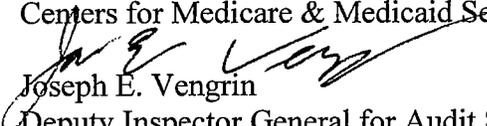




JAN 17 2006

TO: Dennis G. Smith
Director, Center for Medicaid and State Operations
Centers for Medicare & Medicaid Services

FROM: 
Joseph E. Vengrin
Deputy Inspector General for Audit Services

SUBJECT: Audit of LaPorte Consortium's Administrative Costs Claimed for
Medicaid School-Based Services (A-06-02-00051)

Attached is an advance copy of our final report on administrative costs claimed for Medicaid school-based services by LaPorte Consortium (LaPorte) in Texas. We will issue this report to LaPorte within 5 business days. This audit was part of a multistate audit of administrative claims for school-based health services.

Our objective was to determine whether the Medicaid school-based administrative costs that LaPorte claimed were reasonable, allowable, and adequately supported in accordance with Federal and State requirements.

Some of the administrative costs that LaPorte claimed were not reasonable, allowable, or adequately supported. Based on a statistically valid sample of 120 claims, we estimate that at least \$2,408,218 (Federal share) was unallowable for reimbursement. Specifically, we found the following unallowable administrative costs in the calculations for reimbursement:

- expenditures for school employees who did not perform Medicaid administrative activities;
- expenditures for which the district did not provide support;
- expenditures for operating costs, such as nursing supplies, non-Medicaid outreach supplies, and education-related expenditures;
- expenditures for personnel claimed at the enhanced reimbursement rate for skilled professional medical personnel;
- expenditures for personnel funded by other Federal programs;
- expenditures for contract personnel who rendered only direct medical services; and
- expenditures for overstated costs.

In addition, we found the following deficiencies that were not included in our projected disallowance:

- In the timestudies that we reviewed, which were the basis for allocating all costs, participants did not always maintain personal activity logs, participants sometimes charged incorrect activity codes, and school districts sometimes included inappropriate personnel.¹
- School districts did not offset claimed administrative costs with revenues received for direct services under School Health and Related Services (SHARS).

The unallowable and overstated costs and other deficiencies occurred because of inadequate policies, procedures, and guidance to ensure that claims complied with Federal and State regulations and guidelines.

We recommend that LaPorte work with the State agency to:

- (1) refund \$2,408,218 to the Federal Government that the Medicaid program inappropriately paid;
- (2) recalculate all claims for school districts with fewer than 3,500 students, remove the costs for principals, and refund the difference to the Federal Government;
- (3) ensure that:
 - only personnel expenditures that are related to Medicaid administrative activities are included in the costs used to claim reimbursement;
 - school districts retain adequate documentation to support the costs used to claim reimbursement;
 - nursing supplies, educational, and other unallowable operating costs are not included in the calculation for reimbursement;
 - expenditures that are 100-percent federally funded from other programs are not included in the calculation for reimbursement;
 - direct service contract providers are not included in the calculation for administrative reimbursement; and
 - costs claimed are not overstated;

¹We interviewed 69 participants covering 95 timestudy quarters. (Some employees participated in the timestudy in more than one quarter.) If possible, we interviewed 1 participant from each job code for each of the 4 quarters, totaling 101 participants; however, not all selected participants were available, which resulted in 69 participant interviews.

(4) ensure that timestudies:

- are adequately supported,
- do not include time spent on individualized education plan-related activities,
- include participants who are trained and understand activity codes, and
- include only appropriate Medicaid Administrative Claiming program participants;

(5) offset costs claimed by SHARS revenues and refund the difference to CMS for prior, current, and subsequent periods; and

(6) review periods after the audit period and work with CMS to make appropriate financial adjustments.

In their December 14, 2005, comments on our draft report, LaPorte officials said that the findings should be divided into two categories: (1) errors reflecting lack of documentation, incorrect reporting, math errors, etc., and (2) policy-oriented findings. LaPorte agreed to correct errors as necessary in the first category. With regard to the second category, LaPorte believed that we had applied standards that were inconsistent with the applicable State-approved methodology. LaPorte did not assign specific findings to either of the two categories. LaPorte also requested additional information to address concerns regarding specific findings.

LaPorte's comments did not cause us to change our findings or recommendations. We will provide LaPorte with the requested information under separate cover.

If you have any questions or comments about this report, please call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or Gordon L. Sato, Regional Inspector General for Audit Services, Region VI, at (214) 767-9206. Please refer to report number A-06-02-00051.

Attachment



JAN 19 2006

Report Number: A-06-02-00051

Michael Say, M.D.
Superintendent, LaPorte Independent School District
1002 San Jacinto Street
LaPorte, Texas 77571

Dear Dr. Say:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Audit of LaPorte Consortium's Administrative Costs Claimed for Medicaid School-Based Services." A copy of this report will be forwarded to the action official noted on the next page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports issued to the Department's grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please refer to report number A-06-02-00051 in all correspondence relating to this report.

Sincerely yours,

Gordon L. Sato
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

James R. Farris, M.D.
Regional Administrator
Centers for Medicare & Medicaid Services
1301 Young Street, Suite 714
Dallas, Texas 75202

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF LAPORTE
CONSORTIUM'S ADMINISTRATIVE
COSTS CLAIMED FOR MEDICAID
SCHOOL-BASED SERVICES**



**Daniel R. Levinson
Inspector General**

**January 2006
A-06-02-00051**

Office of Inspector General

<http://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 all 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 in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts management and program evaluations (called inspections) that focus on issues of concern to HHS, Congress, and the public. The findings and recommendations contained in the inspections generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs. OEI also oversees State Medicaid Fraud Control Units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

Office of Investigations

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, 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 in OIG's internal operations. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within HHS. OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidance, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

Notices

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

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

OAS FINDINGS AND OPINIONS

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



EXECUTIVE SUMMARY

BACKGROUND

The Medicaid program, which the Federal and State Governments jointly fund, provides medical assistance to needy individuals. States design and administer the program under the general oversight of the Centers for Medicare & Medicaid Services (CMS).

School districts, in addition to providing direct school-based health services, conduct administrative activities such as outreach, eligibility intake, information and referral, coordination and monitoring of health services, and interagency coordination for both non-Medicaid and Medicaid-eligible students. Because both non-Medicaid and Medicaid-eligible students receive these services, the service costs must be allocated between both groups. School districts use timestudies and other methods to determine the percentage of administrative costs allocable to Medicaid-eligible students. School districts then bill these costs to the State agency, which in turn bills them to Medicaid.

During Federal fiscal year 2000, the LaPorte Consortium (LaPorte) in Texas claimed Medicaid school-based administrative costs totaling \$39,315,561 and received \$20,413,662 in Federal funds.

OBJECTIVE

The objective of our audit was to determine whether the Medicaid school-based administrative costs that LaPorte claimed were reasonable, allowable, and adequately supported in accordance with Federal and State requirements.

SUMMARY OF FINDINGS

Some of the administrative costs that LaPorte claimed were not reasonable, allowable, or adequately supported. Based on a statistically valid sample of 120 claims, we estimate that at least \$2,408,218 (Federal share) was unallowable for reimbursement. Specifically, we found the following unallowable administrative costs in the calculations for reimbursement:

- expenditures for school employees who did not perform Medicaid administrative activities;
- expenditures for which the district did not provide support;
- expenditures for operating costs, such as nursing supplies, non-Medicaid outreach supplies, and education-related expenditures;
- expenditures for personnel claimed at the enhanced reimbursement rate for skilled professional medical personnel;
- expenditures for personnel funded by other Federal programs;

- expenditures for contract personnel who rendered only direct medical services; and
- expenditures for overstated costs.

In addition, we found the following deficiencies that were not included in our projected disallowance:

- In the timestudies that we reviewed, which were the basis for allocating all costs, participants did not always maintain personal activity logs, participants sometimes charged incorrect activity codes, and school districts sometimes included inappropriate personnel.¹
- School districts did not offset claimed administrative costs with revenues received for direct services under School Health and Related Services (SHARS).

The unallowable and overstated costs and other deficiencies occurred because of inadequate policies, procedures, and guidance to ensure that claims complied with Federal and State regulations and guidelines.

RECOMMENDATIONS

We recommend that LaPorte work with the State agency to:

- (1) refund \$2,408,218 to the Federal Government that the Medicaid program inappropriately paid;
- (2) recalculate all claims for school districts with fewer than 3,500 students, remove the costs for principals, and refund the difference to the Federal Government;
- (3) ensure that:
 - only personnel expenditures that are related to Medicaid administrative activities are included in the costs used to claim reimbursement;
 - school districts retain adequate documentation to support the costs used to claim reimbursement;
 - nursing supplies, educational, and other unallowable operating costs are not included in the calculation for reimbursement;
 - expenditures that are 100-percent federally funded from other programs are not included in the calculation for reimbursement;

¹We interviewed 69 participants covering 95 timestudy quarters. (Some employees participated in the timestudy in more than one quarter.) If possible, we interviewed 1 participant from each job code for each of the 4 quarters, totaling 101 participants; however, not all selected participants were available, which resulted in 69 participant interviews.

- direct service contract providers are not included in the calculation for administrative reimbursement; and
- costs claimed are not overstated;

(4) ensure that timestudies:

- are adequately supported,
- do not include time spent on individualized education plan-related activities,
- include participants who are trained and understand activity codes, and
- include only appropriate Medicaid Administrative Claiming program participants;

(5) offset costs claimed by SHARS revenues and refund the difference to CMS for prior, current, and subsequent periods; and

(6) review periods after the audit period and work with CMS to make appropriate financial adjustments.

