

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**MISSISSIPPI CLAIMED MILLIONS IN  
UNALLOWABLE SCHOOL-BASED  
MEDICAID ADMINISTRATIVE COSTS**

*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  
for Audit Services**

**March 2017  
A-04-15-00103**

# *Office of Inspector General*

<https://oig.hhs.gov>

---

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## *Office of Audit Services*

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

## *Office of Evaluation and Inspections*

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

## *Office of Investigations*

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

## *Office of Counsel to the Inspector General*

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

# *Notices*

---

**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
at <http://oig.hhs.gov>

Section 8M 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

*Mississippi claimed more than \$21 million (Federal financial participation) in unallowable school-based Medicaid administrative costs for a 3-year period.*

### WHY WE DID THIS REVIEW

In prior reviews of school-based and community-based administrative costs that States allocated to Medicaid using random moment sampling (RMS), we identified significant overpayments. As part of our Medicaid risk assessment, we noted that the Mississippi Division of Medicaid's (State agency) cost allocation plan (CAP) amendments describing its RMS methodologies, which covered public assistance costs, had not been submitted or approved. However, for Federal fiscal years (FFYs) 2010 through 2012, the State agency claimed school-based administrative costs, which are public assistance costs, totaling almost \$42.4 million (more than \$21.1 million Federal financial participation (FFP)). We conducted this audit because of the significant amount that the State agency claimed, the State agency's lack of an approved CAP, and our prior findings related to costs that States allocated to Medicaid using RMS.

### OBJECTIVE

The objective of our review was to determine whether the State agency claimed school-based Medicaid administrative costs for FFYs 2010 through 2012 in accordance with Federal requirements.

### BACKGROUND

The Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. 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 Medicaid State plan. Although each State has considerable flexibility in designing and operating its Medicaid program, it must comply with Federal requirements. In Mississippi, the State agency administers the Medicaid program.

States can claim 50-percent FFP for the cost of certain Medicaid administrative activities that are necessary for the proper and efficient administration of the State plan. However, a State must claim FFP for administrative costs associated with a program only in accordance with its CAP approved by the cognizant Federal agency, the U.S. Department of Health and Human Services, Division of Cost Allocation (DCA). If costs under a public assistance program are not claimed in accordance with the approved CAP, or if the State fails to promptly submit an amendment to its CAP when required, the costs improperly claimed will be disallowed.

States can be reimbursed for school-based administrative activities that directly support identifying and enrolling potentially eligible children in Medicaid. School-based Medicaid

administrative costs are one type of public assistance cost that can be reimbursed, if costs claimed comply with Federal requirements.

RMS is one acceptable method for allocating salaries and wages among Medicaid and other programs. However, the sampling methodology must meet acceptable statistical sampling standards, the results must be statistically valid, and costs must be adequately documented to be allowable.

On its quarterly Medicaid expenditure reports for FFYs 2010 through 2012, the State agency claimed \$42,399,301 (\$21,199,651 FFP) for school-based administrative costs allocated to Medicaid using RMS.

## **WHAT WE FOUND**

The State agency claimed school-based Medicaid administrative costs that were not in accordance with Federal requirements. The State agency used statistically invalid RMS in allocating costs to Medicaid, and it did not maintain adequate support to validate its sample results and related extrapolations. In addition, it claimed these costs without promptly submitting to DCA for review its CAP amendments describing its random moment time study (RMTS) methodologies. Instead, the State agency claimed costs based on either of two implementation plans, describing different RMTS methodologies. As a result, the \$42,399,301 (\$21,199,651 FFP) that the State agency claimed in school-based Medicaid administrative costs for FFYs 2010 through 2012 was unallowable.

## **WHAT WE RECOMMEND**

We recommend that the State agency:

- refund \$21,199,651 to the Federal Government;
- revise its implementation plan and amend its CAP to both address the statistical validity issues we identified and incorporate CMS's sampling documentation requirements;
- implement policies and procedures to ensure that its RMS complies with Federal requirements for statistical validity;
- maintain adequate support, including all information necessary to reproduce and verify its sample results, for school-based administrative costs allocated to Medicaid;
- promptly submit to DCA for review and approval its future CAP amendments describing its procedures for identifying, measuring, and allocating costs to Medicaid; and
- review school-based Medicaid administrative costs claimed after our audit period and refund unallowable amounts.

## **STATE AGENCY COMMENTS**

In written comments on our draft report, the State agency disagreed with our findings but did not specifically address our recommendations. Specifically, the State agency disagreed that its RMS was statistically invalid and maintained that the RMS was adequately documented. In addition, although the State agency acknowledged that there was a delay in submission and approval of its CAP amendment that incorporated the RMTS methodology, the State agency maintained that DCA had recently authorized the CMS-approved RMTS methodology with an effective date of July 1, 2008. Accordingly, the State agency did not agree that it claimed unallowable school-based Medicaid administrative costs.

## **OUR RESPONSE**

The State agency did not provide any additional documentation that warranted significantly changing our findings that the State agency used statistically invalid RMS, did not maintain adequate supporting documentation, and did not promptly submit its CAP amendment to DCA. However, we modified our report to reflect that the State agency had submitted its CAP amendment to DCA and received retroactive approval.

