



March 10, 2010

TO: Charlene Frizzera
Acting Administrator
Centers for Medicare & Medicaid Services

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

SUBJECT: Review of Missouri Medicaid Payments for the School District Administrative Claiming Program for Federal Fiscal Years 2004 Through 2006 (A-07-08-03107)

Attached is an advance copy of our final report on the Missouri Medicaid School District Administrative Claiming Program for Federal fiscal years (FY) 2004 through 2006. We will issue this report to the Missouri Department of Social Services within 5 business days.

The Missouri HealthNet Division (State agency) of the Missouri Department of Social Services administers Missouri's Medicaid program. In February 1999, the State agency contracted with Maximus, Inc. (Maximus), to manage the Missouri School District Administrative Claiming (SDAC) program. Maximus distributed random moment time study (RMTS) forms and trained school districts on how to complete them. Using the RMTS forms, Maximus determined for each quarter the statewide percentages of time spent on allocable Medicaid administrative activities and determined the Federal reimbursements related to the administrative activities performed by individual school districts.

Our objectives were to determine whether the State agency correctly calculated and claimed only allowable administrative costs for the St. Louis Public and Springfield school districts for the SDAC program during FYs 2004 through 2006 and the impact of any RMTS errors identified at the two audited school districts on the RMTS calculation for all other Missouri school districts.

Of the \$15,322,753 (Federal share) the State agency claimed in administrative costs for the St. Louis Public and Springfield school districts for FYs 2004 through 2006, \$4,212,506 (Federal share) was unallowable for Federal reimbursement because the State agency did not correctly calculate and claim administrative costs for the SDAC program. An additional \$1,491,120 (Federal share) in administrative costs claimed for these two school districts may not have been allowable for Federal reimbursement. We accepted the remaining \$9,619,127 (Federal share) as allowable for Federal reimbursement. However, any potential errors in the RMTS process for any other Missouri school district could affect the amount of allowable administrative costs in

the \$9,619,127 (Federal share) claimed by the St. Louis Public and Springfield school districts. In addition, because of errors identified during our review of the St. Louis and Springfield school districts, the other Missouri school districts received \$16,257,164 (Federal share) in unallowable Medicaid payments for FYs 2004 through 2006.

Finally, for one quarter the State agency could not support its claim for school districts statewide because neither it nor Maximus could accurately identify the RMTS forms used in the administrative claim calculation. We are setting aside, for Centers for Medicare & Medicaid Services (CMS) adjudication, \$1,491,120 (Federal share) for administrative costs claimed for the St. Louis Public and Springfield school districts and \$3,858,196 (Federal share) for administrative costs claimed for all other Missouri school districts.

These errors occurred because the State agency did not have adequate policies and procedures to monitor the SDAC program and to ensure that all costs claimed met Federal requirements.

We recommend that the State agency:

- refund \$20,469,670 (\$4,212,506 for the St. Louis Public and Springfield school districts and \$16,257,164 for the other Missouri school districts) to the Federal Government for unallowable SDAC expenditures;
- work with CMS to determine what portion of the \$5,349,316 (\$1,491,120 for the St. Louis Public and Springfield school districts and \$3,858,196 for the other Missouri school districts) of school district administrative costs claimed for the quarter ending December 2004 was allowable;
- review all school district Medicaid administrative claims that the State agency paid after March 2006 to determine whether it included nonresponses in the sample and if so recalculate the administrative claims and refund to the Federal Government the amount overpaid; and
- strengthen policies and procedures to ensure SDAC expenditures submitted for Federal reimbursement are accurate and reasonable by:
 - reviewing RMTS forms, personnel costs, and other costs with the supporting documentation for a sample of school districts each quarter to ensure that the administrative costs are properly claimed and documentation complies with CMS guidance and
 - performing the trend analysis on every school district each quarter to identify potential problems with the claims that the school districts submit to the State agency.

In written comments on our draft report, the State agency agreed with our second and fourth recommendations, disagreed with our third recommendation, and partially agreed with our first recommendation. Nothing in the State agency's comments has caused us to change our findings and recommendations.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to 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 through email at George.Reeb@oig.hhs.gov or Patrick J. Cogley, Regional Inspector General for Audit Services, at 816-426-3591 or through email at Patrick.Cogley@oig.hhs.gov. Please refer to report number A-07-08-03107.

Attachment



March 18, 2010

Report Number: A-07-08-03107

Mr. Ronald J. Levy
Director
Department of Social Services
Broadway State Office Building
P.O. Box 1527
Jefferson City, MO 65102

Dear Mr. Levy:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Missouri Medicaid Payments for the School District Administrative Claiming Program for Federal Fiscal Years 2004 Through 2006*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Greg Tambke, Audit Manager, at (573) 893-8338, extension 30, or through email at Greg.Tambke@oig.hhs.gov. Please refer to report number A-07-08-03107 in all correspondence.

Sincerely,

/Patrick J. Cogley/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Jackie Garner
Consortium Administrator
Consortium for Medicaid and Children's Health Operations
Centers for Medicare & Medicaid Services
233 North Michigan Avenue, Suite 600
Chicago, IL 60601

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MISSOURI MEDICAID
PAYMENTS FOR THE SCHOOL DISTRICT
ADMINISTRATIVE CLAIMING PROGRAM
FOR FEDERAL FISCAL YEARS
2004 THROUGH 2006**



Daniel R. Levinson
Inspector General

March 2010
A-07-08-03107

Office of Inspector General

<http://oig.hhs.gov>

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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.

EXECUTIVE SUMMARY

BACKGROUND

Medicaid Program and Health-related Services to Children

Congress amended section 1903(c) of the Social Security Act in 1988 to allow Medicaid coverage of health-related services provided to children under the Individuals with Disabilities Education Act. The school-based health program permits children to receive health-related services, generally without having to leave school. States may be reimbursed for the administrative activities that directly support identifying and enrolling potentially eligible children in Medicaid. The Federal reimbursement is 50 percent of allowable administrative expenses.

To ascertain the portion of time and activities that is related to the administration of the Medicaid program, States must develop an allocation methodology that is approved by the U.S. Department of Health & Human Services. Random moment sampling, which makes use of random moment time studies (RMTS), is an approved allocation methodology and must reflect all of the time and activities performed by employees participating in the Medicaid administrative claiming program. For the RMTS, participants record their activities at a designated point in time. These RMTS procedures were performed by all school districts to determine, for each quarter, a statewide percentage of time spent on allowable Medicaid reimbursable administrative activities.

Missouri Medicaid Program

The Missouri HealthNet Division (State agency) of the Department of Social Services administers Missouri's Medicaid program. In February 1999, the State agency contracted with Maximus, Inc. (Maximus), to manage the Missouri School District Administrative Claiming (SDAC) program.

Maximus distributed RMTS forms and trained school districts on how to complete them. Using the RMTS forms, Maximus determined for each quarter the statewide percentages of time spent on allocable Medicaid administrative activities and determined the Federal reimbursements related to the administrative activities performed by individual school districts.

The State agency claimed \$188,234,590 (\$94,117,295 Federal share) for administrative costs associated with school-based health services provided by 357 school districts for fiscal years (FY) 2004 through 2006. Of this, the St. Louis Public school district claimed \$28,819,380 (\$14,409,690 Federal share) and the Springfield school district claimed \$1,826,126 (\$913,063 Federal share); we focused on these two school districts. However, because the State agency used an RMTS to develop statewide percentages, any errors associated with the RMTS allocation methodology at those two school districts would affect all the Missouri school districts.

OBJECTIVES

Our objectives were to determine:

- whether the State agency correctly calculated and claimed only allowable administrative costs for the St. Louis Public and Springfield school districts for the SDAC program during FYs 2004 through 2006, and
- the impact of any RMTS errors identified at the two audited school districts on the RMTS calculation for all other Missouri school districts.

SUMMARY OF FINDINGS

Of the \$15,322,753 (Federal share) the State agency claimed in administrative costs for the St. Louis Public and Springfield school districts for FYs 2004 through 2006, \$4,212,506 (Federal share) was unallowable for Federal reimbursement because the State agency did not correctly calculate and claim administrative costs for the SDAC program. An additional \$1,491,120 (Federal share) in administrative costs claimed for these two school districts may not have been allowable for Federal reimbursement. We accepted the remaining \$9,619,127 (Federal share) as allowable for Federal reimbursement. However, any potential errors in the RMTS process for any other Missouri school district could affect the amount of allowable administrative costs in the \$9,619,127 (Federal share) claimed by the St. Louis Public and Springfield school districts.

In addition, because of errors identified during our review of the St. Louis Public and Springfield school districts, the other Missouri school districts received \$16,257,164 (Federal share) in unallowable Medicaid payments for FYs 2004 through 2006. Specifically:

- Errors in the RMTS of the two audited school districts affected the calculation of the statewide RMTS percentages. As a result, an additional \$1,283,719 (Federal share) claimed on behalf of the other Missouri school districts was unallowable.
- The State agency did not include RMTS nonresponses in the sample, which rendered the results unreliable. Excluding nonresponses caused the other Missouri school districts to receive \$14,700,418 (Federal share) in unallowable payments.
- The State agency did not accurately account for all returned RMTS forms in the calculation of the SDAC expenditures. These errors affected the calculation of claims statewide and made unallowable an additional \$273,027 (Federal share) claimed on behalf of the other Missouri school districts.

Finally, for one quarter the State agency could not support its claim for school districts statewide because neither it nor Maximus could accurately identify the RMTS forms used in the administrative claim calculation. We are setting aside, for the Centers for Medicare & Medicaid Services (CMS) adjudication, \$1,491,120 (Federal share) for administrative costs claimed for the St. Louis Public and Springfield school districts and \$3,858,196 (Federal share) for administrative costs claimed for all other Missouri school districts.