LAPORTE'S COMMENTS

In their December 14, 2005, comments on our draft report, LaPorte officials said that the findings should be divided into two categories: (1) errors reflecting lack of documentation, incorrect reporting, math errors, etc., and (2) policy-oriented findings. LaPorte agreed to correct errors as necessary in the first category. With regard to the second category, LaPorte believed that we had applied standards that were inconsistent with the applicable State-approved methodology. LaPorte did not assign specific findings to either of the two categories. LaPorte also requested additional information to address concerns regarding specific findings. LaPorte's comments are included in their entirety as Appendix F.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

LaPorte's comments did not cause us to change our findings or recommendations. We will provide LaPorte with the requested information under separate cover.

TABLE OF CONTENTS

Page

INTRODUCTION.....1

BACKGROUND1

 Federal Requirements1

 State Requirements2

 LaPorte Consortium.....2

OBJECTIVE, SCOPE, AND METHODOLOGY3

 Objective3

 Scope.....4

 Methodology4

FINDINGS AND RECOMMENDATIONS4

**UNALLOWABLE ADMINISTRATIVE COSTS INCLUDED IN THE
 CALCULATIONS FOR REIMBURSEMENT5**

 Expenditures for School Employees Who Did Not Perform
 Medicaid Administrative Activities.....5

 Expenditures for Which the District Did Not Provide Support6

 Expenditures for Unallowable Operating Costs7

 Expenditures for Personnel Claimed as Skilled Professional
 Medical Personnel.....8

 Expenditures for Personnel Funded 100 Percent by Other
 Federal Programs9

 Expenditures for Contract Providers Who Rendered
 Only Direct Services10

 Expenditures for Overstated Costs.....10

 Estimated Overpayment.....10

TIMESTUDIES10

 No Personal Activity Logs.....11

 Incorrect Activity Codes11

 Personnel Improperly Included in Timestudies12

 Providers Who Charged Mostly General Administrative Time14

REVENUE OFFSETS15

RECOMMENDATIONS16

LAPORTE’S COMMENTS17

OFFICE OF INSPECTOR GENERAL’S RESPONSE.....17

APPENDIXES

A – SAMPLING METHODOLOGY

B – SELECTED SCHOOL DISTRICTS BY STRATUM

C – UNALLOWABLE COST PROJECTION BY STRATUM

D – SUMMARY OF INAPPROPRIATE COSTS AND ERRORS
INCLUDED IN THE CALCULATION FOR REIMBURSEMENT

E - OFFICE OF INSPECTOR GENERAL REVIEW DETERMINATIONS ON
THE 120 SAMPLED CLAIMS

F – LAPORTE’S COMMENTS

INTRODUCTION

BACKGROUND

Congress enacted Medicaid as Title XIX of the Social Security Act (the Act). Each State, under the general oversight of the Centers for Medicare & Medicaid Services (CMS), designs and administers the program to provide medical assistance to needy individuals. Medicaid supports school-based health services to provide essential medical care to eligible children. In Texas, the Health and Human Services Commission (the State agency) administers the program.

School districts, in addition to providing direct school-based health services, conduct administrative activities such as outreach, eligibility intake, information and referral, coordination and monitoring of health services, and interagency coordination for both non-Medicaid and Medicaid-eligible students. Because both non-Medicaid and Medicaid-eligible students receive these services, the service costs must be allocated between both groups. School districts use timestudies and other methods to determine the percentage of administrative costs allocable to Medicaid-eligible students. School districts then bill these costs to the State agency, which in turn bills them to Medicaid.

Federal Requirements

CMS issued guides to provide information and technical assistance regarding the specific Federal Medicaid requirements associated with implementing a school health services program and seeking Medicaid funding for school health services. “Medicaid and School Health: A Technical Assistance Guide” (August 1997) contains specific technical information on the Medicaid requirements associated with seeking payment for coverable services rendered in the school-based setting and defines what costs can be claimed as administrative costs by school districts. The draft “Medicaid School-Based Administrative Claiming Guide” (CMS administrative guide) was issued in February 2000. The CMS administrative guide provided the basic Federal requirements for administrative claiming in the Medicaid program and the applicable statutory and regulatory provisions. The CMS administrative guide did not provide new policy; it consolidated and clarified existing policy, which included sections of the Act, CFR parts 42 and 45, and Office of Management and Budget (OMB) Circular A-87. CMS finalized the draft guide in May 2003.

The Federal Government and States share Medicaid costs. The Federal share for Medicaid administration is 50 percent, except for (1) certain special categories such as administrative activities for family planning, which are reimbursed at 90 percent, and (2) administrative activities that were performed by staff with the education, training, and professional knowledge to qualify as skilled professional medical personnel (SPMP), which were reimbursed at 75 percent.

State Requirements

In July 1997, the State agency developed the “State Medicaid Administrative Claiming Guide” (State MAC guide), which outlines the State agency’s requirements for schools to claim Medicaid administrative costs. The State agency also issued the methodology for invoicing and preparing claims.

School districts in Texas that have fewer than 15,000 students and want to participate in the Medicaid Administrative Claiming (MAC) program must join or establish a consortium with other districts. A consortium is a group of two or more school districts that enter into a cooperative agreement to share information or provide services. The consortium must designate a lead school district, which enters into a contract with the State agency.

To receive MAC reimbursement, each quarter the lead school district chooses a statistically valid stratified sample of eligible personnel from a list that each school district provides. The sampled personnel participate in a consortiumwide timestudy. In addition, each school district must submit a financial summary report of direct costs for all eligible providers.

LaPorte Consortium

LaPorte Independent School District was the lead school district for the LaPorte Consortium (LaPorte). This district was responsible for gathering the required documentation from more than 319 participating school districts and submitting claims to the State agency. LaPorte contracted with Deloitte & Touche, L.L.P. Consulting (Deloitte), to train participants and document and prepare the quarterly MAC claims. In addition, Deloitte developed all the forms, procedures, and data collection instruments necessary to develop the claims.

To allocate costs between non-Medicaid and Medicaid-eligible students, the school district must use timestudies to determine the amount of time that school district staff spends performing Medicaid administrative activities. The results are used to determine the percentage of school district costs that may be claimed under the program. The school district submits claims for reimbursement to the State agency, which in turn reports the expenditures to CMS to obtain the Federal share.

LaPorte selected a sample of eligible consortium employees who performed MAC activities to participate in each quarterly timestudy. LaPorte recorded the employees’ participation according to job codes and activity codes. A job code represented an employee category such as nurses, physical therapists, and outreach workers. Employees used 15 activity codes to describe their daily activities. There were 9 Medicaid activity codes, 5 non-Medicaid activity codes, and 1 general administration code. (Time and costs charged to this code were reallocated to the 14 other codes.) Participants logged their time in 15-minute increments using the activity code that most closely corresponded to the predominant activity that they were performing. The activities are listed below:

- facilitating access to Medicaid programs;
- facilitating access to non-Medicaid programs;
- Medicaid outreach for SPMP and non-SPMP;
- non-Medicaid outreach;
- referral, coordination, and monitoring of Medicaid services for SPMP and non-SPMP;
- referral, coordination, and monitoring of non-Medicaid services;
- Medicaid transportation and language translation;
- Medicaid provider relations;
- program planning, development, and interagency coordination for SPMP and non-SPMP;
- direct medical services;
- non-Medicaid, other educational and social services; and
- general administration.

LaPorte allocated salaries, benefits, travel/training costs, clerical salaries and benefits, and operating costs for all eligible MAC providers in each job code according to the timestudy results (15 activity codes). LaPorte then applied an indirect cost rate to the total costs in the activity codes. It placed the allocated salaries, benefits, operating costs, and indirect costs into one of three cost pools based on the activity codes. These cost pools were discounted by the Medicaid percentage and the Federal financial participation (FFP) rate to determine the reimbursement amount. Medicaid reimbursed two of the cost pools. LaPorte received \$20,413,662 in Federal funds for Medicaid administrative claims filed during Federal fiscal year 2000.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to determine whether the Medicaid school-based administrative costs that LaPorte claimed were reasonable, allowable, and adequately supported in accordance with Federal and State requirements.

Scope

We limited our audit to the \$39,315,561 (\$20,413,662 Federal share) in Medicaid school-based administrative costs that the LaPorte school districts claimed during Federal fiscal year 2000. We reviewed a statistical sample of 120 claims consisting of 30 school district claims for each of the 4 quarters during Federal fiscal year 2000. (See Appendix A for the sampling methodology and Appendix B for the selected school districts.)

We conducted our fieldwork at the LaPorte Independent School District in LaPorte, TX.

Methodology

To accomplish our audit objectives, we:

- reviewed Federal and State laws and regulations and CMS guidelines pertaining to the MAC program;
- reviewed the agreements between LaPorte and Deloitte;
- reviewed 120 administrative cost claims and the supporting documentation to determine the allowability of expenditures related to the claim, then provided Deloitte with the numbers so that it could recalculate the claims;
- traced the amount that LaPorte claimed for the sample schools to the actual payments that the schools received;
- selected 1 timestudy participant from each job category to interview and, where possible, selected 1 in each of the 4 quarters, which resulted in 69 participant/provider interviews that covered 95 timestudy quarters (due to some employees' participation in the timestudy in more than 1 quarter); and
- held discussions with officials from CMS, the State agency, LaPorte, and Deloitte on claim procedures and supporting documentation to obtain an understanding of the methodologies used to determine the costs allocated to Medicaid.

We conducted our audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

Some of the administrative costs that LaPorte claimed were not reasonable, allowable, or adequately supported. Based on a statistically valid sample of 120 claims, we estimated that at least \$2,408,218 (Federal share) was unallowable for reimbursement. (See Appendix C for the unallowable cost projection by stratum.) In addition, we found deficiencies that were not included in the \$2,408,218 because neither LaPorte nor we

could re-create timestudies to determine the allocable amount of revenues that should have been offset.

