid-reimbursable observation.

SAMPLE SIZE

For FYs 2007 through 2009, we selected a sample of 100 observations for each year.

SOURCE OF RANDOM NUMBERS

For FYs 2007 through 2009, we generated the random numbers for each year with the Office of Inspector General, Office of Audit Services (OIG/OAS), statistical software.

METHOD OF SELECTING SAMPLE ITEMS

For FYs 2007 through 2009, we consecutively numbered the sampling frame from 1 through 3,537, 3,462, and 3,572, respectively. After generating 100 random numbers for each year, we selected the corresponding frame item.

ESTIMATION METHODOLOGY

Using a separate sampling plan for each year, we determined the yearly allowable/unallowable Medicaid observation percentage at the lower limit for the 90-percent confidence interval using the OIG/OAS statistical software. As specified in the Estimation Methodology (Appendix C), the yearly allowable/unallowable Medicaid observation percentage was applied to the State's submitted methodology to determine yearly allowable/unallowable Medicaid administrative costs and FFP claimed and to estimate aggregate excessive Medicaid administrative costs and FFP for the audit period.

APPENDIX B: SAMPLE RESULTS AND ESTIMATES

Sample Results

Period	Frame Size	Sample Size	Number of Errors in Sample¹
FY 2007: October 1, 2006 – September 30, 2007	3,537	100	21
FY 2008: October 1, 2007 – September 30, 2008	3,462	100	13
FY 2009: October 1, 2008 – September 30, 2009	3,572	100	11
Total	10,571	300	45

**Estimated Medicaid-Reimbursable Observation Percentages
for FYs 2007–2009
(Limits Calculated for a 90-Percent Confidence Interval)**

Period	Unallowable Medicaid Observation Percentage at Lower Limit	Unallowable Medicaid Observation Percentage at Upper Limit	Point Estimate for Unallowable Medicaid Observations	Allowable Medicaid-Reimbursable Observation Percentage²
FY 2007	14.617%	28.697%	21.000%	85.383%
FY 2008	7.943%	19.757%	13.000%	92.057%
FY 2009	6.355%	17.441%	11.000%	93.645%

¹ In 2007 and 2009, 2 observations included 2 errors; thus, we identified 47 total errors involving 45 observations. We used these 45 unallowable observations to derive the estimated Medicaid-reimbursable observation percentages for FYs 2007–2009.

² We calculated the allowable Medicaid-reimbursable observation percentage by subtracting the unallowable Medicaid observation percentage at the lower limit from 100 percent.

APPENDIX C: ESTIMATION METHODOLOGY

Using the State's quarterly data and submitted methodology, we calculated estimates consistent with the estimated allowable Medicaid observation percentage as determined by our review of Medicaid-reimbursable observations per APD's random moment sampling (RMS). (See Sampling Methodology in Appendix A and Sample Results and Estimates in Appendix B.)

DESCRIPTION OF ESTIMATES CALCULATED

We used the allowable/unallowable Medicaid observation percentage determined under separate statistical sampling plans for 2007, 2008, and 2009 (Appendix B) to calculate the:

- quarterly allowable/unallowable Medicaid administrative costs and related FFP,
- annual allowable/unallowable Medicaid administrative costs and related FFP, and
- aggregate allowable/unallowable Medicaid administrative costs and related FFP for the audit period.

ESTIMATION METHODOLOGY

To accomplish our objective, we calculated APD's aggregate estimated allowable/unallowable Medicaid administrative costs and FFP for 2007 through 2009 using its submitted methodology and calculations.¹ For each quarter, we performed the following calculations in sequential order:

1. applied the estimated allowable Medicaid-reimbursable observation percentage (as shown in Appendix B) to APD's calculation to determine estimated RMS-based Medicaid administrative costs allowed,
2. compared APD's RMS-based Medicaid administrative costs claimed on the Form CMS-64 with the estimated RMS-based Medicaid administrative costs allowed (step 1) to determine estimated excessive RMS-based Medicaid administrative costs claimed, and
3. multiplied the estimated quarterly excessive RMS-based Medicaid administrative costs claimed (step 2) by the 50-percent FFP for Medicaid administrative activities to determine the estimated FFP overstatement for excessive RMS-based Medicaid administrative costs.