## TABLE OF CONTENTS

INTRODUCTION .....	1
Why We Did This Review .....	1
Objective .....	1
Background .....	1
Medicaid Program .....	1
Medicaid Coverage of School-Based Administrative Costs .....	2
Mississippi Division of Medicaid .....	3
How We Conducted This Review .....	3
FINDINGS .....	4
Random Moment Sampling Was Statistically Invalid .....	4
Supporting Documentation Was Inadequate .....	5
Cost Allocation Plan Amendments Not Promptly Submitted or Approved .....	6
The State Agency Claimed Millions in Unallowable Costs .....	7
RECOMMENDATIONS .....	7
STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE .....	8
Random Moment Sampling Was Statistically Invalid .....	8
State Agency Comments .....	8
Office of Inspector General Response .....	8
Supporting Documentation Was Inadequate .....	9
State Agency Comments .....	9
Office of Inspector General Response .....	9
Cost Allocation Plan Amendment Not Promptly Submitted or Approved .....	10
State Agency Comments .....	10
Office of Inspector General Response .....	10
The State Agency Claimed Millions in Unallowable Costs .....	10
State Agency Comments .....	10
Office of Inspector General Response .....	11

APPENDIXES

A: Related Office of Inspector General Reports..... 12

B: Audit Scope and Methodology..... 13

C: Federal Requirements ..... 15

D: State Agency Comments ..... 18

# INTRODUCTION

## WHY WE DID THIS REVIEW

In prior reviews of school-based and community-based administrative costs that States allocated to Medicaid using random moment sampling (RMS), we identified significant overpayments.<sup>1</sup> As part of our Medicaid risk assessment, we noted that the Mississippi Division of Medicaid's (State agency) cost allocation plan (CAP) amendments describing its RMS methodologies, which covered public assistance costs, had not been submitted or approved. However, for Federal fiscal years (FFYs) 2010 through 2012, the State agency claimed school-based administrative costs, which are public assistance costs, totaling almost \$42.4 million (more than \$21.1 million Federal financial participation (FFP)). We conducted this audit because of the significant amount that the State agency claimed, the State agency's lack of an approved CAP, and our prior findings related to costs that States allocated to Medicaid using RMS.

## OBJECTIVE

The objective of our review was to determine whether the State agency claimed school-based Medicaid administrative costs for FFYs 2010 through 2012 in accordance with Federal requirements.

## BACKGROUND

### Medicaid Program

The Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. 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 Medicaid State plan. Although each State has considerable flexibility in designing and operating its Medicaid program, it must comply with Federal requirements. In Mississippi, the State agency administers the Medicaid program.

States can claim 50-percent FFP for the cost of certain Medicaid administrative activities that are necessary for the proper and efficient administration of the State plan (Social Security Act (the Act) §1903(a)(7)). However, a State must claim FFP for administrative costs associated with a program only in accordance with its CAP approved by the cognizant Federal agency, the

---

<sup>1</sup> We conducted ten audits in six States. These audits resulted in more than \$153 million in questioned costs and \$78 million in costs that we set aside for CMS determination of allowable cost. Appendix A contains a list of related Office of Inspector General reports.

U.S. Department of Health and Human Services (DHHS), Division of Cost Allocation (DCA).<sup>2</sup> If costs under a public assistance program are not claimed in accordance with the approved CAP, or if the State fails to promptly submit an amendment to its CAP when required, the costs improperly claimed will be disallowed (45 CFR § 95.519 and 45 CFR § 95.509(a)).

### **Medicaid Coverage of School-Based Administrative Costs**

Congress amended the Act in 1988 to allow Medicaid coverage of health-related services provided to Medicaid-eligible children under the Individuals with Disabilities Education Act.<sup>3</sup> In addition, the Act provides for States to be reimbursed for school-based administrative activities that directly support identifying and enrolling potentially eligible children in Medicaid. School-based Medicaid administrative costs are one type of public assistance cost that can be reimbursed, if costs claimed comply with Federal requirements.

Under Federal regulations, RMS is one acceptable method for allocating salaries and wages among Medicaid and other programs (2 CFR part 225, Appendix B 8.h.(6)). School or school district employees may perform multiple administrative activities related to Medicaid and other programs that, unlike Medicaid, are not eligible for FFP. State Medicaid agencies may use either of two methods to allocate employees' salaries and wages to Medicaid: (1) personnel activity reports (e.g., timesheets) that reflect an after-the-fact distribution of the actual activity of each employee or (2) a substitute system, such as RMS.<sup>4</sup> However, when using RMS, the sampling methodology must meet acceptable statistical sampling standards,<sup>5</sup> the results must be statistically valid,<sup>6</sup> and costs must be adequately documented to be allowable.<sup>7</sup>

The CMS Guide provides information on the appropriate methods for claiming Federal reimbursement for costs of Medicaid administrative activities performed in the school setting. The CMS Guide requires that documentation be retained to support time studies used to allocate costs, including the sample universe determination, sample selection, and sample results. The CMS Guide clarifies the RMS requirements in 2 CFR part 225 by providing information on the sample universe, sampling plan methodology, treatment of the summer period, documentation, training for participants, and monitoring process.