UNALLOWABLE ADMINISTRATIVE COSTS INCLUDED IN THE CALCULATIONS FOR REIMBURSEMENT

LaPorte included the following unallowable administrative costs totaling \$11,883,277 in its calculations for reimbursement:¹

- expenditures for school employees who did not perform Medicaid administrative activities (132 errors on 88 claims),
- expenditures for which the district did not provide support (83 errors on 76 claims),
- expenditures for unallowable operating costs (246 errors on 92 claims),
- expenditures for personnel claimed at the enhanced reimbursement rate for SPMP (33 errors on 33 claims),
- expenditures for personnel funded 100 percent by other Federal programs (19 errors on 19 claims),
- expenditures for contract personnel who rendered only direct services (33 errors on 33 claims), and
- expenditures for overstated costs (56 errors on 56 claims).

(See Appendixes D and E for more details.)

Expenditures for School Employees Who Did Not Perform Medicaid Administrative Activities—\$7,194,672

CMS issued a State Medicaid Directors Letter in December 1994 that explained:

Section 1903 of the Social Security Act directs payment of Federal financial participation . . . for amounts “found necessary by the Secretary for the proper and efficient administration of the State plan” Thus, activities directed toward services not included under the Medicaid program, although such services may be valuable to Medicaid beneficiaries, are not necessary for the administration of the Medicaid program, and therefore are not allowable administrative costs.

¹The \$11,883,277 represents the unallowable costs that Deloitte removed in its recalculation of the claims. We used the recalculated claims versus the original claims to determine our projected amount.

In October 1999, CMS issued a Program Issuance Transmittal Notice explaining that, “As the purpose of a school is education, and not the administration of the Medicaid program, the salaries of the superintendents, principals, and other staff, which are the ordinary expenses for the operation of a school district, cannot be claimed.”

LaPorte included salaries and related costs for principals, principals’ secretaries, superintendents, and other inappropriate personnel in the calculations for reimbursement, which is contrary to the 1994 State Medicaid Directors Letter and CMS’s Program Issuance Transmittal Notice. (There were 132 errors on 88 claims.)

LaPorte guidance instructed school districts to include the salaries and related costs for principals and principals’ secretaries in the calculation for reimbursement. LaPorte said that it included the costs for principals only for small school districts, which a State agency official told LaPorte was a district with 10,000 students or fewer. When we asked the State agency official why a school district with 10,000 students or fewer was considered small, she stated that it was an arbitrary number.

At the time of our fieldwork, we questioned costs only for principals from large school districts with more than 3,500 students. However, we now believe that costs for principals of school districts with fewer than 3,500 students should also be questioned based on CMS’s Program Transmittal Notice. As for including other inappropriate personnel, school officials said that the schools included them by mistake or thought that it was appropriate to include them.

By including expenditures of \$7,194,672 for personnel who did not perform activities related to Medicaid, LaPorte overstated costs used to claim reimbursement.

Expenditures for Which the District Did Not Provide Support—\$1,238,040

Federal regulations (42 CFR § 433.32(a)) state, “A State plan must provide that the Medicaid agency and, where applicable, local agencies administering the plan will maintain an accounting system and supporting fiscal records to assure that claims for Federal funds are in accord with applicable Federal requirements.” OMB Circular A-87, Attachment A, section C.1.j., states that costs must be adequately supported to be allowable under Federal awards.

The school districts submitted unsupported expenditures to LaPorte to be included in the calculations. For example, one school chose not to provide support/source documentation for supplies/materials and travel/training costs claimed.

The school districts did not provide supporting documentation because of clerical errors or chose not to provide it. Also, there was a flood at one school and a fire at another, and the schools could not provide documentation. We did not question the unsupported costs attributable to the flood and fire.

The school districts were unable to provide the requested support for expenditures totaling \$1,238,040. (There were 83 errors on 76 claims.) By including the unsupported expenditures, LaPorte overstated the costs used to claim reimbursement.

Expenditures for Unallowable Operating Costs—\$1,073,278

OMB Circular A-87, Attachment A, section C.1.h., states that costs must “not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.”

OMB Circular A-87, Attachment A, section C.1, also says that to be allowable under Federal awards, costs must meet the following general criteria:

- “be necessary and reasonable for proper and efficient performance and administration of Federal awards” and
- “be allocable to Federal awards under the provisions of this Circular.”

CMS issued a State Medicaid Directors Letter in December 1994 that states, “Allowable costs may not include the operating costs of an agency whose purpose is other than the administration of the Medicaid program.”

According to the State MAC guide, “Scheduling and promoting activities which educate individuals about the benefits of healthy lifestyles and practices; general health education programs or campaigns addressed to the general population; and outreach campaigns directed toward encouraging persons to access social, educational, legal or other services are not covered by Medicaid.”

The school districts followed guidance from LaPorte’s “Medicaid Administrative Claiming Program Financial Reporting Guide,” which instructed them to include all materials, supplies, dues, and fees that were directly related to a provider. Therefore, the school districts submitted to LaPorte the following unallowable operating costs to be included in the calculation for reimbursement:

- nursing supplies, such as ointment, antacids, petroleum jelly, lice combs, thermometers, hot and cold packs, safety pins, and general clinic supplies when these costs were already included in the direct services (School Health and Related Services (SHARS)) reimbursement rate;
- non-Medicaid outreach supplies, such as books related to general health education programs that promote healthy lifestyles;
- education-related expenditures, such as curriculum development, report cards, class absence reports, textbook cards, and transcript request cards; and

- miscellaneous items, such as diploma covers, \$10 awards to students of the month, mileage to basketball tournaments and to pick up donuts, ice cream bars, and accelerated reading prizes.

These items totaled \$1,073,278 and were not necessary for administering the Medicaid plan. (There were 246 errors on 92 claims.) By including them in the calculation for reimbursement, LaPorte overstated the claims.

**Expenditures for Personnel Claimed as Skilled Professional Medical Personnel—
\$1,013,446**

To claim SPMP activities, providers must adhere to the following guidelines:

- Federal regulations (42 CFR § 432.2) define SPMP as physicians, dentists, nurses, and other specialized personnel who have professional education and training in the field of medical care or appropriate medical practice and who are in an employer-employee relationship with the Medicaid agency.
- Federal regulations (42 CFR § 432.50) state:

The rate of 75 percent FFP is available for SPMP and directly supporting staff of the Medicaid Agency if the following criteria, as applicable, are met:

- (i) The expenditures are for activities that are directly related to the administration of the Medicaid program, and as such do not include expenditures for medical assistance;
- (ii) The SPMP have professional education and training in the field of medical care or appropriate medical practice. “Professional education and training” means the completion of a 2-year or longer program leading to an academic degree or certificate in a medically related profession. This is demonstrated by possession of a medical license, certificate, or other document issued by a National or State medical licensure . . .
- (iii) The SPMP are in positions that have duties and responsibilities that require those professional medical knowledge and skills.

- The State MAC guide states, “Professional education and training can be demonstrated by determining whether the provider has a medical license, certificate, or other document issued by a national or state medical licensure organization.”

We reviewed qualifications for all SPMP who participated in the timestudy during the review period. LaPorte included in the timestudy 1,238 SPMP who were employees of the school districts and were reimbursed at the enhanced rate (75 percent versus 50

percent). We found that 82 personnel were unqualified because they did not have a license (34 instances), their license was expired (11 instances), or they held only a teaching certificate and not a State license in the field of medical care (37 instances).

If the unqualified SPMP costs were included in one of the sampled claims, we requested that Deloitte remove the costs, which included the costs of support staff, from the SPMP category and add them to the non-SPMP category during the recalculation process so that the unqualified SPMP would be reimbursed at the lower rate of 50 percent. (This applied to 33 claims.) LaPorte believed that the SPMP were qualified to be billed at the enhanced rate.

LaPorte claimed \$1,013,446 in costs at the enhanced rate of 75 percent for individuals who were not SPMP-qualified. This resulted in an overstatement of MAC program costs.

Following our audit period, CMS issued a State Medicaid Directors Letter dated November 21, 2002, that stated, “Effective January 1, 2003, FFP is no longer available at the enhanced rate of 75 percent for the costs of activities performed by school-based SPMP. This new policy will be addressed in the forth coming final Medicaid School-Based Administrative Claiming Guide.” CMS determined that the advanced skills and training of SPMP were not necessary to perform the types of administrative activities that took place in school settings

**Expenditures for Personnel Funded 100 Percent by Other Federal Programs—
\$608,734**

OMB Circular A-87, Attachment A, section C.1.h., states that costs must not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.

LaPorte guidance instructed participants to include 100-percent federally funded personnel in the claim and then to remove these costs in the revenue-offset section.

On 19 of the sampled claims, LaPorte included expenditures that other Federal programs paid. For example, a school district claimed the cost of a speech therapist and an adaptive physical education specialist whose costs were funded through the Individuals with Disabilities Education Act. LaPorte did not review the supporting documentation for every school, so it was not aware that the school districts were not following its guidance.

LaPorte included \$608,734 in expenditures that other Federal programs paid. Including these expenditures overstated the claim.

**Expenditures for Contract Providers Who Rendered Only Direct Services—
\$461,039**

OMB Circular A-87, Attachment A, section C.1.h., states that costs must not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.

The State MAC guide states that “Staff whose direct and indirect service time and associated costs that are already billed to fee-for-service programs cannot simultaneously be claimed to MAC.”

LaPorte included fees for providers who were contracted to provide only direct school-based services (SHARS), such as occupational and physical therapy and psychological services, and not administrative/outreach duties, in calculating Medicaid administrative reimbursement on 33 claims.

LaPorte instructed the school districts to include all costs associated with contract providers, which totaled \$461,039. By including these costs, LaPorte overstated the costs used to claim reimbursement.

Expenditures for Overstated Costs—\$427,829

OMB Circular A-87, Attachment A, section C, says that to be allowable under Federal awards, costs must “be necessary and reasonable for proper and efficient performance and administration of Federal awards.”

School districts overstated amounts by \$427,829 through clerical errors. For example, a school district included \$12,192 for a provider’s salary that was actually \$7,952. (There were 56 errors on 56 claims.) By including these unallowable costs, LaPorte overstated the costs used to claim reimbursement.

Estimated Overpayment

Based on the statistical sample, we estimate that at least \$2,408,218 (Federal share) was unallowable for reimbursement. (See Appendix C.)