These errors occurred because the State agency did not have adequate policies and procedures to monitor the SDAC program and to ensure that all costs claimed met Federal requirements.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$20,469,670 (\$4,212,506 for the St. Louis Public and Springfield school districts and \$16,257,164 for the other Missouri school districts) to the Federal Government for unallowable SDAC expenditures;
- work with CMS to determine what portion of the \$5,349,316 (\$1,491,120 for the St. Louis Public and Springfield school districts and \$3,858,196 for the other Missouri school districts) of school district administrative costs claimed for the quarter ending December 2004 was allowable;
- review all school district Medicaid administrative claims that the State agency paid after March 2006 to determine whether it included nonresponses in the sample and if so recalculate the administrative claims and refund to the Federal Government the amount overpaid; and
- strengthen policies and procedures to ensure SDAC expenditures submitted for Federal reimbursement are accurate and reasonable by:
 - reviewing RMTS forms, personnel costs, and other costs with the supporting documentation for a sample of school districts each quarter to ensure that the administrative costs are properly claimed and documentation complies with CMS guidance and
 - performing the trend analysis on every school district each quarter to identify potential problems with the claims that the school districts submit to the State agency.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State agency agreed with our second and fourth recommendations, disagreed with our third recommendation, and partially agreed with our first recommendation. The State agency said that “the RM[T]S calculation methodology is contained in the School District Administrative Claiming manual ..., approved by CMS as stated in the February 27, 2004 letter” The State agency’s comments are presented in Appendix B. We excluded one attachment because of its volume. We will forward all of the attachments in their entirety to CMS.

Nothing in the State agency’s comments has caused us to change our findings and recommendations.

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A – REVISED SAMPLE SIZE THAT INCLUDES NONRESPONSES

B – STATE AGENCY COMMENTS

INTRODUCTION

BACKGROUND

Medicaid Program and Health-related Services to Children

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

Congress amended section 1903(c) of the Act in 1988 to allow Medicaid coverage of health-related services provided to children under the Individuals with Disabilities Education Act. The school-based health program permits children to receive health-related services, generally without having to leave school. The Act provides for States to be reimbursed for the administrative activities that directly support identifying and enrolling potentially eligible children in Medicaid. Administrative functions include outreach, eligibility intake, information and referral, health service coordination and monitoring, and interagency coordination. The Federal reimbursement is 50 percent of allowable administrative expenses.

To ascertain the portion of time and activities that is related to the administration of the Medicaid program, States must develop an allocation methodology that is approved by the U.S. Department of Health & Human Services, Division of Cost Allocation. Random moment sampling, which makes use of random moment time studies (RMTS), is an approved allocation methodology and must reflect all of the time and activities (whether allocable or allowable under Medicaid) performed by employees participating in the Medicaid administrative claiming program. For the RMTS, participants record their activities at a designated point in time. In Missouri, it was used to identify, measure, and allocate the school staff's time that was devoted to Medicaid reimbursable administrative activities. These RMTS procedures were performed by all school districts to determine, for each quarter, a statewide percentage of time spent on allowable Medicaid reimbursable activities.

According to the Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, random moment sampling is a federally accepted method for tracking employees working in dynamic situations (that is, performing many different types of activities on a variety of programs over a short period of time). The CMS *Medicaid School-Based Administrative Guide* (CMS guide), dated October 2003, acknowledges that OMB Circular A-87 lists random moment sampling as one acceptable method for allocating salaries to Federal awards when employees work on multiple activities or cost objectives.

Missouri Medicaid Program

The Missouri HealthNet Division (formerly Division of Medical Services) (State agency) of the Department of Social Services administers Missouri's Medicaid program. In February 1999, the State agency entered into a contingency fee contract with Maximus, Inc. (Maximus), to manage the Missouri School District Administrative Claiming (SDAC) program. The purpose of the contingency fee contract was for Maximus to maximize Federal reimbursement to the State agency on behalf of the SDAC program by analyzing the services and billing mechanisms. The contingency fee contract stated that Maximus was to receive a fixed percentage of Federal dollars ranging from 5.75 to 7 percent depending on the fiscal year (FY). Accordingly, school districts paid Maximus a combined total of \$8,257,086 during Federal FYs 2004 through 2006. (These fees were not claimed for Federal reimbursement.)

Maximus distributed RMTS forms and trained school districts on how to complete them. On a quarterly basis, the school districts submitted to Maximus a list of all school district employees participating in the SDAC program (SDAC participants). Maximus consolidated these personnel listings and statistically selected SDAC participants from a statewide pool to include in the RMTS. Maximus then provided the school districts with RMTS forms for those selected SDAC participants, as well as information on the statistically selected date and time (the random moment). Each of the selected SDAC participants then completed the RMTS form by (a) selecting the RMTS activity code that best described the activity he or she was performing at the selected random moment and (b) providing a written description of the activity.

The CMS guide, section V(B), directed the State agency to include each RMTS form sent to participants in the sample and to classify as a non-Medicaid activity each RMTS form not completed and returned (nonresponse).

Using the RMTS forms, Maximus determined the statewide percentages of time spent on allocable Medicaid administrative activities.¹ For each quarter, Maximus applied the applicable statewide percentage to salaries, fringe benefits, and other costs associated with the provision of school-based health services to determine the Federal reimbursements related to the administrative activities performed by individual school districts.

The State agency claimed \$188,234,590 (\$94,117,295 Federal share) for administrative costs associated with school-based health services provided by 357 school districts for FYs 2004 through 2006. Of this, the St. Louis Public school district claimed \$28,819,380 (\$14,409,690 Federal share) and the Springfield school district claimed \$1,826,126 (\$913,063 Federal share); we focused on these two school districts. However, because the State agency used an RMTS to develop, on a statewide basis, the percentages of effort that employees spent on various Medicaid administrative activities, any errors associated with the RMTS allocation methodology at the two school districts would affect all of the other Missouri school districts.

¹ Maximus's calculations yielded a number of percentages because each Medicaid administrative activity had its own percentage. While these percentages varied from one quarter to the next, the percentage for a particular Medicaid administrative activity in a particular quarter did not change from one school district to the next.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

Our objectives were to determine:

- whether the State agency correctly calculated and claimed only allowable administrative costs for the St. Louis Public and Springfield school districts for the SDAC program during FYs 2004 through 2006 and
- the impact of any RMTS errors identified at the two audited school districts on the RMTS calculation for all other Missouri school districts.

Scope

During our audit period, the State agency claimed \$188,234,590 (\$94,117,295 Federal share) for administrative costs associated with school-based health services provided by 357 school districts in Missouri. We performed an indepth review of the school district administrative claims filed on behalf of the St. Louis Public and Springfield school districts. We selected these two school districts based on the amounts they claimed for administrative activities during FYs 2004 through 2006. The State agency claimed \$30,645,506 (\$15,322,753 Federal share) for administrative costs associated with these two school districts, out of the \$188,234,590 (\$94,117,295 Federal share) that the State agency claimed for administrative costs associated with school-based health services provided by all 357 Missouri school districts for FYs 2004 through 2006.

We did not perform a detailed review of the State agency's internal controls because our objectives did not require us to do so. We limited our internal control review to obtaining an understanding of the State agency's policies and procedures used to claim SDAC expenditures.

Because the State agency used statewide RMTS percentages to calculate administrative costs for other Missouri school districts, RMTS errors at the 2 audited school districts affected the remaining 355 school districts. Therefore, although we did not review the other school districts in Missouri, we applied the revised RMTS percentages to the costs for all school districts statewide.²

In general, we do not express an opinion on the total and Federal share amounts claimed on the standard form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program, for the other 355 Missouri school districts for the purpose of performing calculations in this audit. We are not expressing an opinion on those costs except for the effect of the revised RMTS percentages on their administrative costs and for the quarter ending December 2004.

² Maximus calculated the percentages of time that school districts' staff spent on allowable administrative activities by analyzing the statewide RMTS forms. Maximus used the percentages of time spent on allowable administrative activities to calculate each school district's SDAC quarterly claim. An error in the RMTS for one or more school districts would thus affect all school districts within the State.

We conducted fieldwork at the State agency in Jefferson City, Missouri, and the two school districts.

Methodology

To accomplish our objectives, we:

- reviewed applicable Federal and State requirements;
- reviewed the State agency's policies and procedures concerning administrative activities, which included the State agency's monitoring and oversight procedures;
- interviewed State agency employees to understand how they administered the Medicaid program statewide;
- reconciled the State agency's quarterly CMS-64 report to the SDAC invoices submitted by Maximus on behalf of all Missouri school districts and to the State agency's accounting records;
- reconciled the SDAC invoices for the St. Louis Public and Springfield school districts accounting records;
- interviewed Maximus employees to understand how they administered the SDAC program and how the statewide RMTS percentages were calculated;
- reviewed St. Louis Public and Springfield school districts' SDAC invoices reimbursed during FYs 2004 through 2006;
- compared St. Louis Public and Springfield school districts' SDAC program personnel costs to payroll records to identify any personnel costs that were paid by other Federal programs;
- compared costs in the Other Costs category and the indirect cost rate reported on the SDAC invoices to supporting documentation;
- analyzed the sample results listing of RMTS responses to ensure that the State agency accounted for all of the returned RMTS forms when calculating the SDAC expenditures to be claimed;
- compared the sample results listing of RMTS responses included in the sample to determine whether the State agency included nonresponses in the sample pursuant to the CMS guide, section V(B);
- reviewed 1,679 RMTS forms completed by employees of the two school districts to determine whether activities performed were Medicaid administrative activities;

- recalculated the St. Louis Public and Springfield school districts' administrative claims using the audited expenditures and the audited statewide RMTS percentages to determine the amounts that should have been claimed;
- recalculated other Missouri school districts' administrative claims using the audited statewide RMTS percentages;
- compared the RMTS control listings³ to RMTS forms to determine which of these forms Maximus used in calculating the RMTS percentages;
- used the State agency's formulas for calculating administrative costs and determined the effect by comparing the original claiming invoices to the total of audited RMTS samples and costs; and
- shared the results of this review 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.