¹ APD calculated Medicaid administrative costs quarterly by multiplying its total pooled administrative costs by the Medicaid observation percentage (Medicaid-reimbursable observations divided by total valid observations) derived from the RMS. Other than applying the allowable Medicaid-reimbursable observation percentages as noted in step 1, our calculations were the same.

ESTIMATION CALCULATION

We totaled quarterly estimated excessive RMS-based Medicaid administrative costs claimed (step 2) and related FFP overstatements (step 3) to estimate amounts for 2007, 2008, and 2009.

Period	RMS-Based Medicaid Administrative Costs Claimed	Estimated RMS-Based Medicaid Administrative Costs Allowed	Estimated Excessive RMS-Based Medicaid Administrative Costs Claimed	FFP for Medicaid Administrative Costs	Estimated FFP Overstatement for Excessive RMS-Based Medicaid Administrative Costs
FY 2007	\$15,876,027	\$13,555,428	\$2,320,599	50.00%	\$1,160,300
FY 2008	15,776,837	14,523,683	1,253,154	50.00%	626,577
FY 2009	12,796,202	11,983,003	813,199	50.00%	406,599
Total	\$44,449,066	\$40,062,114	\$4,386,952	50.00%	\$2,193,476

**APPENDIX D: FLORIDA AGENCY FOR HEALTH CARE ADMINISTRATION
COMMENTS**



RICK SCOTT
GOVERNOR

Better Health Care for all Floridians

ELIZABETH DUDEK
SECRETARY

November 27, 2012

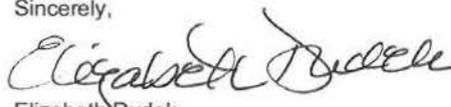
Ms. Lori S. Pilcher
Regional Inspector General for Audit Services
Department of Health & Human Services
Office of Inspector General
Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, GA 30303

Dear Ms. Pilcher:

Thank you for your letter of October 25, 2012, requesting us to provide comments on the draft report number A-04-10-00076 entitled *Florida Claimed Some Medicaid Administrative Costs That Did Not Comply With Program Requirements*. In accordance with your request, we have mailed a paper copy and emailed you our response.

If you have any questions regarding our response, please contact Mary Beth Sheffield, Audit Director, at 850-412-3978.

Sincerely,



Elizabeth Dudek
Secretary

ED/szg
Enclosure



**Agency for Health Care Administration
Florida Claimed Some Medicaid Administrative Costs That Did Not
Comply With Program Requirements
Response to HHS/OIG Draft Report dated October 2012**

Summary of Findings

The Medicaid agency claimed some Medicaid administrative costs that did not comply with Federal requirements. Of the \$44,449,066 (FFP \$22,224,533) in APD administrative costs that APD allocated to Medicaid and that the Medicaid agency claimed during FYs 2007 through 2009, we estimated that \$4,386,952 (FFP \$2,193,476) did not comply with Federal requirements and therefore was unallowable for FFP. These costs did not comply because certain employees in sampled position did not complete the RMS observation forms as specified in the Cost Allocation Plan, and the RMS coordinator's review did not detect noncompliance. As a result, APD's Medicaid-reimbursable observation percentages used to calculate its Medicaid administrative costs were overstated.

Furthermore, we could not determine whether the remaining \$40,062,114 (FFP \$20,031,057) in costs allocated to Medicaid based on the RMS was allowable. Even though APD followed its Cost Allocation Plan, we could not quantify the effect of the following vulnerabilities that we identified in the RMS statistical sampling methods: limited work schedules, advance notification of observations, improper treatment of invalid responses and nonresponses, and exclusion of sampled employee's position number from observation forms.

Recommendation#1

Refund \$2,193,476 to the Federal Government.

