

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**TEXAS DID NOT ALWAYS COMPLY WITH  
FEDERAL REQUIREMENTS AND ITS  
PUBLIC ASSISTANCE COST ALLOCATION  
PLAN WHEN IT CLAIMED MEDICAID  
ADMINISTRATIVE COSTS**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



**Brian P. Ritchie**  
Assistant Inspector General  
for Audit Services

August 2016  
A-06-15-00038

# ***Office of Inspector General***

<http://oig.hhs.gov>

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# *Notices*

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

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

## INTRODUCTION

***Texas did not always comply with Federal requirements and its Public Assistance Cost Allocation Plan when it claimed Medicaid administrative costs.***

### WHY WE DID THIS REVIEW

We performed this audit because of concerns the Centers for Medicare & Medicaid Services (CMS) had about Medicaid administrative costs claimed on line 49 of the Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64 report).

### OBJECTIVE

Our objective was to determine whether the Texas Department of Health and Human Service Commission (State agency) complied with Federal requirements and its Public Assistance Cost Allocation Plan (PACAP) when it claimed Medicaid administrative costs.

### BACKGROUND

#### Medicaid Program

The Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, CMS administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements. The State agency administers the Medicaid program. The State agency oversees four other agencies;<sup>1</sup> together, the five agencies make up the Health and Human Services Enterprise (HHS Enterprise).

Section 1903(a)(7) of the Social Security Act permits States to claim Federal reimbursement for 50 percent of the costs of administrative activities that are necessary for the proper and efficient administration of the State Medicaid plan (Medicaid administration). States seek reimbursement for Medicaid administrative costs on the CMS-64 report.

#### Public Assistance Cost Allocation Plan

The State agency administers federally financed public assistance programs as identified in subpart E of 45 CFR part 95. Federal cost principles require that the State agency submit a PACAP and have it approved.<sup>2</sup> The paying agency will allocate the costs of the service being

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<sup>1</sup> The Department of Aging and Disability Services, Department of Assistive and Rehabilitative Services, Department of Family Protective Services, and Department of State Health Services.

<sup>2</sup> Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local, and Tribal Government*, was relocated to 2 CFR part 225. During our audit period, OMB consolidated and streamlined its guidance, which is now located at 2 CFR part 200.

paid in accordance with the methodologies specified in its PACAP. The State agency's PACAP describes the allocation of indirect costs that have been grouped into cost pools, which accumulate costs that benefit more than one program. The State agency's PACAP includes 61 separate cost pools.

### **State Agency's Miscellaneous Regional Full-Time-Equivalent Cost Pool**

In Federal fiscal year (FY) 2014, the State agency claimed \$790,787,745 (\$395,393,873 Federal share) in Medicaid administrative costs on line 49, "Other Care Services" (line 49), of its CMS-64 reports. Line 49 comprises numerous types of expenditures. We reviewed only those expenditures that the State agency reported on line 49 as the Miscellaneous Regional FTE [full-time-equivalent] Cost Pool (miscellaneous regional cost pool). The State agency uses the miscellaneous regional cost pool to allocate regional HHS Enterprise support costs to agencies receiving regional support. The State agency allocates these costs based on an FTE count of all regional staff for which the HHS Enterprise provides support, excluding staff in State Supported Living Centers and State hospitals.

In FY 2014, the State agency claimed Medicaid administrative costs of \$31,512,174 (\$15,756,191 Federal share) for office space and related facility costs included in the miscellaneous regional cost pool. The costs were for the 5 HHS Enterprise agencies to occupy 870 separate facilities that provided space for 24,837 FTE employees across Texas. The State agency accumulates facility costs and then allocates the cost to each HHS Enterprise agency based on its portion of the total FTEs in the cost pool. These costs are then charged to Medicaid and other State agency programs. Most of these miscellaneous regional cost pool costs were associated with State agency employees who determine eligibility for the Medicaid program. Employees who determine eligibility account for half of the State agency's FTEs in the miscellaneous regional cost pool.