---

<sup>2</sup> CMS's *Medicaid School-Based Administrative Claiming Guide* (CMS Guide), dated May 2003, states that "a public assistance CAP must be amended and approved by the Division of Cost Allocation (DCA) within DHHS before FFP would be available for administrative claims in the Medicaid program.... CMS does not have direct authority for approval of the public assistance CAPs; that is the purview of the DCA" (pages 44 and 45). DCA is now called HHS Cost Allocation Services.

<sup>3</sup> Section 1903(c) of the Act.

<sup>4</sup> RMS is one of the federally acceptable methods for allocating costs to Federal awards when employees work on multiple activities not allocable to a single Federal award (2 CFR part 225, Appendix B 8.h.(6)).

<sup>5</sup> See 2 CFR part 225, Appendix B 8.h.(6)(a).

<sup>6</sup> See 2 CFR part 225, Appendix B 8.h.(6)(a)(iii).

<sup>7</sup> See 2 CFR part 225, Appendix A (C)(1)(j) and the CMS Guide.

## **Mississippi Division of Medicaid**

The State agency and its delegates<sup>8</sup> are responsible for the proper and efficient administration of the Medicaid State plan. Its MAC program allowed schools to claim reimbursement for costs that they incurred when performing allowable Medicaid administrative activities. Allowable activities that these schools perform focus on assisting children and their families to enroll in Medicaid and on identifying, referring, and linking Medicaid-eligible or potentially eligible students to appropriate health resources both in the schools and in the community. Because these schools performed certain services required under the State plan on behalf of children and their families, the allowable portion of their administrative costs allocable to Medicaid was eligible for FFP.

Although the State agency is responsible for the proper and efficient administration of the Medicaid State plan, it used Education and its contractor to support the implementation and operation of its MAC program. For FFYs 2010 through 2012, Education employees administered the MAC program, conducted RMS using RMTS, and calculated Medicaid administrative costs using the contractor's software.

The State agency claimed school-based Medicaid administrative costs according to procedures for identifying, measuring, and allocating costs as outlined in two implementation plans, describing different RMTS methodologies.<sup>9</sup>

The State agency used RMTS to capture time spent by school staff on Medicaid administrative activities. Both RMTS methodologies involved polling employees at random moments over a given time period and determining the percentage of time spent on Medicaid administrative activities. The State agency then used the RMTS results in a series of calculations to determine the education agency costs claimed under the MAC program.

On its quarterly Medicaid expenditure reports for FFYs 2010 through 2012, the State agency claimed \$42,399,301 (\$21,199,651 FFP) for school-based administrative costs allocated to Medicaid using RMS.

## **HOW WE CONDUCTED THIS REVIEW**

We limited our review to \$42,399,301 (\$21,199,651 FFP) in school-based administrative costs allocated to Medicaid using quarterly RMS and claimed by the State agency on its Medicaid

---

<sup>8</sup> The State agency delegated responsibility for its school-based Medicaid Administrative Claiming (MAC) program to the Mississippi Department of Education (Education), which hired a contractor to provide a computer package for Education employees to use when conducting the random moment time study (RMTS) and calculating school-based Medicaid administrative claims.

<sup>9</sup> These two implementation plans were working documents that identified proposed procedures for operating the State agency's MAC program. While they may have served as the basis for CMS review and negotiation, they were not a CAP or a plan amendment approved by the cognizant agency. These implementation plans included RMTS methodologies that, among other things, differed regarding minimum sample size requirements. For example, the first implementation plan and the initial RMTS methodology did not establish a minimum sample size, whereas the second implementation plan and the new RMTS methodology did.

expenditure reports for FFYs 2010 through 2012. We reviewed the State agency's procedures for using RMS and obtaining DCA approval.

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 objectives.

Appendix B contains the details of our audit scope and methodology, and Appendix C contains applicable Federal requirements.

## **FINDINGS**

The State agency claimed school-based Medicaid administrative costs that were not in accordance with Federal requirements. The State agency used statistically invalid RMS in allocating costs to Medicaid, and it did not maintain adequate support to validate its sample results and related extrapolations. In addition, it claimed these costs without promptly submitting to DCA for review its CAP amendments describing its RMTS methodologies. Instead, the State agency claimed costs based on either of two implementation plans, describing different RMTS methodologies.<sup>10</sup> As a result, the \$42,399,301 (\$21,199,651 FFP) that the State agency claimed in school-based Medicaid administrative costs for FFYs 2010 through 2012 was unallowable.

### **RANDOM MOMENT SAMPLING WAS STATISTICALLY INVALID**

Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval, if required, by the cognizant agency. Such systems may include, but are not limited to, RMS, case counts, or other quantifiable measures of employee effort. Substitute systems that use sampling methods "must meet acceptable statistical sampling standards including: [t]he sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results ...; [t]he entire time period involved must be covered by the sample; and [t]he results must be statistically valid and applied to the period being sampled" (2 CFR part 225, Appendix B, 8.h.(6)).