FINDINGS AND RECOMMENDATIONS

Of the \$15,322,753 (Federal share) the State agency claimed in administrative costs for the St. Louis Public and Springfield school districts for FYs 2004 through 2006, \$4,212,506 (Federal share) was unallowable for Federal reimbursement because the State agency did not correctly calculate and claim administrative costs for the SDAC program. An additional \$1,491,120 (Federal share) in administrative costs claimed for these two school districts may not have been allowable for Federal reimbursement. We accepted the remaining \$9,619,127 (Federal share) as allowable for Federal reimbursement. However, any potential errors in the RMTS process for any other Missouri school district could affect the amount of allowable administrative costs in the \$9,619,127 (Federal share) claimed by the St. Louis Public and Springfield school districts.

In addition, because of errors identified during our review of the St. Louis Public and Springfield school districts, the other Missouri school districts received \$16,257,164 (Federal share) in unallowable Medicaid payments for FYs 2004 through 2006. Specifically:

- Errors in the RMTS of the two audited school districts affected the calculation of the statewide RMTS percentages. As a result, an additional \$1,283,719 (Federal share) claimed on behalf of the other Missouri school districts was unallowable.

³ The RMTS control listing is Maximus's statistical sample of SDAC participants, along with the random moments selected, for each quarter.

- The State agency did not include RMTS nonresponses in the sample, which rendered the results unreliable. Excluding nonresponses caused the other Missouri school districts to receive \$14,700,418 (Federal share) in unallowable payments.
- The State agency did not accurately account for all returned RMTS forms in the calculation of the SDAC expenditures. These errors affected the calculation of claims statewide and made unallowable an additional \$273,027 (Federal share) claimed on behalf of the other Missouri school districts.

Finally, for one quarter the State agency could not support its claim for school districts statewide because neither it nor Maximus could accurately identify the RMTS forms used in the administrative claim calculation. We are setting aside, for CMS adjudication, \$1,491,120 (Federal share) for administrative costs claimed for the St. Louis Public and Springfield school districts and \$3,858,196 (Federal share) for administrative costs claimed for all other Missouri school districts.

These errors occurred because the State agency did not have adequate policies and procedures to monitor the SDAC program and to ensure that all costs claimed met Federal requirements.

INACCURATE INVOICES FOR AUDITED SCHOOL DISTRICTS

Of the \$15,322,753 (Federal share) in administrative costs claimed for the St. Louis Public and Springfield school districts for FYs 2004 through 2006, \$4,212,506 was unallowable for Federal reimbursement because the State agency did not correctly calculate and claim administrative costs for the SDAC program. Specifically, for the St. Louis Public and Springfield school districts, the State agency: (1) claimed personnel costs that were partially funded by other Federal programs; (2) claimed inaccurate personnel costs; (3) used an incorrect indirect cost rate; (4) claimed incorrect Other Costs; (5) improperly excluded nonresponses from the sample, which rendered the results unreliable; (6) claimed costs based on inaccurately completed RMTS forms; and (7) did not include all returned RMTS forms in the sample when calculating SDAC expenditures to be claimed. (See Table.)

Table: St. Louis Public and Springfield School District’s Questioned Costs

Condition	St. Louis Public Questioned Costs	Springfield Questioned Costs	Total Questioned Costs
Claimed costs that should have been offset by other Federal revenue sources but were not	\$370,771	\$86,558	\$457,329
Inaccurate personnel costs	0	1,730	1,730
Improper indirect cost rate	139,390	0	139,390
Inaccurate Other Costs:			
Year-to-date expenditures	0	1,534	1,534
Unsupported expenditures	22,799	8,697	31,496
Nonresponses excluded from sample	2,794,324	160,353	2,954,677
Inaccurate RMTS forms	367,191	17,314	384,505
Inaccurate response count	231,180	10,665	241,845
Total	\$3,925,655	\$286,851	\$4,212,506

Claimed Costs That Should Have Been Offset by Other Federal Revenue Sources But Were Not

OMB Circular A-87, Attachment A, part (C)(1)(j), states that costs must “[b]e adequately documented.” OMB Circular A-87, Attachment A, part (C)(3)(c), states in part that “[a]ny cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.”

According to the CMS guide, section V(C), “[c]ertain revenues must offset allocation costs in order to reduce the total amount of costs in which the federal government will participate 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”

These Federal requirements specify that school districts are not to include in their claims any expenditure that may have been reimbursed through another Federal program. For example, the school districts should not claim the same expenditures for reimbursement through both the SDAC and the Reserve Officers’ Training Corps (ROTC) programs. Instead, the school districts should allocate the expenditures appropriately between the programs.

Through our review of the payroll records, we determined which SDAC participants’ salaries were partially paid through one or more other Federal programs. The two audited school districts, St. Louis Public and Springfield, received unallowable Federal reimbursement totaling \$457,329 in personnel costs for employees whose salaries were partially funded by another Federal program, such as the ROTC program (funded by the Department of Defense). The two school districts should have allocated these personnel costs appropriately between the various Federal programs that were funding those costs. Instead, though, and contrary to

OMB Circular A-87, Attachment A, part (C)(3)(c) and the CMS guide, section V(C), the two school districts did not offset these claimed costs on the basis of the other Federal revenue sources that had contributed to the funding of those salaries.

Inaccurate Personnel Costs

Contrary to OMB Circular A-87, Attachment A, part (C)(1)(j), which states that costs must “[b]e adequately documented,” Maximus included on the Springfield school district’s invoice personnel costs that were not supported by documentation. For the quarter ending September 2004, Maximus reported \$30,000 more to the State agency in personnel costs than the Springfield school district reported to Maximus. Because of this error, the Springfield school district received \$1,730 in unallowable Federal reimbursement.

Improper Indirect Cost Rate

According to the CMS guide, section V(D), “[c]laims for the school district’s indirect costs are only allowable when the entity has an approved indirect cost rate issued by the cognizant agency and costs are claimed in accordance with the rate.”

The St. Louis Public school district received unallowable Federal reimbursement totaling \$139,390 because Maximus used an incorrect indirect cost rate—which had not been approved—to calculate that district’s claim for the quarters ending June 2003 and September 2003. The Missouri Department of Elementary and Secondary Education (DESE) is the cognizant agency that provides the approved indirect cost rate for each school district to the State agency. Each school district is to use that rate in claiming its indirect costs. Maximus used an indirect cost rate of 31.52 percent for the St. Louis Public school district. However, the DESE-approved indirect cost rate for St. Louis Public school district was 24.67 percent. Because Maximus used the incorrect indirect cost rate, the St. Louis Public school district claimed costs that did not conform to the approved rate and therefore received \$139,390 in unallowable Federal reimbursement.

Inaccurate Other Costs

OMB Circular A-87, Attachment A, part (C)(1), states that “[t]o be allowable under Federal awards, costs must meet the following general criteria: (a) Be necessary and reasonable for proper and efficient performance and administration of Federal awards (e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit (j) Be adequately documented.”

Maximus did not properly calculate the Other Costs claimed on the SDAC invoices. First, the Springfield school district provided inaccurate year-to-date numbers, which Maximus used when calculating the Other Costs. Second, neither the two audited school districts nor Maximus could support all of the expenditures (for Other Costs) reported to Maximus. The combined effect of these errors, detailed in the following paragraphs, was that the two audited school districts received a total of \$33,030 in unallowable Federal reimbursement for Other Costs.

Inaccurate Use of Year-to-Date Expenditures

Contrary to OMB Circular A-87, Attachment A, part (C)(1)(j), which states that costs must “[b]e adequately documented,” the Springfield school district did not adequately document all of the Other Costs it claimed for Federal reimbursement when submitting expenditures to Maximus. Specifically, the Springfield school district provided year-to-date expenditures instead of quarterly data for the quarters ending December 2005 and March 2006, thus overstating quarterly costs. The school district discovered the error and submitted revised (quarterly) data to Maximus. However, Maximus used the original year-to-date data to calculate the Other Costs for the Springfield school district, which caused the Springfield school district to receive \$1,534 in unallowable Federal reimbursement.

Unsupported Expenditures

Contrary to OMB Circular A-87, Attachment A, part (C)(1)(j), which states that costs must “[b]e adequately documented,” the two school districts reviewed did not adequately document, and thus could not fully support, some of the expenditures claimed for Other Costs. Specifically, for two quarters the St. Louis Public school district reported inaccurate personnel costs, which resulted in unallowable Federal reimbursement totaling \$22,799. Additionally, for seven quarters the Springfield school district could not support some of the expenditures for Other Costs reported to Maximus, which resulted in unallowable Federal reimbursement totaling \$8,697.

The St. Louis Public school district identified an error in the amount of SDAC participants’ personnel expenditures reported to Maximus for the quarter ending September 2005, and it submitted revised SDAC participant personnel expenditures. The SDAC invoice subsequently submitted through Maximus to the State agency and forwarded for Federal reimbursement was based on the original expenditures, not on the corrected amounts. Later, Maximus submitted a revised claim correcting the salaries and benefits portion of the claim but not correcting the amount claimed for Other Costs. Because Maximus did not revise the Other Costs calculation for the quarter ending September 2005, the St. Louis Public school district received \$22,179 in unallowable Federal reimbursement.