TIMESTUDIES

Based on our review of the timestudies, which were the basis for allocating all costs, we found instances in which school district personnel:

- did not maintain personal activity logs,
- charged incorrect activity codes, and

- included inappropriate personnel (such as personnel who told us that they did not perform Medicaid administrative activities and other personnel who charged a significant amount of time to general administrative activities).

We believe that these errors occurred because the State agency and LaPorte inadequately monitored the timestudy process. Consequently, LaPorte overstated Medicaid administrative time and costs. The timestudy deficiencies were not included in our recalculations or projected disallowance because neither LaPorte nor we could re-create the timestudies.

No Personal Activity Logs

Federal regulations (42 CFR § 433.32(a)) state, “A State plan must provide that the Medicaid agency and, where applicable, local agencies administering the plan, will maintain an accounting system and supporting fiscal records to assure that claims for Federal funds are in accord with applicable Federal requirements.” OMB Circular A-87, Attachment A, section C.1.j., states that costs must be adequately supported to be allowable under Federal awards.

The State agency required individuals in the school districts to keep personal activity logs detailing their daily activities, which were reported on their timestudy forms. The State agency issued a clarification letter in July 2000 to participating school districts reiterating the requirement of logs for the timestudy: “The [personal activity] log is an integral part of the time study and is as important as the scantron forms.” (The timestudy was conducted on the “scantron” form.) “Just as a lack of scantron forms would result in the exclusion of a participant from the time-study calculations, the lack of a [personal activity] log will also result in the exclusion of a participant from the time study calculations.” In another State agency-issued clarification letter, dated January 18, 2001, a State agency official stated, “The log requirement has been in effect since the October–December 1999 quarter.”

According to a State agency official, a personal activity log could be a personal calendar, appointment book, or any other source of documentation that the timestudy participant could use to keep track of his or her daily activities. The log could then be used to fill out the actual timestudy form at the end of the day.

Only 44 of the 95 timestudy quarters included the required personal activity log. Neither the State agency nor LaPorte enforced the requirement that timestudy participants maintain a personal activity log. Without logs to support the timestudies, there was no way to determine whether the participants actually provided Medicaid administrative services and coded all of their time correctly.

Incorrect Activity Codes

The CMS Technical Assistance Guide states, “Expenses cannot be claimed as administration if they are an integral part or extension of a direct medical or remedial

service, such as . . . development of the medical portion of the IEP [individualized education plan] or IFSP [individualized family service plan] . . .” For the Medicaid program, individualized education plan-related activities that are required by the Individuals with Disabilities Education Act are considered to be education-related and generally are not considered necessary for the proper and efficient administration of the Medicaid State plan.

Participants charged Medicaid codes when providing non-Medicaid services. Of the 69 participants interviewed, 25 told us that they coded the time they spent preparing for and conducting IEP meetings to Medicaid-reimbursable activity codes. The following are other examples of activities for which timestudy participants incorrectly coded their time to a Medicaid-reimbursable activity code:

- watching children while they were waiting for the schoolbus,
- making home visits with Child Protective Services, and
- translating an absence note.

The State agency and LaPorte guidance inappropriately instructed timestudy participants to use Medicaid-reimbursable codes for the medical portion of the admission, review, and dismissal/IEP meeting. We believe that the other errors occurred because timestudy participants did not clearly understand the coding process.

By charging non-Medicaid activities to Medicaid-reimbursable activity codes, LaPorte overstated the Medicaid time in the timestudies, thereby overstating Medicaid costs.

Personnel Improperly Included in Timestudies

OMB Circular A-87, Attachment A, section C, says that to be allowable under Federal awards, costs must meet the following general criteria:

- “be necessary and reasonable for proper and efficient performance and administration of Federal awards” and
- “be allocable to Federal awards under the provisions of this Circular.”

CMS issued a State Medicaid Directors Letter in December 1994 that explained:

Section 1903 of the Social Security Act directs payment of Federal financial participation . . . for amounts “found necessary by the Secretary for the proper and efficient administration of the State plan” . . . Thus, activities directed toward services not included under the Medicaid program, although such services may be valuable to Medicaid beneficiaries, are not necessary for the administration of the Medicaid program, and therefore are not allowable administrative costs.

In November 2000, the State agency issued a report detailing the results of its review of the MAC program quarter ended December 1999. The agency reported that staff categories such as bilingual specialists/interpreters, pupil support and student services personnel, regular education teachers, most special education teachers, and similar staff categories were never intended to be timestudy participants. According to the State agency, some categories of personnel that also may be inappropriate to include, depending on the employees' job duties, are principals, adaptive technologists, early identification personnel, and interpreters.

LaPorte sent a list of job categories that could be included for timestudy participation if a provider in one of these categories spent 10 percent or more of his or her time on outreach activities. LaPorte's instructions stated, "While the providers . . . will not likely represent the majority of your identified eligible outreach provider population, we have found that including appropriate personnel from these nonstandard categories can be financially beneficial for your district."

However, many of the providers in the following categories did not perform Medicaid administrative activities and were inappropriately included in the timestudy sample:

- adaptive physical education specialist,
- bilingual specialist,
- educational diagnostician,
- early identification personnel,
- nurse aide,
- orientation and mobility specialist,
- special education teacher,
- special education administrator,
- program specialist,
- pupil support personnel,
- student services personnel, and
- principal/assistant principal.

We interviewed 69 timestudy participants, 14 of whom told us that they did not participate in any Medicaid work. LaPorte told the school districts that including these categories would be beneficial to their districts, so the school districts believed that it was

appropriate. By including provider categories that did not perform Medicaid administrative activities in the timestudy, LaPorte overstated Medicaid costs.

Providers Who Charged Mostly General Administrative Time

OMB Circular A-87, Attachment A, section C, says that to be allowable under Federal awards, costs must meet the following general criteria:

- “be necessary and reasonable for proper and efficient performance and administration of Federal awards” and
- “be allocable to Federal awards under the provisions of this Circular.”

CMS issued a State Medicaid Directors Letter in December 1994 that explained:

Section 1903 of the Social Security Act directs payment of FFP . . . for amounts “found necessary by the Secretary for the proper and efficient administration of the State plan” Thus, activities directed toward services not included under the Medicaid program, although such services may be valuable to Medicaid beneficiaries, are not necessary for the administration of the Medicaid program, and therefore are not allowable administrative costs.

A letter issued by the State agency to its participating MAC programs stated that coding very small percentages of time to Medicaid activities and the remainder to general administration was considered a timestudy error or coding discrepancy.

LaPorte’s guidance said that administrative activities that assisted in the general operation of the school district and were not related to mental or physical health services were considered to be general administration. The State MAC guide states that providers should use Code 15, general administration, when engaged in general administrative activities. All time coded to Code 15 was allocated to the Medicaid- and non-Medicaid-specific activity codes according to the timestudy results.

School districts included providers who performed few or no Medicaid activities in the timestudy because LaPorte told the school districts that it was appropriate to do so. We reviewed interviewees’ timestudies and found that a significant portion of the reimbursable time reported was for general administration. Specifically:

- Fifty-two percent of the timestudies showed that 90 to 100 percent of the participants’ reimbursable time was spent performing general administrative duties.
- Eighty-two percent of the timestudies showed that at least 50 percent of the participants’ reimbursable time was spent performing general administrative duties.

The problem was made worse because providers charged time that did not fit into any of the specific activity codes to the general administration code. Therefore, a portion of the time coded to general administration received reimbursement from Medicaid.

We believe that although these activities may be valuable to Medicaid beneficiaries, they are not necessary for the administration of the Medicaid program and therefore are not allowable administrative costs. By including such providers, LaPorte overstated Medicaid costs.

REVENUE OFFSETS

According to the CMS administrative guide:

Certain revenues must offset allocation costs in order to reduce the total amount of costs in which the Federal government will participate. To the extent the funding sources have paid or would pay for the costs at issue, Federal Medicaid funding is not available and the costs must be removed from total costs (see OMB Circular A-87, Attachment A, part C., item 4.a). The following include some of the revenue-offset categories, which must be applied in developing the net costs:

- All Federal funds.
- All state expenditures, which have been previously matched by the Federal government (includes Medicaid funds for medical assistance (such as payment rate for services under the fee-for-service)).

According to State agency guidance, “Invoicing/Preparation of Claims,” the entire amount of Medicaid fee-for-service funding received from the State agency (which includes both the State funds and Federal match) is to be applied as revenue offsets in developing the net costs of claims.

School districts received Federal reimbursement of \$4,771,684 for the cost of school health services (SHARS revenue) provided to Medicaid-eligible students on 42 of our sampled claims. The SHARS revenue that the participating school districts received should have been used to offset the costs they used to claim reimbursement. LaPorte did not offset MAC costs with SHARS revenues or State/local matching funds. Deloitte officials told us that State agency officials instructed them not to offset SHARS revenues in claims.

Omitting the SHARS revenues and State/local matching funds required for Federal grants understated the revenues used to offset Medicaid costs and resulted in higher costs being claimed.

RECOMMENDATIONS

We recommend that LaPorte work with the State agency to:

- (1) refund \$2,408,218 to the Federal Government that the Medicaid program inappropriately paid;
- (2) recalculate all claims for school districts with fewer than 3,500 students, remove the costs for principals, and refund the difference to the Federal Government;
- (3) ensure that:
 - only personnel expenditures that are related to Medicaid administrative activities are included in the calculation for reimbursement;
 - school districts retain adequate documentation to support the costs used to claim reimbursement;
 - nursing supplies, educational materials, and other unallowable operating costs are not included in the calculation for reimbursement;
 - expenditures that are 100-percent federally funded from other programs are not included in the calculation for reimbursement;
 - direct service contract providers are not included in the calculation for administrative reimbursement; and
 - costs claimed are not overstated;
- (4) ensure that timestudies:
 - are adequately supported,
 - do not include time spent on individualized education plan-related activities,
 - include participants who are trained and understand activity codes, and
 - include only appropriate MAC participants;
- (5) offset costs claimed by SHARS revenues and refund the difference to CMS for prior, current, and subsequent periods; and
- (6) review periods after the audit period and work with CMS to make appropriate financial adjustments.