The CMS Guide instructs that the random moment sample "must reflect all of the time and activities (whether allowable or unallowable under Medicaid) performed by employees participating in the Medicaid administrative claiming program" (page 8).

In a simple random sample, each item in the sample frame must have an equal chance of being selected, and all items selected must be evaluated. If sample frame items are duplicated, excluded from sample selection, improperly included, or not evaluated, this produces an invalid sample and the extrapolation from this sample produces an invalid result.

---

<sup>10</sup> It followed the initial RMTS methodology for expenditures before December 31, 2010, and it followed the new RMTS methodology for subsequent expenditures.

We identified the following factors that rendered the State agency’s RMS results statistically invalid:

- **Duplicates on the Participant Lists:** Our review of the available participant lists identified duplicates in every quarter. For example, in one quarter, 427 names appeared more than once in the same school district and another 50 individuals were listed as working in more than one school district during the quarter. Including an employee more than once will increase the chances of that employee’s being selected. Therefore, all employees did not have an equal chance of selection.
- **Limited Work Schedules:** Not all moments had a chance of selection because the sampling frame did not account for the entire work period. When selecting the RMTS sample, Education used its yearly calendar, excluding weekends, holidays, and other days when school was not in session. However, this calendar did not account for all employee schedules and did not mention daily scheduled start and stop times. For example, this calendar excluded a nurse scheduled to work only nights and weekends at the School for the Blind. Accordingly, the sampling frame excluded this employee’s hours and not all available moments had an equal chance of selection.
- **Sampling Frame Included Moments That Should Have Been Excluded:** The sampling frame included moments that should have been excluded. When selecting the RMTS sample, Education normally used its yearly calendar, excluding weekends, holidays, and other days when school was not in session. However, during one quarter, Education asked 75 employees to complete surveys for moments that fell on Thanksgiving, Christmas, and other holidays. Education should have removed from the sample any observations that occurred during a time when an employee was not scheduled to work because sample results are applied to personnel costs and sample moments for unpaid time distort the results.

The State agency relied on procedures outlined in either of two implementation plans. However, the procedures did not ensure compliance with Federal requirements for statistical validity.

Because of the statistical validity issues identified, the State agency’s RMS did not meet Federal requirements, was not reliable, and did not accurately identify Medicaid administrative costs.

## **SUPPORTING DOCUMENTATION WAS INADEQUATE**

Federal regulations state that costs must “[b]e adequately documented” (2 CFR part 225, Appendix A (C)(1)(j)) to be allowable.

The CMS Guide states, “As with all administrative costs that are related to time study activities, there must be documentation of the costs for which FFP will be claimed under Medicaid. Documentation retained must support and include the following: the sample universe determination, sample selection, sample results, sampling forms,<sup>11</sup> cost data for each school

---

<sup>11</sup> Time study participants complete sampling forms to record their activities. These forms provide a basis to allocate the administrative costs of the agency and its staff.

district, and summary sheets showing how each school district's claim was compiled" (pages 42 and 43).

Education's contractor did not store the information used for generating random numbers (i.e., seed numbers) and stated that the sample selection could not be duplicated. Without the random numbers used to select the sample, there was no way to recreate the sample to ensure the sample was selected properly or to support that the resulting estimate was valid. Education and its contractor did not provide a sampling frame for any quarter in our audit period.

Because the State agency did not always have documentation to support its claim for school-based administrative costs, the costs it claimed did not comply with Federal requirements.

### **COST ALLOCATION PLAN AMENDMENTS NOT PROMPTLY SUBMITTED OR APPROVED**

States must submit to DCA for review a CAP that follows Federal requirements (45 CFR § 95.507(a)). States must also promptly amend the CAP and submit the amended CAP when certain conditions are met (45 CFR § 95.509(a)).

Contrary to Federal requirements, the State agency claimed \$42,399,301 (\$21,199,651 FFP) in school-based Medicaid administrative costs without promptly submitting to DCA for review its CAP amendments describing its RMTS methodologies and, consequently, without having DCA approval during our audit period. Instead, the State agency claimed these costs according to the procedures outlined in either of two implementation plans.<sup>12</sup>

Education published the initial RMS methodology in its implementation plan entitled *School Based Administrative Program Guide*, dated August 2007. However, we found no evidence that the State agency ever submitted this plan to CMS or DCA, and State agency officials informed us that this implementation plan was not approved.<sup>13</sup> In December 2010, the State agency submitted to CMS a new implementation plan entitled *Mississippi School Based Administrative Claiming Guide*, which described a new RMS methodology.<sup>14</sup> CMS conditionally approved this plan for use effective December 7, 2010, subject to numerous conditions. The first condition was that the State agency submit an amendment to its CAP to DCA referencing the approved methodology. However, contrary to CMS's conditions for approval and 45 CFR § 95.509(a), the

---

<sup>12</sup> "[W]here a State has claimed costs based on a proposed plan or plan amendment the State, if necessary, shall retroactively adjust its claims in accordance with the plan or amendment as subsequently approved by the Director, DCA" (45 CFR § 95.517(a)). Furthermore, "[i]f costs under a Public Assistance program are not claimed in accordance with the approved cost allocation plan (except as otherwise provided in § 95.517), or if the State failed to submit an amended cost allocation plan as required by § 95.509, the costs improperly claimed will be disallowed" (45 CFR § 95.519).