We noted another error in Maximus’s calculations of the Other Costs for the St. Louis Public school district. Maximus included additional SDAC salary costs that the school district did not report. Maximus calculated the Other Costs by developing a ratio of the salaries and benefits for the SDAC participants to the salaries and benefits of all employees in the school district. However, the salaries for all SDAC participants did not match what was claimed on the SDAC invoice. The Other Costs claimed were based on SDAC participants’ salary costs that the school district had not reported for the quarter ending December 2004, and therefore these Other Costs could not be supported. As a result, the school district received \$620 in unallowable Federal reimbursement.

In addition, the Springfield school district could not provide documentation to support the expenditures used in the Other Cost calculations for seven quarters of our review period. The supporting documentation obtained did not support 100 percent of the expenditures originally

submitted to Maximus. Because the Springfield school district could not support the Other Costs, it received \$8,697 in unallowable Federal reimbursement.

Nonresponses Excluded From Sample

OMB Circular A-87, Attachment B, section 8(h)(6), states: “Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports.” This document adds that substitute systems include random moment sampling. In addition, OMB Circular A-87, Attachment B, section 8(h)(6)(a), states: “Substitute systems which use sampling methods (primarily for Temporary Assistance to Needy Families (TANF), Medicaid, and other public assistance programs) must meet acceptable statistical sampling standards” Further, OMB Circular A-87, Attachment B, section 8(h)(6)(a)(iii), states: “The results must be statistically valid”

The CMS guide, section V(A)(2), states that “... the validity and reliability of the sampling methodology must be acceptable to CMS. That is, the state must include details of how its time study methodology will be validated.”

In addition, section V(B) of the CMS guide states, “... all nonresponses [RMTS forms that were not completed and returned to Maximus] should be coded to non-Medicaid time study codes.” The CMS guide also states: “... many schools oversample and/or factor in a non-response rate in their time study methodology.”⁴ CMS central office and regional officials informed us that the CMS guide means that State Medicaid agencies can use oversampling to factor nonresponses into their methodology but only with prior approval from CMS for the use of the alternate methodology. That is, any alternate methodology used to compensate for nonresponses must be submitted to CMS for review and approval before implementation and must also be statistically valid and reliable.

The State agency did not fully adhere to the provisions of the CMS guide regarding nonresponse RMTS forms. The State agency applied an alternate methodology in which it opted to oversample to ensure a minimum number of responses but did not consider the nonresponses in the results.⁵ The State agency applied two different methodologies during the period we reviewed. Neither methodology was described in the procedure that was CMS-approved. Pursuant to the CMS guide, all nonresponses should have been coded to non-Medicaid timestudy codes.

Out of 32,852 RMTS forms sent to SDAC participants statewide, the State agency did not include 8,059 nonresponses in the RMTS samples for the nine quarters reviewed. (See Appendix A.) Instead, the State agency applied an alternate methodology that omitted the

⁴ Oversampling, in this context, refers to the process whereby the State agency sends out more RMTS forms than are required to compensate for known or expected nonresponses.

⁵ We interviewed CMS officials about the use of oversampling and the interpretation of the CMS guide. According to CMS central office staff, oversampled results may only be substituted for nonresponses if there is a CMS approved alternate methodology.

8,059 nonresponse RMTS forms. The average nonresponse rate for the nine quarters reviewed was 24 percent, with a high of 34 percent in one quarter.

Because the State agency used an unapproved alternate methodology that discarded the RMTS nonresponses and because those nonresponses constituted such a high proportion of the RMTS forms sent to SDAC participants statewide, we concluded that the estimates from the RMTS were not reliable. CMS central office and regional officials agreed with our determination.

After identifying the improperly excluded nonresponses, we used the State agency's methodology but also accounted for 100 percent of the samples pursuant to the CMS guide. We used the State agency's formulas for calculating administrative costs and determined the effect by comparing the original claiming invoices to the total of audited RMTS samples. We determined that because of their improper exclusion of nonresponses, the two audited school districts received \$2,954,677 (\$2,794,324 for the St. Louis Public school district and \$160,353 for the Springfield school district) in unallowable Federal reimbursement.

Inaccurate Random Moment Time Study Forms

OMB Circular A-87, Attachment A, part (C)(1)(j), states that costs must “[b]e adequately documented.”

Additionally, the CMS guide, section V(A), states:

The documentation for administrative activities must clearly demonstrate that the activities/services directly support the administration of the Medicaid program The burden of proof and validation of time study sample results remains the responsibility of the states. To meet this requirement, some states currently include space on time study forms for a brief narrative description of the Medicaid activity, function, or task being performed.

The *Medicaid School District Administrative Claiming—Procedures for Missouri Schools* guide mandates that “... to establish the validity of the Missouri Random Moment observation form [RMTS] ...” school districts will implement a process whereby the RMTS form “... also contains a description line upon which sampled staff provide a brief, written description of what they are doing. The written description, assumed to be more accurate than the ‘check box’, is compared to the activity box that was checked to confirm that the two data elements are consistent with one another.”⁶

With respect to timely completion of the RMTS forms, the *Missouri Medicaid School District Administrative Claiming—District SDAC Coordinator’s Guidelines* states “... that the signature date is the same as the observation date shown on the form or closely thereafter. Forms dated prior to the assigned date will be considered invalid.” We considered any RMTS form signed and dated 7 or more days after the assigned date or before the assigned date to be invalid.

⁶ If, in our review of the RMTS forms, we found that the check box indicated a non-Medicaid activity but the corresponding written description supported a Medicaid-allowable activity, we changed the classification from a non-Medicaid activity to a Medicaid-allowable activity.

The State agency did not monitor the RMTS to ensure the RMTS forms (a) were properly completed and (b) supported the activities performed. The two school districts we reviewed completed 293 out of 1,679 RMTS forms (17.5 percent) inaccurately, but Maximus included these inaccurately completed RMTS forms when it calculated the RMTS percentages. The three types of errors are described below:

1. Of the 293 inaccurate RMTS forms, 235 forms (80 percent) had an activity code and a written description that did not match. For example, an SDAC participant selected the activity code “General Administration” but provided a written description that said, “Interacting with third graders as they moved through the lunch line.” According to the CMS guide, section IV(C), “Providing general supervision of students (e.g. playground, lunchroom)” is classified as “School-Related and Educational Activities.” This category may not be reimbursed through the SDAC program, unlike “General Administration” activities, which are reallocated proportionately to all activity codes.
2. Of the 293 inaccurate RMTS forms, 24 forms (8 percent) either had no written description of the activity or the description was so vague that it did not support the activity. For example, one written description stated, “Resource Teacher: Duties include working with students with various disabilities that are part of the General Education Curriculum.” The SDAC participant coded this activity as “Referral, Coordination, and Monitoring of Medicaid Services.” The written description vaguely described occupational duties rather than specific activities during the selected random moment.
3. Of the 293 inaccurate RMTS forms, 34 forms (12 percent) were either not dated or were dated before or significantly after (i.e., after the 7-day cutoff we established for timely completion) the selected random moment. For example, one RMTS form was completed 63 days after the selected random moment. The point of an RMTS is that selected SDAC participants promptly and accurately record their precise activities during the specific statistically selected moment. It is unlikely that a participant could remember what task he or she performed during a specific moment after 2 months.

We reclassified the 293 RMTS coding errors and recalculated the SDAC invoices for the St. Louis Public and Springfield school districts accordingly. (See footnote 1.) Because of the RMTS coding errors, the two school districts received \$384,505 (\$367,191 for the St. Louis Public school district and \$17,314 for the Springfield school district) in unallowable Federal reimbursement.

Inaccurate Response Count

Contrary to OMB Circular A-87, Attachment A, part (C)(1)(j), which states that costs must “[b]e adequately documented,” the State agency did not account for all completed and returned RMTS forms in the calculation of the SDAC expenditures.

The State agency calculated the St. Louis Public and Springfield school districts’ SDAC invoices for the quarter ending June 2004 using incorrect and unsupported RMTS forms. In particular, the State agency used a total RMTS count of 2,080. However, documentation supported that

2,734 RMTS forms were completed and returned. Therefore, the State agency did not account for 654 of the completed and returned RMTS forms when calculating and claiming the administrative costs for the St. Louis and Springfield school districts.

As a result of these errors, the two school districts received a total of \$241,845 (\$231,180 for the St. Louis Public school district and \$10,665 for the Springfield school district) in unallowable Federal reimbursement.

IDENTIFIED INACCURACIES AT AUDITED SCHOOL DISTRICTS AFFECTED CLAIMS STATEWIDE

Random Moment Time Study Errors Affected Claims Statewide

Because the statewide RMTS was calculated using responses from all Missouri school districts, RMTS errors associated with the two audited school districts affected the amounts claimed on the SDAC invoices for each of the other Missouri school districts. Therefore, we used the audited RMTS response count from the St. Louis Public and Springfield school districts (for which we reclassified the 293 RMTS coding errors) to recalculate the statewide RMTS percentages for the other Missouri school districts. In turn, the recalculated percentages affected the SDAC invoices statewide. After recalculating the SDAC invoices, we determined that the other Missouri school districts received \$1,283,719 in unallowable Federal reimbursement.