LAPORTE'S COMMENTS

In their December 14, 2005, comments on our draft report, LaPorte officials said that the findings should be divided into two categories: (1) errors reflecting lack of documentation, incorrect reporting, math errors, etc., and (2) policy-oriented findings. LaPorte agreed to correct errors as necessary in the first category. With regard to the second category, LaPorte believed that we had applied standards that were inconsistent with the applicable State-approved methodology. LaPorte did not assign specific findings to either of the two categories. LaPorte also requested additional information to address concerns regarding specific findings. LaPorte's comments are included in their entirety as Appendix F.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

LaPorte's comments did not cause us to change our findings or recommendations. We will provide LaPorte with the requested information under separate cover.

APPENDIXES

SAMPLING METHODOLOGY

OBJECTIVE

The objective of our audit was to determine whether the Medicaid school-based administrative costs that the LaPorte Consortium (LaPorte) claimed were reasonable, allowable, and adequately supported in accordance with Federal and State requirements.

POPULATION

The sampling population was all school districts and cooperatives (districts/co-ops) participating in LaPorte during the period October 1999 to September 2000.

SAMPLING FRAME

The sampling frame was a listing by quarter of all districts/co-ops participating in LaPorte during the period October 1999 to September 2000 and the amounts claimed by quarter.

SAMPLE UNIT

The sample unit was a district/co-op quarter during our audit period in which LaPorte claimed administrative costs for school-based health services.

SAMPLE DESIGN

We used a stratified random sample. Each stratum consisted of claims from one quarter as shown below:

- stratum 1: October through December 1999—319 district/co-op quarters,
- stratum 2: January through March 2000—335 district/co-op quarters,
- stratum 3: April through June 2000—339 district/co-op quarters, and
- stratum 4: July through September 2000—356 district/co-op quarters.

SAMPLE SIZE

We selected a sample of 120 district/co-op quarters, 30 from each stratum.

ESTIMATION METHODOLOGY

We used the Office of Inspector General, Office of Audit Services Statistical Software Variable Appraisal program for stratified sampling to project the error amount for unallowable reimbursement.

SELECTED SCHOOL DISTRICTS BY STRATUM

1st Stratum

2nd Stratum

Allen ISD¹
 Alvarado ISD
 Aransas Pass ISD
 Balmorhea ISD
 Bartlett ISD
 Bell County Spec. Ed. Co-Op
 Big Thicket Co-Op
 Coldspring-Oakhurst CISD²
 Edinburg CISD
 Electra ISD
 Everman ISD
 Frankston ISD
 Garrison ISD
 Gregory-Portland ISD
 Harleton ISD
 Holland ISD
 Kerrville ISD
 Leander
 Medina Valley ISD
 Mullin ISD
 Odem-Edroy ISD
 Plainview ISD
 Port Arthur ISD
 Richardson ISD
 Robert Lee ISD
 Robstown
 Saltillo ISD
 San Benito CISD
 Van Vleck ISD
 Waco ISD

Adrian ISD
 Alief ISD
 Bangs ISD
 Big 4 Co-Op for Spec. Ed.
 Blooming Grove ISD
 Burkburnett ISD
 Chisum ISD
 Falls City ISD
 Garrison ISD
 Goliad Spec. Ed. Co-Op
 Harrison Co. Spec. Ed. Co-Op
 Hartley ISD
 High Island ISD
 Holland ISD
 Irra Inc.
 Kerens ISD
 Kermit ISD
 Kopperl ISD
 Lampasas ISD
 Marion ISD
 Mcgregor ISD
 Medina Valley ISD
 New Boston ISD
 Richardson ISD
 Robert Lee ISD
 Rosebud-Lott ISD
 Smithville ISD
 Walcott ISD
 West Oso ISD
 Windthorst ISD

¹Independent School District.

²Consolidated Independent School District.

3rd Stratum

Alief ISD
Alief Montessori Com. School
American Youthworks
Bonham ISD
Carrollton-Farmers Branch ISD
Central Heights ISD
Chapel Hill ISD
Dodd City ISD
Dripping Springs ISD
Duncanville ISD
Eagle Mountain-Saginaw ISD
Ennis ISD
Falls City ISD
Glen Rose ISD
Grapevine-Colleyville ISD
Groesbeck ISD
Harlingen CISD
Ingleside ISD
Killeen ISD
Lumberton ISD
Mcgregor ISD
Medina Valley ISD
Megargel ISD
Mullin ISD
North Forest ISD
Panther Creek CISD
Riesel ISD
Small Schools Cooperative
Waskom ISD
Whitewright ISD

4th Stratum

Anderson Co. Spec. Ed. Co-Op
Avery ISD
Belton ISD
Coldspring-Oakhurst CISD
Danbury ISD
De Soto ISD
Dew ISD
Dripping Springs ISD
Everman ISD
Fannin County SSA
Galena Park ISD
Garrison ISD
Gatesville ISD
Goliad Spec. Ed. Co-Op
Granbury ISD
Harrison Co. Spec. Ed. Co-Op
Honey Grove ISD
Kerens ISD
Kountze ISD
Lamar Cnty. Spec. Ed. Co-Op
Leander
Lufkin ISD
Mildred ISD
Plainview ISD
Saltillo ISD
Seminole ISD
Taft ISD
Tom Bean ISD
Veribest ISD
White Settlement ISD

UNALLOWABLE COST PROJECTION BY STRATUM

	Total Sampling Units (School Districts)	Sample Size	Stratum Point Estimate of Unallowable Costs
Stratum 1	319	30	\$678,979
Stratum 2	335	30	771,942
Stratum 3	339	30	1,323,174
Stratum 4	356	30	639,730
Total	<u>1,349</u>	<u>120</u>	<u>\$3,413,825</u>

Stratified Variable Appraisal

<u>Point Estimate</u>	<u>Standard Error</u>
\$3,413,825	\$611,365

90% Confidence Interval

<u>Lower Limit</u>	<u>Upper Limit</u>
\$2,408,218	\$4,419,431

**SUMMARY OF INAPPROPRIATE COSTS AND ERRORS
INCLUDED IN THE CALCULATION FOR REIMBURSEMENT**

<u>Expenditures for School Employees Who Did Not Perform Medicaid Administrative Activities</u>	Inappropriate Costs	Errors in Sampled Claims
Other employees not related to Medicaid	\$2,371,339.14	59
Principals	2,360,460.88	15
Principals' secretaries	2,256,280.72	48
Superintendents	206,591.50	10
Total	\$7,194,672.24	132
<u>Expenditures for Which the District Did Not Provide Support</u>		
Not supported	\$1,214,931.13	73
Incorrect pension amount	23,109.00	10
Total	\$1,238,040.13	83
<u>Expenditures for Unallowable Operating Costs</u>		
Educational-related	\$495,749.03	78
Food, clothing, medical care	451,559.07	70
Nurse supplies	99,871.09	65
Non-Medicaid outreach supplies	13,060.09	20
Copiers	13,039.00	13
Total	\$1,073,278.28	246
<u>Expenditures for Personnel Claimed as Skilled Professional Medical Personnel (SPMP)</u>		
Provider not SPMP-qualified	\$1,013,446.45	33
<u>Expenditures for Personnel Funded 100 Percent by Other Federal Programs</u>		
Salary paid from other Federal program	\$608,734.00	19
<u>Expenditures for Contract Personnel Who Rendered Only Direct Services (SHARS¹)</u>		
Contract provider	\$461,039.13	33
<u>Expenditures for Overstated Costs</u>		
Rates/amounts misstated	\$427,829.00	56
<u>Other</u>		
Amount not claimed by school	(\$133,851)	17
Contract employee claimed travel at 75 percent	90.00	1
Total	(\$133,761.00)	18
Grand Total	\$11,883,277.00	620

¹School Health and Related Services.