<sup>13</sup> The State agency followed the initial RMTS methodology when calculating and claiming \$39,628,135 (\$19,814,068 FFP) in school-based Medicaid administrative costs for 10 of 12 quarters in our audit period.

<sup>14</sup> The State agency followed the new RMTS methodology when calculating and claiming \$2,771,166 (\$1,385,583 FFP) in school-based Medicaid administrative costs for 2 of 12 quarters in our audit period.

State agency did not promptly do so. Instead, it submitted the CAP amendment on September 30, 2013, which was after the end of our audit period and almost 3 years after CMS's conditional approval. On February 5, 2014, DCA notified the State agency of its approval effective October 1, 2013, which was after the end of our audit period.

The State agency did not have an approved CAP during our audit period. However, the State agency began claiming the costs because of time constraints.<sup>15</sup> Although it was negotiating with CMS on its implementation plans and RMTS methodologies, it was facing the 2-year time limit for submitting claims for Federal reimbursement.

On July 8, 2016, the State agency transmitted to DCA a CAP amendment referencing the RMS methodology conditionally approved by CMS on December 7, 2010. On November 7, 2016, DCA approved this CAP amendment retroactive to July 1, 2008.

Because it did not promptly submit to DCA for review and approval its CAP amendment, the State agency did not comply with Federal requirements.

## **THE STATE AGENCY CLAIMED MILLIONS IN UNALLOWABLE COSTS**

The State agency's RMS was statistically invalid, and its supporting documentation was inadequate. As a result, the \$42,399,301 (\$21,199,651 FFP) that the State agency claimed in school-based Medicaid administrative costs for FFYs 2010 through 2012 was unallowable.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund \$21,199,651 to the Federal Government;
- revise its implementation plan and amend its CAP to both address the statistical validity issues we identified and incorporate CMS's sampling documentation requirements;
- implement policies and procedures to ensure that its RMS complies with Federal requirements for statistical validity;
- maintain adequate support, including all information necessary to reproduce and verify its sample results, for school-based administrative costs allocated to Medicaid;
- promptly submit to DCA for review and approval future CAP amendments describing its procedures for identifying, measuring, and allocating costs to Medicaid; and
- review school-based Medicaid administrative costs claimed after our audit period and refund unallowable amounts.

---

<sup>15</sup> Section 1132(a) of the Act requires that a claim for FFP must be filed within a 2-year period that begins on the first day of the calendar quarter immediately following the quarter in which the expenditure was made.

## **STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, the State agency disagreed with our findings but did not specifically address our recommendations. Specifically, the State agency disagreed that its RMS was statistically invalid and maintained that it was adequately documented. In addition, although it acknowledged that there was a delay in submission and approval of its CAP amendment that incorporated the RMTS methodology, the State agency maintained that DCA had recently authorized the CMS-approved RMTS methodology with an effective date of July 1, 2008.

The State Agency's comments, redacted to exclude personally identifiable information, are included as Appendix D.

The State agency did not provide any additional documentation that warranted significantly changing our findings that the State agency used statistically invalid RMS, did not maintain adequate supporting documentation, and did not promptly submit its CAP amendment to DCA. However, we modified our report to reflect that the State agency had submitted its CAP amendment to DCA and received retroactive approval.

### **RANDOM MOMENT SAMPLING WAS STATISTICALLY INVALID**

#### **State Agency Comments**

The State agency disagreed with our finding that its RMS was statistically invalid. It maintained that we provided no evidence that the participant list duplications affected the quarterly claims, thereby rendering them statistically invalid. It also acknowledged that, in general, school district calendars and time frames were used and that moments outside these parameters were not included in possible moments. The State agency commented that another State had hired a statistician who found its RMS was statistically valid, and it surmised that a similar finding validating the sampling methodology would be made in Mississippi. However, the State agency and Education did not spend additional funds to defend the RMS used because we did not accept that statistician's findings in an earlier report.

#### **Office of Inspector General Response**

According to Federal requirements, RMS results "must be statistically valid." In one quarter, 427 names appeared more than once in the same school district and another 50 individuals were listed as working in more than one school district during the quarter. We therefore maintain that the RMS was statistically invalid because all employees did not have an equal chance of selection.

Additionally, using school district calendars and time frames, instead of a work period covering all employees' schedules, resulted in all time not being included in the sampling frame. "The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results ...; [t]he entire time period involved must be covered by the sample; and [t]he results must be statistically valid and applied to the period being sampled"

(2 CFR part 225, Appendix B, 8.h.(6)). We maintain that all time, not just the majority of the time, must be included in the sampling frame to ensure that all available moments have an equal chance of selection and that the sample is statistically valid.