Inaccurate Response Count Affected Claims Statewide

For one quarter, the State agency calculated the SDAC invoices using incorrect and unsupported RMTS forms. Specifically, the State agency used the RMTS count in calculating each school district's administrative claim. The State agency then used the RMTS count to determine the RMTS percentages. For the quarter ending June 2004, the State agency did not account for 100 percent of the completed and returned RMTS forms. Out of 2,734 completed and returned RMTS forms, the State agency incorrectly included only 2,080 completed and returned RMTS forms in its calculation of the administrative claims. After recalculating the SDAC invoices on the basis of the 2,734 completed and returned RMTS forms reflected in the supporting documentation, we determined that the other Missouri school districts received \$273,027 in unallowable Federal reimbursement.

Nonresponses Not Included in Sample on Claims Statewide

The State agency did not fully adhere to the CMS guide regarding nonresponse RMTS forms. Because the State agency did not properly include 8,059 nonresponses when determining the RMTS percentages, the remaining 355 Missouri school districts received \$14,700,418 in unallowable Federal reimbursement.

POTENTIALLY UNALLOWABLE COSTS CLAIMED

The State agency could not support one quarter of the RMTS results used in calculating the administrative claim for each of the two school districts reviewed. Maximus provided statewide

control listings, which specified the RMTS forms it used to calculate, for each quarter, the statewide percentage of time that SDAC participants spent on allocable Medicaid administrative activities. For the quarter ending December 2004, the control number used to identify each RMTS form for the St. Louis Public and Springfield school districts did not match the control number shown on the statewide control listing provided by Maximus.⁷ In other words, the list of SDAC participants selected to be sampled at random moments was different from the list of SDAC participants who were actually sampled and gave responses. Consequently, we could not determine, for the quarter ending December 2004, which RMTS form results Maximus used to calculate the statewide percentage of time that SDAC participants spent on allowable Medicaid administrative activities. Neither the State agency nor Maximus was able to accurately identify the RMTS forms that Maximus had actually used to claim administrative expenses. Because we could not reconcile the RMTS results to supporting documentation, we are setting aside, for CMS adjudication, \$5,349,316 that was paid to all Missouri school districts (\$1,491,120 for the St. Louis Public and Springfield school districts and \$3,858,196 for the other Missouri school districts).

MEDICAID ADMINISTRATIVE CLAIMING NOT ADEQUATELY MONITORED

The State agency did not have adequate policies and procedures to monitor the SDAC program and to ensure that all costs claimed met Federal requirements. The State agency staff informed us that it performed a trend analysis on each school district's SDAC invoice. The State agency was to compare the current SDAC invoice to the prior SDAC invoice and question any variances of greater than 5 percent. We identified variances of greater than 5 percent, but the State agency could not provide supporting documentation that it had questioned any variances within our audit period.

EFFECT OF UNALLOWABLE CLAIMS PAID

Because the State agency did not correctly calculate and claim only allowable administrative costs for the SDAC program, it received \$20,469,670 (Federal share) in unallowable Federal reimbursement.

The two school districts we reviewed received a total of \$4,212,506 (Federal share) for unallowable costs. We recalculated the SDAC invoices using the revised sample, personnel expenditures, Other Costs, indirect cost rate, and RMTS results. The St. Louis Public school district was reimbursed \$3,925,655 (Federal share) and the Springfield school district was reimbursed \$286,851 (Federal share) for unallowable costs.

In addition, because of errors identified during our review of the St. Louis and Springfield school districts, the other Missouri school districts received \$16,257,164 (Federal share) in unallowable Medicaid payments for FYs 2004 through 2006:

⁷ We did not specifically reconcile the control number used to identify each RMTS form to the statewide control listing for the other Missouri school districts. However, while we did not verify the presence and effects of these potential errors in the other Missouri school districts, it is likely that there were measurable effects. A potential error in the RMTS percentages for any other Missouri school district could affect the amount of allowable administrative costs claimed by the St. Louis Public and Springfield school districts and vice versa.

- Errors in the RMTS of the two audited school districts affected the calculation of the statewide RMTS percentages. As a result, an additional \$1,283,719 (Federal share) claimed on behalf of the other Missouri school districts was unallowable.
- Contrary to Federal guidelines, the State agency did not include the nonresponses when calculating RMTS percentages, which resulted in the other Missouri school districts receiving \$14,700,418 in unallowable payments.
- The State agency did not accurately account for all returned RMTS forms in the calculation of the SDAC expenditures. These RMTS response count errors affected the calculation of claims statewide. As a result, an additional \$273,027 (Federal share) claimed on behalf of the other Missouri school districts was unallowable.

We are also setting aside \$5,349,316 (Federal share)—\$1,491,120 for the St. Louis Public and Springfield school districts and \$3,858,196 for the other Missouri school districts—because the RMTS percentage used in the SDAC calculation for the quarter ending December 2004 could not be supported. We could not identify, for that quarter, which RMTS results Maximus used to calculate the statewide percentage of time SDAC participants spent on allocable Medicaid administrative activities.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$20,469,670 (\$4,212,506 for the St. Louis Public and Springfield school districts and \$16,257,164 for the other Missouri school districts) to the Federal Government for unallowable SDAC expenditures;
- work with CMS to determine what portion of the \$5,349,316 (\$1,491,120 for the St. Louis Public and Springfield school districts and \$3,858,196 for the other Missouri school districts) of school district administrative costs claimed for the quarter ending December 2004 was allowable;
- review all school district Medicaid administrative claims that the State agency paid after March 2006 to determine whether it included nonresponses in the sample and if so recalculate the administrative claims and refund to the Federal Government the amount overpaid; and
- strengthen policies and procedures to ensure SDAC expenditures submitted for Federal reimbursement are accurate and reasonable by:
 - reviewing RMTS forms, personnel costs, and other costs with the supporting documentation for a sample of school districts each quarter to ensure that the administrative costs are properly claimed and documentation complies with CMS guidance and

- performing the trend analysis on every school district each quarter to identify potential problems with the claims that the school districts submit to the State agency.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State agency agreed with our second and fourth recommendations, disagreed with our third recommendation, and partially agreed with our first recommendation. A summary of the State agency's points of disagreement and our response follows. The State agency's comments are presented in Appendix B. We excluded one attachment because of its volume. We will forward all of the attachments in their entirety to CMS.

For our first recommendation, which involved the \$20,469,670 in questioned costs, the State agency agreed with our findings as to inaccurate personnel costs (\$1,730), the use of an improper indirect cost rate (\$139,390), and inaccurate other costs (\$33,030). However, the State agency disagreed with other findings that contributed to our first recommendation.

Claimed Costs That Should Have Been Offset by Other Federal Revenue Sources But Were Not

State Agency Comments

The State agency disagreed that the two audited school districts, St. Louis Public and Springfield, received unallowable Federal reimbursement totaling \$457,329 and said that it is continuing to analyze the additional information that we provided to the State agency, at its request, after the exit conference.

Office of Inspector General Response

The State agency did not provide any additional information that would cause us to modify this finding; therefore, we continue to recommend that the State agency refund \$457,329 to the Federal Government for these unallowable costs.

Nonresponses Excluded From Sample

State Agency Comments

The State agency disagreed with our finding, in which we questioned a combined \$2,954,677 in costs claimed for the St. Louis Public and Springfield school districts because the claimed costs did not fully adhere to the provisions of the CMS guide regarding nonresponses. The State agency said that the "RM[T]S calculation methodology is contained in the School District Administrative Claiming manual ..., approved by CMS as stated in the February 27, 2004 letter" from the CMS regional administrator to the State agency. Additionally, the State agency

“reiterates its position that the RM[T]S oversampling was greater than 15% and would offset any non-responses.”

Moreover, the State agency asserted that CMS correspondence to the State agency, dated December 3, 2008 (in Appendix B), provided the State agency the option to oversample by 15 percent in lieu of counting nonresponses, pursuant to the 2003 CMS guide. The State agency also said that CMS correspondence to the State agency, dated March 23, 2009 (in Appendix B), provided an example of an acceptable nonresponse protocol: “If the 85% compliance rate is reached without having to code non-Medicaid time, then non-returned moments will be ignored since they are compensated by the 15% oversampling of the sample size.”

Office of Inspector General Response

In response to our request for clarification on this issue, a CMS official stated: “The Missouri [School District Administrative Claiming manual] approved by CMS in 2004, was silent on the issue of non-responses. The State did not explicitly elect to use an alternative methodology which utilized oversampled responses in place of non-responses in its approved plan.” For a few other State agencies, CMS has approved alternative methodologies in which the State agency’s sample response rate is at least 85 percent.

The State agency is correct that CMS guidance permits oversampling in certain instances. However, the State agency did not accurately summarize CMS’s position on the treatment of nonresponses. In its December 3, 2008, correspondence to the State agency, CMS recommended that the State agency calculate the sample size to an extent that included 15 percent oversampling to ensure an adequate response rate. However, CMS did not state that the State agency had the option of not counting nonresponses by oversampling. Rather, the CMS correspondence dated December 3, 2008, states that the alternative methodology that CMS has approved elsewhere involves the use of an 85 percent sample response rate, below which all nonresponses must be included as non-Medicaid and above which nonresponses may be discarded. CMS correspondence dated March 23, 2009, states that if an 85 percent response rate is not met, all nonreturned moments will be included and coded as non-Medicaid time. Notwithstanding the fact that the State agency oversampled far in excess of 15 percent, the State agency did not achieve an 85-percent response rate in any of the quarters reviewed. (See Appendix A.) Therefore, the State agency should have included all nonresponses as non-Medicaid activities.

Because the State agency’s alternative methodology for nonresponses (i.e., not counting them) was not approved by CMS and the response rate was, on average, 75.47 percent, well below the 85-percent threshold established by CMS, we continue to recommend that the State agency refund \$2,954,677 to the Federal Government for the St. Louis Public and Springfield school districts and \$14,700,418 for the remaining 355 Missouri school districts.