OFFICE OF INSPECTOR GENERAL REVIEW DETERMINATIONS ON THE 120 SAMPLED CLAIMS

Legend		Code																									
Not supported	1																										
Rates/amounts misstated	2																										
Salary paid from other Federal program	3																										
Copiers	4																										
Nurse supplies	5																										
Non-Medicaid outreach supplies	6																										
Food, clothing, medical care	7																										
Education related	8																										
Provider not SPMP qualified	9																										
Contract employee claimed travel at 75%	10																										
Contract provider rendered only direct services	11																										
Incorrect pension amount	12																										
Principals	13																										
Principals' secretaries	14																										
Amount not claimed by school	15																										
Superintendents	16																										
Employee not related to Medicaid	17																										
School District	Quarter Sampled	Original Expenditures	Audited Expenditures	Original Claim	Audited Claim	Code																	Total				
						1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17					
Allen ISD	1	\$743,896	\$735,887	\$8,011.08	\$7,938.42	X	X				X		X	X											X	6	
Alvarado ISD	1	\$283,178	\$240,581	\$5,238.93	\$4,475.11		X				X			X												X	6
Aransas Pass ISD	1	\$231,760	\$189,317	\$6,466.03	\$5,894.81		X				X			X	X											X	5
Balmorhea ISD	1	\$41,122	\$40,904	\$1,662.94	\$1,657.30						X			X													2
Bartlett ISD	1	\$81,545	\$1,295	\$2,009.07	\$0.00	X								X													2
Bell County Spec. Ed. Co-Op	1	\$57,817	\$55,890	\$1,192.43	\$1,152.76	X								X													2
Big Thicket Co-Op	1	\$62,967	\$61,847	\$1,281.73	\$1,258.94	X								X											X		3
Coldspring-Oakhurst CISD	1	\$160,525	\$160,525	\$4,215.15	\$4,215.15																						0
Edinburg CISD	1	\$2,280,008	\$1,738,276	\$80,748.10	\$64,767.26	X	X	X																X			4
Electra ISD	1	\$122,108	\$84,367	\$2,942.97	\$2,029.62									X	X	X								X		X	5
Everman ISD	1	\$463,413	\$327,789	\$10,745.09	\$7,558.73	X					X	X	X	X	X		X		X		X		X		X		10
Frankston ISD	1	\$95,885	\$80,131	\$1,873.53	\$1,508.09						X		X								X		X				4
Garrison ISD	1	\$84,588	\$62,279	\$1,721.04	\$1,181.71		X				X	X	X	X									X		X		7
Gregory-Portland ISD	1	\$551,478	\$368,367	\$9,825.96	\$6,968.95		X							X							X	X	X		X		6
Harleton ISD	1	\$57,902	\$34,267	\$1,193.57	\$625.67	X					X	X	X	X									X				6
Holland ISD	1	\$84,595	\$66,764	\$1,550.81	\$1,230.20	X		X			X		X	X										X			6
Kerrville ISD	1	\$307,700	\$281,674	\$7,393.04	\$6,793.03		X						X		X										X		5
Leander	1	\$1,113,515	\$977,945	\$12,221.85	\$11,255.44	X								X											X		3
Medina Valley ISD	1	\$303,854	\$247,666	\$5,633.39	\$4,724.07		X				X		X	X							X					X	6
Mullin ISD	1	\$49,270	\$44,758	\$2,771.76	\$2,537.20	X							X	X							X						4
Odem-Edroy ISD	1	\$231,374	\$168,518	\$5,607.80	\$4,225.84	X					X	X	X	X							X			X		X	8
Plainview ISD	1	\$545,634	\$490,724	\$15,532.69	\$14,174.64	X					X	X	X	X										X		X	6
Port Arthur ISD	1	\$787,623	\$645,643	\$27,793.29	\$23,640.07	X	X				X	X	X	X	X		X								X		9
Richardson ISD	1	\$3,180,907	\$2,913,635	\$53,411.41	\$48,698.07	X	X	X			X	X	X	X	X		X				X	X	X		X	X	13
Robert Lee ISD	1	\$64,133	\$42,887	\$915.62	\$566.84	X	X				X			X							X		X				6
Robstown	1	\$317,479	\$288,616	\$13,407.31	\$7,455.21	X	X	X			X	X	X	X		X							X		X		10
Saltillo ISD	1	\$58,894	\$33,888	\$1,493.16	\$486.85								X												X		2
San Benito CISD	1	\$805,378	\$714,618	\$34,616.29	\$29,907.28	X	X				X	X	X	X	X		X	X					X		X		11
Van Vleck ISD	1	\$70,838	\$0	\$1,231.99	\$0.00	X																					1
Waco ISD	1	\$1,198,049	\$865,580	\$34,087.42	\$26,014.39	X	X							X									X	X	X		6

OFFICE OF INSPECTOR GENERAL REVIEW DETERMINATIONS ON THE 120 SAMPLED CLAIMS

School District	Quarter Sampled	Original Expenditures	Audited Expenditures	Original Claim	Audited Claim	Code																	Total
						1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	
McGregor ISD	3	\$179,256	\$164,040	\$6,919.14	\$6,371.95	X				X											X	3	
Medina Valley ISD	3	\$314,632	\$222,032	\$9,573.97	\$6,529.68		X			X			X									X	5
Megargel ISD	3	\$31,964	\$31,964	\$1,230.18	\$1,230.18																		0
Mullin ISD	3	\$59,356	\$54,339	\$4,341.39	\$4,006.43	X	X	X													X		4
North Forest ISD	3	\$1,483,467	\$1,127,797	\$51,064.33	\$38,832.34					X		X	X								X		6
Panther Creek CISD	3	\$126,442	\$82,890	\$4,369.25	\$2,762.68		X					X										X	3
Riesel ISD	3	\$23,814	\$21,377	\$1,323.94	\$1,174.37		X						X										3
Small Schools Cooperative	3	\$514,291	\$440,961	\$18,440.58	\$16,089.01	X	X					X	X	X								X	6
Waskom ISD	3	\$191,725	\$107,107	\$6,987.62	\$3,600.00							X	X								X		4
Whitewright ISD	3	\$81,784	\$69,640	\$1,971.44	\$1,821.37	X				X		X	X									X	5
Anderson Co. Spec. Ed. Co-Op	4	\$215,934	\$144,075	\$6,024.96	\$3,121.95	X		X					X									X	4
Avery ISD	4	\$76,800	\$76,800	\$1,541.73	\$1,541.73																		0
Belton ISD	4	\$455,511	\$414,651	\$12,035.53	\$11,680.29		X	X					X		X						X		5
Coldspring-Oakhurst CISD	4	\$127,002	\$111,391	\$4,351.41	\$3,633.08																	X	1
Danbury ISD	4	\$137,160	\$112,914	\$2,318.34	\$1,910.60			X		X		X	X								X		6
De Soto ISD	4	\$747,148	\$724,842	\$13,058.62	\$12,856.96		X														X		2
Dew ISD	4	\$25,922	\$17,725	\$1,270.73	\$868.58	X																	1
Dripping Springs ISD	4	\$429,201	\$370,009	\$8,240.44	\$7,279.18		X	X		X		X	X								X		6
Everman ISD	4	\$524,023	\$385,491	\$14,587.26	\$12,085.39	X				X		X	X								X		6
Fannin County SSA	4	\$86,981	\$82,702	\$3,053.27	\$2,914.36	X				X	X	X	X										5
Galena Park ISD	4	\$2,185,442	\$1,770,647	\$55,885.45	\$43,121.48	X	X						X		X							X	5
Garrison ISD	4	\$85,300	\$64,150	\$1,601.23	\$1,191.20	X				X			X								X	X	6
Gatesville ISD	4	\$273,414	\$225,926	\$4,321.08	\$3,650.89	X			X	X	X	X	X								X		9
Goliad Spec. Ed. Co-Op	4	\$169,560	\$113,914	\$4,698.35	\$3,530.43	X						X	X	X		X	X					X	7
Granbury ISD	4	\$841,715	\$716,461	\$15,796.39	\$14,137.80		X					X	X	X							X		5
Harrison Co. Spec. Ed. Co-Op	4	\$130,002	\$105,082	\$4,631.08	\$3,142.17	X	X						X										3
Honey Grove ISD	4	\$178,869	\$136,652	\$5,340.22	\$4,074.87	X		X	X	X		X	X	X							X		8
Kerens ISD	4	\$111,482	\$95,384	\$2,522.44	\$2,159.66		X			X		X	X								X		5
Kountze ISD	4	\$212,563	\$143,131	\$3,458.85	\$2,453.27					X		X	X	X							X	X	7
Lamar Cnty. Spec. Ed. Co-Op	4	\$210,370	\$129,560	\$5,469.76	\$4,552.89			X				X	X	X		X						X	6
Leander	4	\$1,794,172	\$1,491,986	\$26,852.80	\$23,706.27	X							X								X		4
Lufkin ISD	4	\$1,061,221	\$693,221	\$35,515.56	\$21,930.41	X	X	X		X		X	X	X		X					X	X	13
Mildred ISD	4	\$26,374	\$25,772	\$484.29	\$480.89		X																1
Plainview ISD	4	\$550,528	\$500,691	\$22,761.23	\$19,593.80	X	X			X	X	X	X		X							X	8
Saltillo ISD	4	\$59,891	\$35,639	\$2,059.35	\$346.99							X									X		3
Seminole ISD	4	\$259,046	\$223,778	\$7,226.01	\$6,354.58	X	X		X	X		X				X						X	7
Taft ISD	4	\$141,683	\$138,770	\$5,047.54	\$4,960.13	X	X			X		X	X								X	X	8
Tom Bean ISD	4	\$82,191	\$78,726	\$1,264.10	\$1,210.01	X				X		X	X										4
Veribest ISD	4	\$39,506	\$15,207	\$1,000.75	\$490.75	X				X		X									X		4
White Settlement ISD	4	\$476,281	\$453,941	\$14,944.34	\$14,472.67	X	X			X	X	X	X	X									7
Total		\$57,977,377.00	\$46,717,889.97	\$1,563,980.50	\$1,259,992.71	73	56	19	13	65	20	69	78	34	1	33	10	15	48	17	10	59	620



La Porte

Independent School District

December 14, 2005

Mark Ables
Audit Manager
Department of Health and Human Services
Office of Inspector General; Office of Audit Services
1100 Commerce, Room 632
Dallas, TX 75242

Re: Report # A-06-02-00051

Dear Mr. Ables:

Enclosed please find LaPorte Independent School District comments regarding the audit of the Texas Medicaid Administrative Claim for quarters October – December 1999, January – March 2000, and April – June 2000 conducted by your office. We acknowledge the time and effort put into this audit, and as always we strive for full compliance.

We agree in part with your findings regarding certain district math and reporting errors and omissions (detailed in the attached) and will correct these errors as appropriate.

However, there are several findings cited where we believe that the standards applied were not consistent with state policy in place at that time. These standards include previous HCFA letters and technical guides, and the subsequently issued CMS draft guidelines (these guidelines were implemented in 2003, but were not applicable to the period of review).

We have demonstrated and continue to be committed to making changes as necessary to conform to evolving state and federal policy. Subsequent to this review period, the consortium has made changes to comply with program modifications and continues to work closely with the State Medicaid Agency and Texas Education Agency which implemented a revised Implementation Plan to conform to the CMS School-Based Medicaid Administrative Claim Guide, effective October 2003.

We appreciate the extensive work performed by the Office of Inspector auditors and for the opportunity to comment on the draft report. We await the final report of OIG findings. If you would like to discuss any matter related to these comments and documentation, please contact me at (281) 604-7015.