## **SUPPORTING DOCUMENTATION WAS INADEQUATE**

### **State Agency Comments**

The State agency disagreed with our finding that supporting documentation was inadequate and commented that the CMS Guide and the *Mississippi School Based Administrative Claiming Guide* did not identify any requirements for the State to store seed numbers. The State agency maintained that it provided all of the sampling documentation required to demonstrate statistical validity. It stated that storing seed numbers allows the replication of a sample but does not prove the statistical validity of the sample. Thus, the State agency maintained that its RMS was adequately documented. Although the State agency did not agree with this finding, it acknowledged that it took steps to prospectively retain seed numbers for RMTSs to enable replication of the sample.

### **Office of Inspector General Response**

Federal regulations state that costs must “[b]e adequately documented” (2 CFR part 225, Appendix A (C)(1)(j)) to be allowable, and the CMS Guide instructs that documentation retained must support and include sample selection. Without a seed number, there is no way to recreate the sample to ensure that it was selected properly and to support the validity of the resulting estimate.

The implementation plan, which was conditionally approved by CMS and incorporated into the CAP amendment retroactively approved by DCA, states that the documentation:

- must clearly demonstrate that the activities and services directly support the administration of the Medicaid program (page 6);
- must verify the appropriateness of the claims in terms of allowability and cost of the expense or service (page 6); and
- includes, among other things, RMS documents and the methodology that supports the construction of the administrative claiming (page 35).

We maintain that the seed numbers are an integral part of the State’s RMTS methodology and, therefore, must be documented and maintained.

## **COST ALLOCATION PLAN AMENDMENT NOT PROMPTLY SUBMITTED OR APPROVED**

### **State Agency Comments**

The State agency acknowledged that there was a delay in submission and approval of its CAP amendment, which incorporated the RMTS methodology; however, it maintained that DCA had recently authorized the CMS-approved RMTS methodology with an effective date of July 1, 2008.

### **Office of Inspector General Response**

According to the DCA approval letter, the State agency did not submit to DCA its CAP amendment referencing the RMTS methodology until July 8, 2016. This occurred after we had completed our audit fieldwork and more than 5 years after CMS conditionally approved the State agency's implementation plan describing the new RMTS methodology. The State agency implemented significant changes without promptly submitting to DCA for review a CAP amendment as required by 45 CFR § 95.509 and, as such, did not meet the first condition of CMS's approval.

The DCA approval letter, dated November 7, 2016, stated:

This approval relates only to the methods of identifying and allocating costs to programs, and nothing contained herein should be construed as approving activities not otherwise authorized by approved program plans or Federal legislation and regulations. Implementation of the approved cost allocation plan may subsequently be reviewed by authorized Federal staff. The disclosure of inequities during reviews may require changes to the Plan.

The statistical validity and sampling documentation issues we identified exemplify program risks and inequities that should be mitigated by compliance with Federal requirements and prompt Federal oversight.

We maintain that the State agency claimed \$42,399,301 (\$21,199,651 FFP) in school-based Medicaid administrative costs for FFYs 2010 through 2012 without promptly submitting to DCA for review its CAP and certain amendments describing its RMS methodologies.

However, we modified our report to reflect that the State agency submitted its CAP amendment to DCA and received retroactive approval.

## **STATE AGENCY CLAIMED MILLIONS IN UNALLOWABLE COSTS**

### **State Agency Comments**

The State agency did not agree with this finding on the basis of its previous comments.

## **Office of Inspector General Response**

On the basis of our responses to the State agency's comments, we continue to recommend that the State agency refund \$21,199,651 to the Federal Government.

**APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS**

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>
<i>North Carolina Claimed Millions in Unallowable School-Based Medicaid Administrative Costs</i>	<a href="#"><u>A-04-15-00101</u></a>	10/6/16
<i>Alabama Claimed Millions in Unallowable School-Based Medicaid Administrative Costs</i>	<a href="#"><u>A-04-13-00094</u></a>	7/13/16
<i>Florida Claimed Some Medicaid Administrative Costs That Did Not Comply With Program Requirements</i>	<a href="#"><u>A-04-10-00076</u></a>	3/7/13
<i>Review of Florida's Developmental Disabilities Medicaid Administrative Claiming Costs for the Period October 1, 2003, Through September 30, 2006</i>	<a href="#"><u>A-04-07-00028</u></a>	5/26/10
<i>Review of Missouri Medicaid Payments for the School District Administrative Claiming Program for Federal Fiscal Years 2004 Through 2006</i>	<a href="#"><u>A-07-08-03107</u></a>	3/18/10
<i>Review of Medicaid Administrative Costs Claimed for the Massachusetts Department of Transitional Assistance</i>	<a href="#"><u>A-01-08-00014</u></a>	2/11/10
<i>Review of Connecticut's Community Based Medicaid Administrative Claims for State Fiscal Years 2005 and 2006</i>	<a href="#"><u>A-01-08-00003</u></a>	9/8/09
<i>Review of Connecticut's Community Based Medicaid Administrative Claim for State Fiscal Year 2004</i>	<a href="#"><u>A-01-06-00008</u></a>	2/20/09
<i>Medicaid Payments for Skilled Professional Medical Personnel to Missouri School Districts</i>	<a href="#"><u>A-07-06-03075</u></a>	10/20/06
<i>Review of Administrative Costs Claimed by the Florida Medicaid Agency for School-Based Health Services</i>	<a href="#"><u>A-04-00-02160</u></a>	3/22/01

## **APPENDIX B: AUDIT SCOPE AND METHODOLOGY**

### **Scope**

Our review covered \$42,399,301 (\$21,199,651 FFP) in school-based administrative costs allocated to Medicaid using quarterly RMS and claimed by the State agency on its quarterly Medicaid expenditure reports during FFYs 2010 through 2012.