### **HOW WE CONDUCTED THIS REVIEW**

We reviewed \$31,512,174 (\$15,756,191 Federal share) of miscellaneous regional cost pool costs that the State agency claimed on line 49 of the CMS-64 report in FY 2014. These costs included mainly office space and related facility costs. We reconciled the amounts reported on line 49 of the CMS-64 report for each quarter with the State agency's summary reports and accounting system records. We applied data analytical tools to compare payroll, facility, and accounting information for errors. We also reviewed 13 sample vouchers totaling \$2,962,224 (\$344,122 Federal share) in related facility costs included in the miscellaneous regional cost pool.

We did not review the overall internal control structure of the State agency or the Medicaid program. Rather, we reviewed only those internal controls related to our objective.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## FINDINGS

The State agency did not always comply with Federal requirements and its PACAP when it claimed Medicaid administrative costs. Of the \$15,756,191 Federal share of Medicaid administrative costs we reviewed, the State agency claimed \$15,700,712 that was allowable under Federal requirements and its PACAP. In addition we found that all of the 13 sample vouchers, totaling \$2,962,224 (\$344,122 Federal share), in related facility costs we reviewed were allowable. However, the State agency did not comply with Federal requirements and its PACAP for the remaining \$55,479 in Medicaid administrative costs. Specifically, the State agency improperly charged Medicaid \$55,479 for colocated warehouse costs included in the miscellaneous regional cost pool. This occurred because the State agency failed to follow the PACAP as written.

### **WAREHOUSE COSTS IMPROPERLY INCLUDED IN THE MISCELLANEOUS REGIONAL COST POOL AND CHARGED TO MEDICAID**

Federal Regulations require the State agency to describe the specific procedures used to identify, measure, and allocate administrative costs in the PACAP, and the procedures should “contain sufficient information in such detail to permit” CMS to “make an informed judgment on the correctness and fairness of the State’s procedures for identifying, measuring, and allocating administrative costs to each of the programs operated by the State agency” (45 CFR § 95.507(b)(4)(a)(4)).

A State must claim Federal financial participation for costs associated with a program only in accordance with its approved cost allocation plan (45 CFR § 95.517(a)). The Federal Government will disallow costs not claimed in accordance with the cost allocation plan (45 CFR § 95.519).

The State agency did not follow the approved cost allocation plan when reporting miscellaneous regional cost pool costs. The State agency improperly charged Medicaid \$55,479 for five colocated warehouses that were included in the miscellaneous regional cost pool. To identify colocated warehouses, we reviewed payroll data to isolate which warehouses were occupied by more than one agency. Colocated warehouse space should not be included in the miscellaneous regional cost pool but rather in the warehouse space cost pool, which has a separate methodology for allocating costs under the PACAP. The miscellaneous regional cost pool allocates costs based on FTE’s, and the warehouse space cost pool allocates costs based on the square footage of leased colocated warehouse space used by each agency.

The State agency agreed that the PACAP needs to be modified to further clarify which warehouse space is allocated to the warehouse space cost pool and which to the miscellaneous regional cost pool and that the definitions in the PACAP were not sufficiently detailed. The current PACAP does not allow colocated warehouse costs to be included in the miscellaneous regional cost pool.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund to the Federal Government \$55,479 for colocated warehouse costs that were improperly charged to Medicaid or work with CMS to determine whether any of the \$55,479 was allowable and
- ensure that the method the State agency uses to allocate the indirect costs is consistent with the approved PACAP.

## **STATE AGENCY COMMENTS**

In written comments on our draft report, the State agency agreed with all of our recommendations and described corrective actions that it had taken or planned to take.

The State agency's comments are included in their entirety as Appendix B.

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

### **SCOPE**

We reviewed \$31,512,174 (\$15,756,191 Federal share) of miscellaneous regional costs that the State agency claimed on line 49 of the CMS-64 report in FY 2014. These costs included office space and related costs. We reconciled the amounts reported on line 49 of the CMS-64 report for each quarter with the State agency's summary reports and accounting system records. We applied data analytical tools to compare payroll, facility, and accounting information for errors. We also reviewed 13 sample vouchers totaling \$2,962,224 (\$344,122 Federal share) in related facility costs included in the miscellaneous regional cost pool.