Best Regards,

Dr. Michael Say
Superintendent

Enclosure

1002 San Jacinto Street
La Porte, Texas 77571
Public Information (281) 604-7001
Fax (281) 604-7010 www.lpsid.org

Superintendent (281) 604-7015
Business (281) 604-7046
Curriculum (281) 604-7025
Human Resources (281) 604-7111

Dr. Michael Say
Interim Superintendent

BOARD OF TRUSTEES

Gene Horn
President
Kathy Green
Vice President
Charlcya Wheeler
Secretary

Dr. Charles Hilborn
Jim Schul
Bill Snead
Randall E. Wilson
Trustees

LaPorte Administrative Cost Claimed for Medicaid School-Based Services
Response to Draft Report A-06-02-00051 – Issued October 2005

Overview of LaPorte Consortium

LaPorte Independent School District (ISD) is a Texas school district with a population of approximately 7,600 students. In addition to participating in the Medicaid Administrative Claim (MAC) program, LaPorte ISD leads a consortium of over 300 Texas school districts in the state to facilitate their participation.

As the consortium's lead district, LaPorte ISD is responsible for managing a number of duties on behalf of consortium members, as identified in the Implementation Plan reviewed with the state each year. These include:

- Assisting with identification of time study participants
- Assisting with assignment of designation (SPMP or Non-SPMP)
- Assisting with maintenance of the proper credentials on file to support the SPMP designation
- Distributing information to the time study participants regarding the MAC program
- Facilitating collection of quarterly financial information
- Reviewing the quarterly administrative outreach claim prior to submitting the claim to the Texas Department of Human Services; and,
- Issuing reimbursement checks to member districts and cooperatives in the LaPorte MAC Consortium based upon their individual claim amount

During the period of this review, LaPorte ISD contracted with Deloitte Consulting to provide technical assistance in performing many of the above tasks, including data collection, training and claim calculation. Likewise, each consortium member district has a designated local district MAC Coordinator who manages these functions and communications with participants at each local district.

General Comments

We appreciate the time and effort devoted to this review by the Office of the Inspector General (OIG) and the goal of ensuring that only appropriate claims are submitted and paid. For those errors and omissions identified which resulted in inappropriate claims, we agree to correct such errors as appropriate. However, we have some questions and concerns which are noted in more detail throughout our comments regarding specific findings

Application of relevant standards

The LaPorte consortium complied in good faith with State and Federal guidance in place at the time. The Texas MAC program began operating in the early 1990's, and received Federal approval in 1997. Post-approval, the state commonly implemented annual program updates and changes, typically communicated prior to each school year. These changes were incorporated into updated implementation plans, reviewed and agreed upon by the state and then subsequently utilized by LaPorte.

LaPorte Administrative Cost Claimed for Medicaid School-Based Services
Response to Draft Report A-06-02-00051 – Issued October 2005

In several of the findings, we believe that LaPorte's interpretation of allowable expenditures was consistent with the approved implementation plan and state guidance in place at that time (1999-2000). LaPorte understood that most recent state Medicaid policy took precedence over earlier guidance that may have been issued at a federal level. However, the OIG appears to have applied standards in their review which at times were different than the State-specific program in place at that time. Such standards include:

- 1997 HCFA Technical Guide
- The Draft CMS Medicaid School Based Administrative Claiming Guide originally released in 2000; not finalized until May 2003 (and required to be implemented in October 2003)
- Other program clarification letters from the Health Care Financing Administration (HCFA) and/or CMS

Subsequent to this review period, the consortium has made changes to comply with program modifications, such as increased documentation, changes to Skilled Professional Medical Personnel (SPMP) reimbursement levels, etc. The consortium also worked closely with the Texas Department of Human Services (TDHS) and the Texas Education Agency (TEA) to develop and implement a revised Implementation Plan to conform to the new CMS guidelines for the Medicaid Administrative Claim program, effective October 2003. We do not believe, however, that it is appropriate to apply these standards retroactively.

Timing of review

We are also concerned that certain aspects of the review were impacted considerably by the timing, particularly for findings which relied upon interviews. Staff interviews were conducted in 2002 and 2003 to review activities that conducted in 1999-2000 – over three years later, in some cases. The ability for staff to recall detailed activities over this time span is somewhat challenging, even with supporting documentation. Furthermore, because the program continued to evolve in the interim, staff was required to distinguish among multiple interpretations over time.

Response to Specific Findings and Recommendations Identified in OIG Draft Report

Expenditures for school employees who did not perform Medicaid Administrative Activities

OIG has cited that \$7,194,672 in expenditures should be excluded as they pertain to staff that do not perform Medicaid Administrative Activities. The following positions are cited: Superintendents, Principals, and other staff [not identified] which are ordinary expenses for the operation of the school district.

In districts of all sizes, but particularly in smaller school districts, it is our experience that these individuals do participate in Medicaid Administrative Activities. Therefore, we disagree in part with this finding.

LaPorte Administrative Cost Claimed for Medicaid School-Based Services
Response to Draft Report A-06-02-00051 – Issued October 2005

- **Superintendents:** It is our understanding that Texas Education Agency (TEA) accounting requirements state that Superintendents costs are included in the non-restricted indirect cost rate. On this basis, we agree with the OIG that direct costs associated with Superintendent salaries should therefore be excluded.
- **Principals / Assistant Principals:** Originally, the MAC program did allow all principals and assistant principals to be claimed. However, after years of review and many continuing questions, the principals were removed from claim eligibility. After discussion with several districts, however, it was decided that in the smaller districts with < 10,000 students, principals were more likely to interact with staff/students on a much smaller scale and could remain in the time study. In subsequent program reviews conducted by the State, when it was revealed that school districts larger than 10,000 ADA had incorrectly included principals, the reviewed claims were adjusted.

Per the State's guidelines, assistant principals for all districts were allowed to remain in the time study; therefore we do not agree that expenditures for assistant principals should be excluded. Assistant principals were included in the time study sample; therefore, the percentage of time spent on Medicaid Administrative Activities is reflected in the time study results and allocation of costs. The state determined that it was up to the staff in the lead districts to provide better training to the districts in this area.

In the new Federal Center for Medicaid Services (CMS) guidelines, principals and assistant principals are no longer allowed. The Texas MAC program has allowed the districts to claim a portion of their time as a support cost. This methodology is explained on pages 15-16 of the Texas MAC guideline dated October 1, 2003.

- **Support staff:** Support staff were sometimes claimed in the time study or as clerical support and allocated based upon the time study participants. Currently the state recommends that the support staff not be included in the time study, as there should be little or no cost attributed to reimbursement under MAC. The support staff is not currently allowed as claimable under the supervisory allocation for principals and assistant principals. It is unclear when this change occurred in the program.
- **Other Staff:** Finally, we would like to understand what positions comprise "other staff" that cannot be claimed. We request that the OIG provide the detailed documentation to identify these individuals and the basis upon which they were determined to be ineligible for reimbursement.

LaPorte Administrative Cost Claimed for Medicaid School-Based Services
Response to Draft Report A-06-02-00051 – Issued October 2005

Expenditures for which the district did not provide support

OIG has cited that school districts submitted unsupported expenditures to LaPorte to be included in the claim calculations. It is our understanding that these expenditures may include cost allocation or data entry errors, inclusion of ineligible costs, or lack of accounting detail. We concur that where such errors are identified, these expenditures should not be included.

We are concerned however, that the method by which errors are extrapolated to the consortium as a whole, may not be ideal as we typically find that there is considerable variance in the types and degree of errors across districts. We would request that further analysis be performed to confirm that the impact on the consortium is appropriate, given the stratification of errors by district size. Upon review we would like to consider alternative methods for extrapolating to the consortium.

Expenditures for unallowable operating costs

OIG has identified \$1,073, 278 of unallowable operating costs. It is our understanding that this includes costs such as: nursing supplies, copier expense, food, clothing, medical care, education-related expenditures and other non-Medicaid expenditures.

In general, we believe that all such expenditures reported are allowable via OMB A-87, Attachment B, Section 29, **Materials and Supplies**. These costs comprise the total cost basis for application of the time study results to allocate reimbursable expenditures. As such, only a small fraction is reimbursed which correlates to the percentage of time associated with Medicaid administrative activities.

The cost allocation methodology utilized operates in the following manner:

- Total costs associated with all eligible participants who perform Medicaid Administrative Activities are identified.
- The time study is conducted for a sample of eligible participants to determine the percentage of time (costs) attributable to Medicaid Administrative Activities, as well as to other non-reimbursable activities. Activity codes are defined to specifically capture time attributable to direct medical service, education related, healthy lifestyles, social activities, etc. – all non-reimbursable activities.
- Time study results, (along with other factors impacting claimable percentages) are applied to total costs to determine the appropriate level of reimbursement.
- Total gross expenditures reported by districts therefore include certain costs which may not be directly related to Medicaid Administrative Activities; however these costs are removed via the application of the time study results.

LaPorte Administrative Cost Claimed for Medicaid School-Based Services
Response to Draft Report A-06-02-00051 – Issued October 2005

For example, costs associated with direct medical services (treatments and therapies) are included in total costs. Time spent on these activities (typically a major percentage of time) was allocated to “Direct Medical Service”, Activity Code 13 (at that time) which was non-reimbursable.

If only Medicaid-outreach related operating costs were to be isolated, then these expenditures would be appropriately claimed in their *entirety*, rather than by applying time study results. The application of the time study results to total costs effectively estimates the portion of costs that are eligible for reimbursement. While an allocation methodology may be less precise than identifying costs via specific invoices, it is a reasonable and efficient methodology for allocating operating costs and does not result in material errors.

The OIG has also stated that Nursing supplies are already included in the direct service reimbursement rates (SHARS program). It is our understanding that these costs are not included in the SHARS Rates; therefore, the State authorized the inclusion of these costs in the claim. In addition, they are allowable pursuant to OMB A-87, Attachment B, Section 29. **Materials and Supplies.**

Expenditures for personnel claimed as skilled professional medical personnel

OIG states that certain skilled professional medical personnel (SPMP) participants were not eligible for reimbursement at enhanced rates (75%) as they did not possess appropriate licenses, licenses were expired, or they held a state teaching certificate instead of a license.