We did not review the overall internal control structure of the State agency, Education, Education's contractor, or the Medicaid program. Instead, we limited our internal control review to the State agency, Education, and contractor systems and procedures for claiming school-based administrative costs allocated to Medicaid using quarterly RMS.

We conducted our fieldwork at the State agency's office in Jackson, Mississippi, from April through October 2015.

### **Methodology**

To accomplish our objective, we:

- reviewed applicable laws, regulations, and guidelines;
- interviewed State agency, Education, and contractor officials regarding their Medicaid administrative costs, CAP, and related policies and procedures;
- reviewed the State agency's procedures for using RMS and obtaining DCA approval;
- reviewed the State agency's implementation plans and RMTS methodologies;
- reviewed calculations supporting the State agency's Medicaid observation percentages;
- reconciled the State agency's allocated Medicaid administrative costs to the quarterly Medicaid expenditure reports;
- reviewed participant lists for duplicates;
- consulted with the Office of Inspector General's contracted statistician on statistical validity issues; and
- discussed the results of our audit with State agency officials.

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 objectives.

## **APPENDIX C: FEDERAL REQUIREMENTS**

### **CODE OF FEDERAL REGULATIONS**

#### **Definition of a Cost Allocation Plan**

The State shall submit a cost allocation plan for the State agency as required below to the DCA Director in the appropriate DHHS Regional Office. The plan shall: (1) Describe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the State agency; (2) Conform to the accounting principles and standards prescribed in Office of Management and Budget [OMB] Circular A-87 [2 CFR part 225], and other pertinent Department regulations and instructions; (3) Be compatible with the State plan for public assistance programs described in 45 CFR Chapters II, III and XIII, and 42 CFR Chapter IV Subchapter C and D; and (4) Contain sufficient information in such detail to permit the Director, Division of Cost Allocation, after consulting with the Operating Divisions, to make an informed judgment on the correctness and fairness of the State's procedures for identifying, measuring, and allocating all costs to each of the programs operated by the State agency [(45 CFR § 95.507(a))].

A “[p]ublic assistance cost allocation plan [is 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....” (2 CFR part 225 (formerly OMB Circular A-87), Appendix A (B)(17)).

#### **Substitute Systems**

Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. (a) Substitute systems which use sampling methods (primarily for Temporary Assistance to Needy Families (TANF), Medicaid, and other public assistance programs) must meet acceptable statistical sampling standards including: (i) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in subsection 8.h.(6)(c) of this appendix; (ii) The entire time period involved must be covered by the sample; and (iii) The results must be statistically valid and applied to the period being sampled [(2 CFR part 225, Appendix B 8.h.(6))].

#### **Cost Allocation Plan Approval**

A State must claim FFP for costs associated with a program only in accordance with its approved cost allocation plan. However, if a State has submitted a plan or plan amendment for a State agency, it may, at its option claim FFP based on the

proposed plan or plan amendment, unless otherwise advised by the DCA. However, where a State has claimed costs based on a proposed plan or plan amendment the State, if necessary, shall retroactively adjust its claims in accordance with the plan or amendment as subsequently approved by the Director, DCA. The State may also continue to claim FFP under its existing approved cost allocation plan for all costs not affected by the proposed amendment [(45 CFR § 95.517(a))].

“If costs under a Public Assistance program are not claimed in accordance with the approved cost allocation plan (except as otherwise provided in § 95.517), or if the State failed to submit an amended cost allocation plan as required by § 95.509, the costs improperly claimed will be disallowed” (45 CFR § 95.519).

The State shall promptly amend the cost allocation plan and submit the amended plan to the Director, DCA if any of the following events occur: (1) The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes in Federal law or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures. (2) A material defect is discovered in the cost allocation plan by the Director, DCA or the State. (3) The State plan for public assistance programs is amended so as to affect the allocation of costs. (4) Other changes occur which make the allocation basis or procedures in the approval cost allocation plan invalid [(45 CFR § 95.509(a))].

### **Documentation Requirements**

Costs must “[b]e adequately documented” to be allowable (2 CFR part 225, Appendix A (C)(1)(j)).

### **CENTERS FOR MEDICARE & MEDICAID SERVICES’ *MEDICAID SCHOOL-BASED ADMINISTRATIVE CLAIMING GUIDE***

The CMS Guide states:

As with all administrative costs that are related to time study activities, there must be documentation of the costs for which FFP will be claimed under Medicaid. Documentation to be retained must support and include the following: the sample universe determination, sample selection, sample results, sampling forms, cost data for each school district, and summary sheets showing how each school district’s claim was compiled [(pages 42 and 43)].