Agency Response and Corrective Action Plan:

The Agency for Health Care Administration consulted with the Agency for Persons with Disabilities (APD) on the responses to the instant audit's findings. In an agreement required by ss. 20.197 and 409.221, Florida Statutes, and formalized on April 15, 2005, the Agency for Health Care Administration delegated to the Agency for Persons with Disabilities, with Federal approval, the operational responsibilities associated with: the CDC+ program for individuals served under the Developmental Disabilities Waiver; the Developmental Disabilities and Family/Supported Living Waivers; and the Intermediate Care Facility Services for the Developmentally Disabled (ICF/DD) Program. After such consultation with APD, the Agency's (AHCA's) position is that it does not concur with this particular recommendation.

Of the 47 total errors contained in the audit, the Agency for Persons with Disabilities (APD) did not agree with 38 of those findings. It is APD's position that the stated findings do not provide sufficient evidence to support the assertion that exclusion of a date would affect the validity of the selected Medicaid activities. APD asserts that all of the activities selected were supported by the comments provided by the individuals sampled. The individuals sampled followed the instructions provided to them.

APD contends it has complied with the requirements of 45 CFR 95.507 in identifying, measuring and allocating costs to each of the programs administered by it. APD has also asserted that it complied with the cost principles contained in 2 CFR 225, COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS (OMB CIRCULAR A-87).

Neither of these federal regulations (45 CFR 95.507 and 2 CFR 225) requires both initials and dates for changes or corrections made on reviewed samples. The audit did not contain findings of non-compliance with identifying, measuring and allocating costs or inaccuracy with the data in the accounting records. The majority of the findings were simply that a date had not been included with the initials for corrections that were made on the samples reviewed.

**Agency for Health Care Administration
Florida Claimed Some Medicaid Administrative Costs That Did Not
Comply With Program Requirements
Response to HHS/OIG Draft Report dated October 2012**

Recommendation#2

Ensure that APD follows procedures defined in its Cost Allocation Plan to ensure accurate completion and sufficient review of all observation forms.

Agency Response and Corrective Action Plan:

The Agency for Health Care Administration concurs.

The Agency for Health Care Administration has been informed that APD has communicated with the individuals being sampled pursuant to the Cost Allocation Plan and are requiring these individuals to now include both initials and dates, in addition to the description of the activity engaged at the exact time of the sample moment, to support their documentation. APD also asserts that written instructions to that effect have been updated, to ensure consistency with the Public Assistance Cost Allocation Plan (PACAP). Additionally, APD reports close review is being made by both regional and revenue management staff of APD to ensure the observation forms are completed in compliance with the written instructions.

Recommendation#3

Work with CMS to determine what portion of the remaining \$40,062,114 (FFP \$20,031,057) in costs allocated to Medicaid based on RMS was allowable under Federal requirements.

Agency Response and Corrective Action Plan:

The Agency for Health Care Administration concurs.

Of the Title XIX programs administered by APD which utilize the random moment sampling time keeping system for the time period included in this audit, approximately 92% of the direct program expenditures alone were for the state match for the Medicaid waiver, approximately 6% of direct program expenditures were for Social Services Block Grant activities, and approximately 2% of the direct program expenditures were for state-funded activities. Most of APD's administrative costs are to support Title XIX activities.

The Agency for Health Care Administration and APD will work with CMS and provide any requested documentation for any audit they would engage the agency to perform.

Recommendation#4

Require APD to amend its Cost Allocation Plan to help ensure that APD's RMS:

- a. Gives appropriate consideration to all hours worked by employees,
- b. Properly accounts for invalid responses and nonresponses, and
- c. Requires observation forms to include the sampled position number.

Agency Response and Corrective Action Plan:

The Agency for Health Care Administration concurs.

APD is in the process of rewriting the PACAP to incorporate the appropriate changes for their work schedules. The original sampling system was not robust enough to accommodate multiple work schedules, however, the new system proposed by APD will have that capability.

The Agency for Health Care Administration and APD will ensure the Cost Allocation Plan properly accounts for invalid responses and nonresponses.

Regarding recommendation 4C, APD is currently in the process of working with their vendor to have the position number printed on the sample forms.