Inaccurate Random Moment Time Study Forms

State Agency Comments

The State agency disagreed with our finding, in which we questioned a combined \$384,505 in costs claimed for the St. Louis Public and Springfield school districts, that RMTS forms were completed inaccurately. The State agency said that it disagrees with this finding “until it has an opportunity to conduct its own review” of the RMTS forms that we noted as errors.

Office of Inspector General Response

We returned all RMTS forms that we had reviewed to the State agency on October 15, 2007. In addition, we shared the results of our review with State agency officials on August 25, 2009, shortly after our exit conference, and again on October 13, 2009. The State agency did not provide any additional information, either at that time or in its written comments on our draft report, that would cause us to modify our findings regarding inaccurate RMTS forms. Therefore, we continue to recommend that the State agency refund \$384,505 to the Federal Government for the St. Louis Public and Springfield school districts and \$1,283,719 for the remaining 355 Missouri school districts.

Inaccurate Response Count

State Agency Comments

The State agency partially agreed with our finding, in which we questioned a combined \$241,845 in costs claimed for the St. Louis Public and Springfield school districts, that it calculated these districts’ SDAC invoices for the quarter ended June 2004 using incorrect and unsupported RMTS forms. The State agency agreed that the RMTS response count used in the calculation of the June 2004 invoices for the St. Louis Public and Springfield school districts was inaccurate, but it did not agree with the error amount. The State agency recalculated the St. Louis Public school district’s claim for the quarter ending June 2004 using the correct response count that we noted and determined that the St. Louis Public school district was overpaid by \$66,278, not \$231,180 as we stated. The State agency provided details on the recalculation as part of its written comments on our draft report and added that it will perform a similar recalculation for the Springfield school district once the necessary material is retrieved from archives. The State agency said that it “will refund the difference for St. Louis and Springfield upon the recalculation.”

The State agency partially agreed with our finding that the RMTS response count used in the calculation of the June 2004 invoice was inaccurate and that it therefore affected the calculation of claims for the remaining 355 Missouri school districts—a finding that we discussed in the “Inaccurate Response Count Affected Claims Statewide” section and that also contributed to our first recommendation. However, the State agency did not agree with this finding’s amount of \$273,027.

Office of Inspector General Response

The State agency provided an updated SDAC invoice using the correct response count of 2,734. However, when the State agency recalculated the St. Louis Public school district's administrative claim, it did so by incorporating all indirect costs, when pursuant to 42 CFR § 433.15(7) it should have calculated these indirect costs on the basis of 50-percent Federal reimbursement. The State agency did not provide any additional information pertaining to the Springfield Public School District. Therefore, we continue to recommend that the State agency refund \$241,845 for the St. Louis Public and Springfield school districts.

The State agency did not provide any additional information pertaining to the statewide claims for the quarter ending June 2004 that would cause us to modify this finding; therefore, we continue to recommend that the State agency refund \$273,027 to the Federal Government for the remaining 355 Missouri school districts.

Review of School District Administrative Claims Regarding Inclusion of Nonresponses in the Sample

State Agency Comments

The State agency disagreed with our third recommendation and stated that its policy of withholding nonresponses from the RMTS sample "was correct and had the approval of CMS."

Office of Inspector General Response

The State agency did not provide any additional information to support that CMS had approved the alternate RMTS methodology. Therefore, we maintain that the State agency should review all administrative claims that the State agency paid after March 2006 to determine whether it included nonresponses in the sample and refund to the Federal Government any amount overpaid.

APPENDIXES

APPENDIX A: REVISED SAMPLE SIZE THAT INCLUDES NONRESPONSES

When calculating the Missouri School District Administrative Claiming (SDAC) invoices, the Missouri HealthNet Division (State agency) of the Department of Social Services did not include 100 percent of the sampled random moment time study (RMTS) forms. Instead, the State agency excluded all nonresponses from the calculation, contrary to the provisions of the Centers for Medicare & Medicaid Services (CMS) *Medicaid School-Based Administrative Guide* (CMS guide), section V(B). For example, the State agency selected 4,000 random moments to include in the sample population for the March 2005 quarterly SDAC invoice. However, the calculation of the school districts' claim included only a portion of the RMTS forms. The State agency eliminated the nonresponses. Consequently, the State agency incorrectly calculated the SDAC claim based on the 3,081 completed and returned RMTS forms.

The SDAC claim is calculated using the RMTS results and each school district's personnel expenditures, Other Costs, percentage of eligible individuals in the school district, indirect cost rate, and statewide RMTS results.

The Effect of Nonresponses on Sample Size

Quarter Ending	Sample Responses Used by Maximus A	Nonresponses Excluded by Maximus B	Returned Sample Responses "Not Scheduled to Work" ¹ C	Statewide RMTS Forms Sent to Participants D	Sample of Working Participants D-C=E	OIG Adjusted Sample That Includes Responses and Nonresponses F	Actual Response Percentage ² (A/F)×100
Dec 2003	2,211	470	319	3,000	2,681	2,681	82.47%
Mar 2004	2,061	690	249	3,000	2,751	2,751	74.92
June 2004	2,080	989	277	4,000 ³	3,723	3,723	73.44
Sept 2004	2,675	1,023	302	4,000	3,698	3,698	72.34
Dec 2004 ⁴							
Mar 2005	3,081	919	0	4,000	4,000	4,000	77.03
June 2005	2,645	1,354	0	3,999	3,999	3,999	66.14
Sept 2005	3,081	919	0	4,000	4,000	4,000	77.03
Dec 2005	3,307	693	0	4,000	4,000	4,000	82.68
Mar 2006	2,998	1,002	0	4,000	4,000	4,000	74.95
Total	24,139	8,059	1,147	33,999	32,852	32,852	75.47%

OIG=Office of Inspector General

¹ The State agency changed its RMTS methodology during the quarter ending March 2005. Before March 2005, the State agency eliminated all returned sample responses with an RMTS code of "Not Scheduled to Work." Effective the quarter ending March 2005, the sample response of "Not Scheduled to Work" was no longer an option on the RMTS form.

² The count in column A for the quarter ending June 2004 excludes 654 RMTS forms because the State agency incorrectly excluded these forms from the quarter's calculations for the St. Louis Public and Springfield school districts. The incorrect exclusion of these RMTS forms also affected the calculation of administrative costs on a statewide basis. To account for all completed and returned RMTS forms, we added the 654 responses to the counts in column A to calculate the "Actual Response Percentage" for the quarter ending June 2004 and for the total actual response percentage.

³ For this quarter, the State agency sent out 4,000 RMTS forms, of which 2,734 were completed and returned. The State agency incorrectly excluded 654 RMTS forms from its calculations and so incorrectly included only 2,080 completed and returned RMTS forms when calculating and claiming the administrative costs. This finding is discussed in the "Inaccurate Response Count" section of the report.

⁴ The State agency could not support the RMTS results used in calculating each school district's administrative claim. Therefore, we are setting aside, for CMS adjudication, the expenditures claimed for the quarter ending December 2004; these expenditures are not included in the RMTS analysis.

APPENDIX B: STATE AGENCY COMMENTS



JEREMIAH W. (JAY) NIXON, GOVERNOR • RONALD J. LEVY, DIRECTOR

P.O. BOX 1527 • BROADWAY STATE OFFICE BUILDING • JEFFERSON CITY, MO 65102-1527
WWW.DSS.MO.GOV • 573-751-4815 • 751-3203 FAX

October 20, 2009

Patrick J. Cogley
Regional Inspector General for Audit Services
Office of Inspector General
Federal Office Building
601 East 12th Street, Room 429
Kansas City, Missouri 64106

Dear Mr. Cogley:

The Missouri Department of Social Services (DSS) hereby responds to the Office of Inspector General's (OIG) draft report, titled "Review of Missouri Medicaid Payments for the School District Administrative Claiming Program for Federal Fiscal Years 2004 through 2006" dated August 2009. The draft report concerns the audit of Missouri's Medicaid payments for services performed by Missouri school districts under the School District Administrative Claiming (SDAC) program. Our response to each of the recommendations is presented in the following paragraphs. The OIG finding is restated for ease of reference.

Recommendation: Refund \$20,469,670 (\$4,212,506 for the St. Louis Public and Springfield school districts and \$16,257,164 for the other Missouri school districts) to the Federal Government for unallowable SDAC expenditures.

Response: The DSS partially agrees with this recommendation. Our position on each of the findings that comprise the amount the OIG recommends the DSS return to the Federal Government is presented in the following paragraphs.

Claimed Costs That Should Have Been Offset by Other Federal Revenue Sources (\$457,329)

According to the draft report, the two audited school districts, St. Louis Public and Springfield, received unallowable Federal reimbursement totaling \$457,329 in personnel costs for employees whose salaries were partially funded by another Federal program, such as the ROTC program (funded by the Department of Defense). The two school districts should have allocated

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these personnel costs appropriately between the various Federal programs that were funding those costs. Instead, the two school districts did not offset these claimed costs on the basis of the other Federal revenue sources that had contributed to the funding of those salaries.

Response: The DSS disagrees with the finding. At this time DSS continues its analysis of the additional documentation and explanation provided in the October 7, 2009 letter from the OIG to validate this finding.

Inaccurate Personnel Costs (\$1,730)

MAXIMUS included on the Springfield school district's invoice personnel costs that were not supported by documentation. For the quarter ending September 2004, MAXIMUS reported \$30,000 more to the State agency in personnel costs than the Springfield school district reported to MAXIMUS. Because of this error, the Springfield school district received \$1,730 in unallowable Federal reimbursement.

Response: The DSS agrees with this finding that its contractor, MAXIMUS, was in error and will refund \$1,730 in Federal reimbursement.