Additionally, the CMS Guide states, “In accordance with the federal regulations ... and OMB Circular A-87, a public assistance CAP must be amended and approved by the DCA within DHHS before FFP would be available for administrative claims in the Medicaid program.... CMS does not have direct authority for approval of the public assistance CAPs; that is the purview of the DCA” (pages 44 and 45).

## APPENDIX D: STATE AGENCY COMMENTS

OFFICE OF THE GOVERNOR  
Walter Sillers Building | 550 High Street, Suite 1000 | Jackson, Mississippi 39201



November 10, 2016

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

Dear Ms. Pilcher:

This letter is in response to your letter dated October 11, 2016, which addresses the U.S. Department of Health and Human Services (DHHS), Office of Inspector General (OIG), draft report entitled Mississippi Claimed Millions in Unallowable School-Based Medicaid Administrative Costs.

The Mississippi Division of Medicaid (DOM) responds to the audit findings offered by the OIG, as follows:

### Cost Allocation Plan Amendments Not Promptly Submitted or Approved

Finding:

States must submit to DCA for review a CAP that follows Federal requirements (45 CFR § 95.507 (a)). States must also promptly amend the CAP and submit the amended CAP when certain conditions are met (45 CFR § 95.509 (a)).

Response:

DOM acknowledges the delay in submission of its cost allocation plan amendment that incorporated the random moment time study (RMTS) methodology. However, DOM disagrees with this finding. Retroactive approval of the applicable cost allocation plan amendment has been granted from Cost Allocation Services (CAS), effective July 1, 2008, based on recommendation from the Centers for Medicare and Medicaid Services (CMS). It is important to note that CMS worked for months with the State on the methodology, approved the "Mississippi School Based Administrative Claiming Guide", approved the submission of the questioned costs on the CMS-64, and approved payment of these expenditures.

### Random Moment Sampling was Statistically Invalid

Finding:

Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval, if required, by the

Toll-free 800-421-2408 | Phone 601-359-6050 | Fax 601-359-6294 | [medicaid.ms.gov](http://medicaid.ms.gov)

cognizant agency. Such systems may include, but are not limited to, RMS, case counts, or other quantifiable measures of employee effort. Substitute systems that use sampling methods “must meet acceptable statistical sampling standards including: [t]he sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results..; [t]he entire time period involved must be covered by the sample; and [t]he results must be statistically valid and applied to the period being sampled” (2 CFR part 225, Appendix B, 8.h. (6)).

Response:

DOM and the Mississippi Department of Education (MDE) jointly disagree with this finding. In general, the school district calendars and time frames were used, and moments outside these parameters were not included in possible moments. The individual’s schedule is only considered when it falls within those district calendars.

Furthermore, OIG provided no evidence that the participant list duplications added to an invalid result or that they affected the quarterly claims, thereby rendering them statistically invalid. All documents requested of DOM for review were provided to serve as evidence of the methodology and the process. The OIG has published this finding for other States. Another state hired a statistician to review their actions. The statistician found that the State’s sampling was statistically valid and OIG did not accept the statistician’s finding. For this reason, DOM and MDE did not expend additional monies to defend the random moment sampling used. However, DOM and MDE expect a similar finding validating the sampling methodology would be made in Mississippi.

Supporting Documentation was Inadequate

Finding:

Federal regulations state that cost must “[b]e adequately documented” (2 CFR part 225, Appendix A(C) (1) (j)) to be allowable.

Response:

DOM and MDE jointly disagree with this finding. Contrary to the OIG finding, neither the CMS Guide nor the “Mississippi School Based Administrative Claiming Guide” identifies the requirement to store seed numbers as supporting documentation for the sampling. Using a seed number can only provide a pseudo-randomization which cannot directly predict the actual subset. Further, storing a seed number only allows for the replication of a sample and does not prove the statistical validity of the sample. All of the sampling documentation required to demonstrate statistical validity was provided to OIG.

However, in response to the OIG’s finding, MDE has included the retention of the seed number in all current and future Random Moment Time Study supporting documentation

Page 3  
November 10, 2016

requirements and is maintaining seed numbers to enable a sample replication in the manner requested by the OIG auditors.

#### The State Agency Claimed Millions in Unallowable Costs

##### Finding:

The State agency's CAP amendments were not approved by DCA for our audit period, its RMS was statistically invalid, and its supporting documentation was inadequate. As a result, the \$42,399,301 (\$21,199,651 FFP) that the State agency claimed in school-based Medicaid administrative costs for FFYs 2010 through 2012 was unallowable.

##### Response:

DOM and MDE jointly disagree with this finding on the basis of the responses to the previous findings. All audited expenditures represent the cost of services provided by school districts on behalf of the Medicaid program for approved services.

Should you have any questions, please call our Deputy Administrator for Finance [REDACTED] [REDACTED] by phone at [REDACTED].

Sincerely,

David J. Dzielak, Ph.D.  
Executive Director

**The Office of the Inspector General Note** - The deleted text has been redacted because it is personally identifiable.