We did not review the overall internal control structure of the State agency or the Medicaid program. Rather, we reviewed only those internal controls related to our objective.

We performed our fieldwork at the State agency's office in Austin, Texas, periodically from May 2015 to January 2016.

### **METHODOLOGY**

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed the PACAP;
- interviewed State agency officials;
- reconciled the amounts claimed on the CMS-64 report by tracing them to supporting summary reports and the State agency's accounting system;
- performed detailed analytical procedures; and
- discussed our findings with CMS and State agency officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX B: STATE AGENCY COMMENTS



### TEXAS HEALTH AND HUMAN SERVICES COMMISSION

CHARLES SMITH  
EXECUTIVE COMMISSIONER

June 24, 2016

Ms. Patricia Wheeler  
Regional Inspector General for Audit Services  
Department of Health and Human Services  
Office of Inspector General  
Office of Audit Services Region VI  
1100 Commerce, Room 632  
Dallas, Texas 75242

Reference Report Number A-06-15-00038

Dear Ms. Wheeler:

The Texas Health and Human Services Commission (HHSC) received a draft audit report entitled "Texas Did Not Always Comply With Federal Requirements and Its Public Assistance Cost Allocation Plan When It Claimed Medicaid Administrative Costs" from the Department of Health and Human Services Office of Inspector General. The cover letter, dated May 25, 2016, requested that HHSC provide written comments, including the status of actions taken or planned in response to report recommendations.

I appreciate the opportunity to respond. Please find the attached HHSC management response which: (a) includes comments related to the content of the findings and recommendations; and (b) details actions HHSC has completed or planned.

Please let me know if you have any questions or need additional information. David M. Griffith, Deputy IG for Audit, HHSC Inspector General, serves as the lead staff on this matter and may be reached by telephone at (512) 491-2806 or by e-mail at [David.Griffith@hhsc.state.tx.us](mailto:David.Griffith@hhsc.state.tx.us).

Sincerely,

A handwritten signature in black ink, appearing to read "Charles Smith".

Charles Smith

Attachment

P. O. Box 13247 • Austin, Texas 78711 • 4900 North Lamar, Austin, Texas 78751 • (512) 424-6500

Texas Health and Human Services Commission  
Management Response to the  
U.S. Department of Health and Human Services Office of Inspector General Report:

**Texas Did Not Always Comply With Federal Requirements and Its Public Assistance Cost Allocation Plan When It Claimed Medicaid Administrative Costs**

**DHHS - OIG Recommendation:** *We recommend that the State agency refund to the Federal Government \$55,479 for co-located warehouse costs that were improperly charged to Medicaid or work with CMS to determine whether any of the \$55,479 was allowable.*

**HHSC Management Response:**

**Actions Planned:**

HHSC will continue its efforts to determine whether any of the \$55,479 was allowable. Once these efforts are completed, HHSC will coordinate with the Centers for Medicare and Medicaid Services (CMS) to identify a revised overpayment amount and will refund the revised amount to CMS.

**Estimated Completion Date:** One year from the date of the final audit report

**Title of Responsible Person:** Associate Commissioner, Business and Regional Services

**DHHS - OIG Recommendation:** *We recommend that the State agency ensure that the method the State agency used to allocate the indirect costs is consistent with the approved PACAP.*

**HHSC Management Response:**

**Actions Planned:**

HHSC is currently involved in a multi-agency consolidation in which the current Public Assistance Cost Allocation Plan (PACAP) will be reviewed and amended, as appropriate. During this process, HHSC will work with a consultant to identify and draft any necessary PACAP modifications. HHSC will ensure that the revisions clarify the current PACAP ambiguities related to the allocation of indirect costs.

**Estimated Completion Date:** December 1, 2016

**Title of Responsible Person:** HHSC Accounting Director