While current documentation may be missing in certain cases, we believe that an expired license represents evidence of the necessary credentials and medical training to be considered eligible for enhanced reimbursement. Further, OIG’s position on this issue appears to be based upon an interpretation of the CMS draft guide requirements concerning provider qualifications and status of participation in the FFS program which were not in effect during FFY 2000.

For those individuals for whom enhanced reimbursement is indeed not appropriate, we would like to confirm that expenditures were reimbursed at 50% in the OIG’s recalculations, rather than fully eliminated from claim reimbursement.

Expenditures for personnel funded 100% by other programs

OIG states that expenditures were included in the claim that were paid by other Federal programs as a result of including personnel who are 100% funded by other programs.

We believe that it is appropriate to capture all eligible participants in the time study pool regardless of federal funding status for several reasons:

LaPorte Administrative Cost Claimed for Medicaid School-Based Services
Response to Draft Report A-06-02-00051 – Issued October 2005

- Funding status for positions may not be known at the time sample is developed (it is developed in advance) or may change throughout the year.
- Many of these individuals may have federally funded salaries; however, additional costs associated with their position may not be covered.
- By including all eligible staff regardless of funding status, the time study survey population remains unbiased and representative of the total pool of providers performing Medicaid administrative activities.
- LaPorte's recommended financial reporting methodology employs provisions to offset any federal expenditures that may be associated with these individuals. LaPorte's financial reporting methodology was designed to most directly align with school district accounting requirements. Districts are instructed to report all expenditures related to specific object codes. Then, as part of this process, all expenditures attributable to federal programs would be captured in Revenue Object Codes beginning with 59xx (not including 5931) and ultimately subtracted from the claim. This enables the district to readily capture all relevant expenditures and subtractions from accounting reports.

We request the opportunity to review the detailed records that were utilized to identify any individuals determined to be federally funded so that we can confirm if federal funds were offset from the claim. We agree that where federal expenditures have not already been removed these costs should be eliminated from the claim.

Expenditures for contract providers who rendered only direct services

OIG has stated that costs for contracted staff that provide direct services only should not be included in the Medicaid Administrative Claim.

LaPorte's understanding is that contracted service providers are frequently expected to perform the same range of duties as do employees; therefore, they are authorized under state guidelines to be included in the time study survey and cost reporting. Participating districts also indicate that contract employees are doing the same types of administrative activities as district employees.

If a specific contract employee is only performing direct service activities, then their time study results would reflect that. Furthermore, any provider may perform only direct service activities during a particular one-week period. While this is an appropriate contribution to the overall time study results, this one-week period cannot be considered representative of that individual's overall workload.

Expenditures for overstated costs

OIG identified overstated costs of \$427,829 attributable to clerical errors.

LaPorte agrees that claims associated with such errors should be corrected as necessary.

LaPorte Administrative Cost Claimed for Medicaid School-Based Services
Response to Draft Report A-06-02-00051 – Issued October 2005

Time Studies

No personnel activity logs

The OIG cited that personal activity logs were not available for all time study participants. All staff was asked to maintain an activity log; but the state did not formally require districts to maintain daily logs of activities performed. Districts were told that the log could be variety of forms.

The LaPorte Implementation Guide states: "...participants receive a Personal Activity Log and instruction on how to use this log throughout the day to track their professional activities. The data collected on the Personal Activity Log can then be transferred to the official time study instrument....Participants are instructed to keep the Personal Activity Log, and a copy of the time study instrument, for their own records."

It appears that OIG may be referencing the CMS "Draft" guide (issued 2000; finalized 2003) with this interpretation. Subsequent to this review, the state and LaPorte has reinforced with participants the need to maintain activity logs as supporting documentation.

Incorrect activity codes

OIG cited that participants charged non-Medicaid activities to Medicaid-reimbursable activity codes and that participants did not clearly understand the coding process. Some examples cited include activities associated with the development of an IEP, activities related to IDEA, home visits.

Under the State's approved program at the time of the audit, the medical portion of the IEP's and other IEP related activities were allowed as a claimable activity. It is important to note that while many IEP-related activities are not reimbursable, there may be Medicaid-administrative activities that are associated with the IEP process and these are reimbursable. The activity codes as defined describe general activities and examples; however, they do not identify every possible sub-activity that can be appropriately associated with that activity code.

Regarding other findings, we do appreciate that the OIG may have identified coding inconsistencies; however it is difficult to respond without more specific examples and supporting documentation. Relating to the coding activities errors, this is a factor of all time studies. In the State's OIG audit a minimum 10% sample will be pulled to extrapolate to the universe. The time study would be corrected for those participants actually selected for review and require the invoices to be recalculated based on the adjusted time study. The Federal audit selected a much smaller sample.

We believe that coding inconsistencies may be due in part to the time lapse between the quarters in review (1999-2000) and the timeframe of the interviews

LaPorte Administrative Cost Claimed for Medicaid School-Based Services
Response to Draft Report A-06-02-00051 – Issued October 2005

(2002 – 2003). Even with a log, it is extremely optimistic to think that staff can reliably recall a specific activity from 2 years prior. It should be taken into account the length of time from the time study to the interview in reviews.

During this time period, the program continued to evolve, and activity code interpretations and training evolved as a result. This evolution was likely to contribute to confusion and inconsistent interpretations on the part of those participants interviewed.

Personnel Improperly Included in time studies

OIG indicates that there were participants included in the time-study who did not perform Medicaid administrative activities.

This error has been an ongoing challenge with the time studies, due to the sometimes “generic” nature of the job descriptions as submitted. During reviews, when the state has found staff in the time study that should not be included, they were removed from the time study.

The State has issued guidelines that removed many of these generic job classifications. It also advised that every effort should be made to eliminate these generic categories and classify participants more specifically with their functional responsibility. A functional job title should be submitted as well.

In the State’s program guidance a list of eligible participants is defined; however, this document also indicates that additions to the list may be included depending on job duties. Decisions to include such staff were to be considered on a case-by-case basis. LaPorte updates and modifies the time study participant lists on a quarterly basis to reflect state program modifications as well as changing job duties. Currently in the Texas MAC plan, bilingual specialists, educational diagnosticians and orientation mobility specialists are covered under the plan.

Regarding the statements that staff “do not perform Medicaid work”, we believe that the time lapse between the quarters being reviewed and the timing of the interview may have contributed to these responses. Furthermore, it is common that staff may simply state that they “do not perform Medicaid work”, but when they elaborate further, it is determined that indeed they do perform Medicaid administrative activities – they simply did not see that as the primary description of the activity.

Revenue Offsets

Offset of SHARS Revenue

OIG has stated that the Federal reimbursement received as SHARS revenue should have been used to offset the costs they used to claim reimbursement. It is

LaPorte Administrative Cost Claimed for Medicaid School-Based Services
Response to Draft Report A-06-02-00051 – Issued October 2005

LaPorte's understanding that these revenues should not be offset. The application of the time study results removes all costs related to direct services, including the state match. The financial data collection methodology developed by the state accommodates offset of federal funds, or any previously matched state funds, used to support expenses related to participating staff. No additional offset is required.

Furthermore, the following guidance was issued by the Texas Education Agency (TEA), who was party to an Interagency Agreement with the Texas Department of Human Services (TDHS) to administer this program:

"The federal Medicaid funds that the district receives as reimbursement from the SHARS program should be assigned Revenue Object Code 5931. This reimbursement can be deposited back into the General Fund and is to be considered a "reimbursement" or "additional revenue" to the local district. Separate accountability for these funds must be maintained for audit purposes. The district's claims for reimbursement and certification that the "state share" was expended from non-federal funds are subject to federal review. The availability of this additional revenue should allow for more flexible utilization of state/local funds that have been budgeted for the special education program."

We request that the OIG provide to us all detailed documentation and information related to this interpretation that supports offsetting SHARS revenue.

Conclusion

We very much appreciate the time and effort that the OIG has devoted to this review and OIG's goal of ensuring that only appropriate claims are submitted and paid. In order to respond to these issues, we believe that the findings presented should be bifurcated into two categories:

- 1) Errors reflecting lack of documentation, incorrect reporting, math errors, etc.
- 2) Policy-oriented findings

We respect the OIG's thoroughness and diligence to identify consortium and district errors and omissions which represent inappropriate claims, and agree to correct these errors as necessary. Regarding policy-oriented findings, we have complied in good faith with State and Federal guidance in place at the time. However, we believe that a number of the findings that OIG was applying standards which were not consistent with the State approved methodology in place at that time. These standards include previous HCFA letters and technical guides, and the subsequently issued CMS draft guidelines (these guidelines were implemented in 2003, but were not applicable to the period of review.

We have demonstrated and continue to be committed to making changes as necessary to conform to evolving state and federal policy. Subsequent to this review period, the consortium has made changes to comply with program modifications, such as increased

LaPorte Administrative Cost Claimed for Medicaid School-Based Services
Response to Draft Report A-06-02-00051 – Issued October 2005

documentation, changes to SPMP reimbursement levels, etc. The consortium also worked closely with the State Medicaid Agency and Texas Education Agency to develop and implement a revised Implementation Plan to conform to the new CMS guidelines for the Medicaid Administrative Claim program, effective October 2003. We do not believe, however, that it is appropriate to apply these standards retroactively.

We respectfully request that the report be revised to reflect these comments.

ACKNOWLEDGMENTS

This report was prepared under the direction of Gordon Sato, Regional Inspector General for Audit Services, Region VI. Other principal Office of Audit Services staff who contributed include:

Mark Ables, *Audit Manager*

Lolita Bradley, *Senior Auditor*

Angela Edingfield, *Auditor*

Dory King, *Auditor*

Jason McNeil, *Auditor*

Annie Althaus, *Auditor*

Aaron Anzalone, *Auditor*

Eileen Doty, *Auditor*

John Hagg, *Manager, Medicaid*

For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619-1343.