Improper Indirect Cost Rate (\$139,390)

The St. Louis Public school district received unallowable Federal reimbursement totaling \$139,390 because MAXIMUS used an incorrect indirect cost rate—which had not been approved—to calculate that district's claim for the quarters ending June 2003 and September 2003. The Missouri Department of Elementary and Secondary Education (DESE) is the cognizant agency that provides the approved indirect cost rate for each school district to the State agency. Each school district is to use that rate in claiming its indirect costs. MAXIMUS used an indirect cost rate of 31.52 percent for the St. Louis Public school district. However, the DESE-approved indirect cost rate for the St. Louis Public school district was 24.67 percent. Because MAXIMUS used the incorrect indirect cost rate, the St. Louis Public school district claimed costs that did not conform to the approved rate and therefore received \$139,390 in unallowable Federal reimbursement.

Response: The DSS agrees with this finding and will refund \$139,390 in Federal reimbursement.

Inaccurate Other Costs (\$33,030)

MAXIMUS did not properly calculate the Other Costs claimed on the SDAC invoices. First, the Springfield school district provided inaccurate year-to-date numbers, which MAXIMUS used when calculating the Other Costs. Second, neither the two audited school districts nor MAXIMUS could support all of the expenditures (for Other Costs) reported to MAXIMUS. The

combined effect of these errors was that the two audited school districts received a total of \$33,030 in unallowable Federal reimbursement for Other Costs.

Response: The DSS agrees with the finding on the use of inaccurate "year-to-date numbers" and unsupported expenditures in the Other Costs calculations and will refund \$33,030 in Federal reimbursement.

Non-responses Excluded from Sample (\$2,954,677)

The State agency did not fully adhere to the provisions of the CMS guide regarding non-response RMS forms. The State agency applied an alternate methodology in which it opted to oversample to ensure a minimum number of responses but did not consider the non-responses in the results. The State agency applied two different methodologies during the period reviewed. Neither methodology was described in the procedure that was CMS-approved. Pursuant to the CMS guide, all non-responses should have been coded to non-Medicaid time study codes.

CMS central and regional offices informed the OIG that State Medicaid agencies can use oversampling to factor non-responses into their methodology but only with prior approval from CMS for the use of the alternate methodology. Any alternate methodology used to compensate for non-responses must be submitted to CMS for review and approval before implementation and must also be statistically valid and reliable.

Out of 32,852 RMS forms sent to SDAC participants Statewide, the State agency did not include 8,059 non-responses in the RMS samples for the nine quarters reviewed. Instead, the State agency applied an alternate methodology that omitted the 8,059 non-response RMS forms. The average non-response rate for the nine quarters reviewed was 24 percent, with a high of 34 percent in one quarter.

Because the State agency used an unapproved alternate methodology that discarded the RMS non-responses and because those non-responses constituted such a high proportion of the RMS forms sent to the SDAC participants statewide, OIG has concluded that the estimates from the RMS were not reliable. CMS central and regional offices agreed with this determination.

After identifying the improperly excluded non-responses, OIG used the State agency's methodology but also accounted for 100 percent of the samples pursuant to the CMS guide. OIG used the State agency's formulas for calculating administrative costs and determined the effect by comparing the original claiming invoices to the total of audited RMS samples. OIG determined that because of their improper exclusion of non-responses, the two audited school districts received \$2,954,677 (\$2,794,324 for the St.

Louis Public school district and \$160,353 for the Springfield school district) in unallowable Federal reimbursement.

Response: The DSS disagrees with this finding. The State's RMS calculation methodology is contained in the School District Administrative Claiming manual (Attachment A), approved by CMS as stated in the February 27, 2004 letter from Thomas W. Lenz (Attachment B). In addition, the State received correspondence from CMS providing States the option of not counting non-responses by oversampling the RMS forms by 15% per the 2003 CMS guide. This letter dated December 3, 2008 is provided as Attachment C. Attachment D is a CMS letter dated March 23, 2009 stating that an example of an acceptable non-response protocol is "if the 85% compliance rate is reached without having to code non-Medicaid time then non-returned moments will be ignored since they are compensated by the 15% oversampling of the sample size."

Based on the attached documentation, the State reiterates its position that the RMS oversampling was greater than 15% and would offset any non-responses. At the time of the period reviewed by the OIG audit, MHD was conducting RMS sampling with 4,000 moments per quarter. The DSS Research and Evaluation Unit determined that a statistically valid sample for the RMS population would be 1,200 moments. The DSS Research and Evaluation Unit used a confidence level of 95% and margin of error + / - 5% as required by the CMS 2003 Guide. Based on the average population size of 16,000, a valid sample is calculated to be 376 valid responses. Based on valid sample calculations, the use of a sample size of 1,200 includes an oversampling of 319%. Since the State was using a sample size of 4,000 forms per quarter and the valid sample size is 376 forms, the State actually oversampled by 1064%.

Inaccurate Random Moment Time Study Forms (\$384,505)

The State agency did not monitor the RMS to ensure the RMS forms (a) were properly completed and (b) supported the activities performed. The two school districts reviewed completed 293 out of 1,679 RMS forms (17.5 percent) inaccurately, but MAXIMUS included these inaccurately completed RMS forms when it calculated the RMS percentages. The three types of errors are as follows:

- 1) Of the 293 inaccurate RMS forms, 235 forms (80 percent) had an activity code and a written description that did not match.
- 2) Of the 293 inaccurate RMS forms, 24 forms (8 percent) either had no written description of the activity or the description was so vague that it did not support the activity.
- 3) Of the 293 inaccurate RMS forms, 34 forms (12 percent) were either not dated or were dated before or significantly after (i.e., after the 7-

day cutoff established for timely completion) the selected random moment.

The 293 RMS coding errors were reclassified and the SDAC invoices for the St. Louis Public and Springfield school districts were recalculated accordingly. Because of the RMS coding errors, the two school districts received \$384,505 (\$367,191 for the St. Louis Public school district and \$17,314 for the Springfield school district) in unallowable Federal reimbursement.

Response: The DSS disagrees with the finding until it has an opportunity to review RMS forms reviewed by the OIG. The DSS is gathering the forms reviewed by the OIG to conduct its own review for potential errors. In the previous OIG audit of the SDAC program, a similar finding was presented. In the DSS review of the finding, it was determined that the OIG finding was in error as the coding was inaccurately interpreted and applied to the RMS forms under review. In the previous audit, the OIG contended that 163 out of the 168 forms were inaccurate. In the DSS review, it was determined that only 52 forms were in error, a significant difference in findings.

Inaccurate Response Count (\$241,845)

The State agency calculated the St. Louis Public and Springfield school districts' SDAC invoices for the quarter ending June 2004 using incorrect and unsupported RMS forms. In particular, the State agency used a total RMS count of 2,080. However, documentation supported that 2,734 RMS forms were completed and returned. Therefore, the State agency did not account for 654 of the completed and returned RMS forms when calculating and claiming the administrative costs for the St. Louis Public and Springfield school districts.

As a result of these errors, the two school districts received a total of \$241,845 (\$231,180 for the St. Louis Public school district and \$10,665 for the Springfield school district) in unallowable Federal reimbursement.

Response: The DSS partially agrees with the finding that inaccurate RMS response counts were used in the quarter ending 2004 invoices for St. Louis Public and Springfield school districts. While the DSS agrees that the RMS response count used in the invoice was inaccurate, the DSS does not agree with the error amount.

Based on the recalculation of the St. Louis invoice for quarter ending June 2004, the DSS used the response count of 2,734. In the recalculation, the DSS determined St. Louis was overpaid by \$66,277.72, not \$231,180 as stated by the OIG. The recalculated St. Louis invoice is provided in Attachment E. The DSS will recalculate the Springfield quarter ending June 2004 invoice upon receipt from archives and will refund the difference for St. Louis and Springfield upon the recalculation.

IDENTIFIED INACCURACIES AT AUDITED SCHOOL DISTRICTS AFFECTED CLAIMS STATEWIDE***Random Moment Time Study Errors Affected Claims Statewide (\$1,283,719)***

Because the statewide RMS was calculated using responses from all Missouri school districts, RMS errors associated with the two audited school districts affected the amounts claimed on the SDAC invoices for each of the other Missouri school districts. Therefore, the OIG used the audited RMS response count from the St. Louis Public and Springfield school districts (for which the 293 RMS coding errors were reclassified) to recalculate the statewide RMS percentages for the other Missouri school districts. In turn, the recalculated percentages affected the SDAC invoices statewide. After recalculating the SDAC invoices, it was determined that the other Missouri school districts received \$1,283,719 in unallowable Federal reimbursement.

Response: The DSS disagrees with the finding until it has an opportunity to review RMS forms reviewed by the OIG. The DSS is gathering the forms reviewed by the OIG to conduct its own review for potential errors. In the previous OIG audit of the SDAC program, a similar finding was presented. In the DSS review of the finding, it was determined that the OIG finding was in error as the coding was inaccurately interpreted and applied to the RMS forms under review. In the previous audit, the OIG contended that 163 out of the 168 forms were inaccurate. In the DSS review, it was determined that only 52 forms were in error, a significant difference in findings.

Inaccurate Response Count Affected Claims Statewide (\$273,027)

For one quarter, the State agency calculated the SDAC invoices using incorrect and unsupported RMS forms. Specifically, the State agency used the RMS count in calculating each school district's administrative claim. The State agency then used the RMS count to determine the RMS percentages. For the quarter ending June 2004, the State agency did not account for 100 percent of the completed and returned RMS forms. Out of 2,734 completed and returned RMS forms, the State agency incorrectly included only 2,080 completed and returned RMS forms in its calculation of the administrative claims. After recalculating the SDAC invoices on the basis of the 2,734 completed and returned RMS forms reflected in the supporting documentation, we determined that the other Missouri school districts received \$273,027 in unallowable Federal reimbursement.

Response: The DSS partially agrees with the finding that inaccurate RMS response counts were used in the quarter ending 2004 invoices for school districts. While the DSS agrees that the RMS response count used in the invoice was inaccurate, the State disputes the calculation of the error

amount. The OIG states that the calculation related to this finding was based on an average of the Medicaid eligibility rate and indirect cost rate for each district and applied to a \$100 claim. The difference in the two RMS forms count calculation were then applied to the total paid amount for all unaudited districts. This methodology is inaccurate as the Medicaid eligibility rate and indirect cost rates vary greatly amount the districts statewide. Applying an average across all districts will skew the outcome. To accurately determine the unallowable costs, the DSS will recalculate each district's individual invoice for the quarter ending June 2004.

Based on the recalculation of the St. Louis invoice as stated above, the DSS will recalculate each district's invoice for the quarter ending June 2004. The DSS will use the response count of 2,734 in the recalculations. The DSS will recalculate the invoices for all districts and will refund the difference within 120 days from the date of the letter.

Non-responses Not Included in Sample on Claims Statewide (\$14,700,418)

The State agency did not fully adhere to the CMS guide regarding non-response RMS forms. Because the State agency did not properly include 8,059 non-responses when determining the RMS percentages, the remaining 355 Missouri school districts received \$14,700,418 in unallowable Federal reimbursement.

Response: The DSS disagrees with this finding. The State's RMS calculation methodology is contained in the School District Administrative Claiming manual (Attachment A), approved by CMS as stated in the February 27, 2004 letter from Thomas W. Lenz (Attachment B). In addition, the State received correspondence from CMS providing States the option of not counting non-responses by oversampling the RMS forms by 15% per the 2003 CMS guide. This letter dated December 3, 2008 is provided as Attachment C. Attachment D is a CMS letter dated March 23, 2009 stating that "if the 85% compliance rate is reached without having to code non-Medicaid time then non-returned moments will be ignored since they are compensated by the 15% oversampling of the sample size."

Based on the attached documentation, the State reiterates its position that the RMS oversampling was greater than 15% and would offset any non-responses. At the time of the period reviewed by the OIG audit, MHD was conducting RMS sampling with 4,000 moments per quarter. The DSS Research and Evaluation Unit determined that a statistically valid sample for the RMS population would be 1,200 moments. The DSS Research and Evaluation Unit used a confidence level of 95% and margin of error + / - 5% as required by the CMS 2003 Guide. Based on the average population size of 16,000, a valid sample is calculated to be 376 valid responses. Based on valid sample calculations, the use of a sample size of 1,200 includes an

oversampling of 319%. Since the State was using a sample size of 4,000 forms per quarter and the valid sample size is 376 forms, the State actually oversampled by 1064%.

Recommendation: Work with CMS to determine what portion of the \$5,349,316 (\$1,491,120 for the St. Louis Public and Springfield school districts and \$3,858,196 for the other Missouri school districts) of school district administrative costs claimed for the quarter ending December 2004 was unallowable.

The State agency could not support one quarter of the RMS results used in calculating the administrative claim for each of the two school districts reviewed. MAXIMUS provided statewide control listings, which specified the RMS forms it used to calculate, for each quarter, the statewide percentage of time that SDAC participants spent on allocable Medicaid administrative activities. For the quarter ending December 2004, the control number used to identify each RMS form for the St. Louis Public and Springfield school districts did not match the control number shown on the statewide control listing provided by MAXIMUS. In other words, the list of SDAC participants selected to be sampled at random moments was different from the list of SDAC participants who were actually sampled and gave responses. Consequently, OIG could not determine, for the quarter ending December 2004, which RMS form results MAXIMUS used to calculate the statewide percentage of time that SDAC participants spent on allowable Medicaid administrative activities. Neither the State agency nor MAXIMUS was able to accurately identify the RMS forms that MAXIMUS had actually used to claim administrative expenses. Because the OIG could not reconcile the RMS results to supporting documentation, the \$5,349,319 that was paid to all Missouri school districts (\$1,491,120 for the St. Louis Public and Springfield school districts and \$3,858,196 for the other Missouri school districts) is being set aside for CMS adjudication.

Response: The DSS agrees the statewide control listing and results files produced for quarter ending December 2004 cannot be matched on RMS control numbers. The DSS will review the reports available and provide the accurate documentation to support the claiming for this quarter. The DSS will work with CMS to resolve this discrepancy.

Recommendation: Review all school district Medicaid administrative claims that the State agency paid after March 2006 to determine whether it included non responses in the sample and if so recalculate the administrative claims and refund to the Federal Government the amount overpaid.

Response: The DSS disagrees with this recommendation. As previously stated, the DSS position is that the policy used for not including non-responses in the RMS sample was correct and had the approval of CMS.

Recommendation: Strengthen policies and procedures to ensure SDAC expenditures submitted for Federal reimbursement are accurate and reasonable by:

- **Reviewing RMTS forms, personnel costs, and other costs with the supporting documentation for a sample of school districts each quarter to ensure that the administrative costs are properly claimed and documentation complies with CMS guidance.**
- **Performing the trend analysis on every school district each quarter to identify potential problems with the claims that the school districts submit to the State agency.**

The State agency did not have adequate policies and procedures to monitor the SDAC program and to ensure that all costs claimed met federal requirements. The State agency staff informed us that it performed a trend analysis on each school district's SDAC invoice. The State agency was to compare the current SDAC invoice to the prior SDAC invoice and question any variances of greater than 5 percent. We identified variances of greater than 5 percent, but the State agency could not provide supporting documentation that it had questioned any variances within our audit period.

Response: The DSS agrees that monitoring efforts during the review period were limited in scope. Since the review period, the DSS increased monitoring efforts. Prior to invoice payment, the DSS requires the following steps be accurately met:

- Compare claimed salary, benefit, other cost and total costs to the district's same quarter invoice the previous year. If the district did not bill for the same quarter the previous year, the comparison is made with the most recent quarter received.
 - Any variance of at least +/- 5% is submitted to the district for explanation.
 - Upon receipt of acceptable explanation (i.e. staff salary increase, removal of staff from cost pool due to staff reductions), the invoice review process resumes.
 - If the district has determined an error in costs claimed, the district must resubmit the invoice with corrections.
- Verification of current certification of expenditures on file.
 - If certification is not on file, district is notified to submit current certification.
 - Upon receipt of current certification, the invoice review process resumes.
- Compare the claimed eligibility rate to the rate on file as provided by the State Information Technology Division.
 - If claimed eligibility rate does not match, district is requested to resubmit invoice with proper eligibility rate.

- Verification that the proper indirect cost rate is claimed as found on the Department of Elementary and Secondary Education listing of certified indirect cost rates.
 - If claimed indirect cost rate does not match, district is required to resubmit invoice with accurate rate.
- Periodically randomly selected invoices are recalculated to assure mathematical accuracy.
 - Any inconsistencies require the invoice to be resubmitted accurately by the district.

If any of these steps is not accurately met, the invoice is not submitted for reimbursement. Districts would be required to revise each identified error on the invoice and resubmit the invoice. Each revised invoice is required to meet the review steps as stated above.

Please contact Ian McCaslin, M.D., M.P.H. at 573-751-6922 if you have any further questions regarding the DSS response.

Sincerely,



Ronald J. Levy
Director

RJL/db

File

Centers for Medicare & Medicaid Services
601 East 12th Street, Suite 235
Kansas City, Missouri 64106

ATTACHMENT B



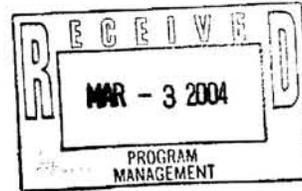
Division of Medicaid and Children's Health

Refer to:
MB:DH

1111004 *cc: CR
ST
AK*

February 27, 2004

Mr. Steve Roling, Director
Missouri Department of Social Services
Broadway State Office Building
P.O. Box 1527
Jefferson City, Missouri 65102



RE: Missouri Medicaid School District Administrative Claiming Manual for School-Based Services

Dear Mr. Roling:

We have completed our review of the Missouri Medicaid School District Administrative Claiming manual with a proposed effective date of October 1, 2003, and the additional information and revisions to the program submitted thereafter. Based on our review, this program is approved effective October 1, 2003, subject to the following conditions:

- a) Revise the cost allocation plan for the quarter beginning October 1, 2003. The MAC program guide and the Interagency Agreements should be referenced in the applicable school-based organization code descriptions.
- b) In the interim, the current cost and time study methodology may continue for services provided prior to October 1, 2003.

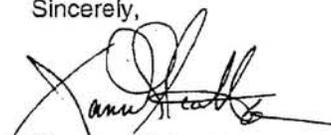
We appreciate the dedicated work provided by your staff in order to produce this program guide and look forward to our ongoing partnership in the refinement of this program.

The fact is we are here...

Page 2 – Roling

If you have any questions about this letter or the Administrative Claiming process, please contact Narinder Singh or Doug Hinton of the Regional Office at (816) 426-5925.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Lenz", written over a circular stamp or seal.

Thomas W. Lenz
Associate Regional Administrator
Division of Medicaid and Children's Health

cc: Sandra Levels

Attachment C

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
601 East 12th Street, Suite 235
Kansas City, Missouri 64106

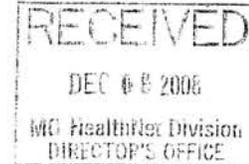
CMS

CENTERS FOR MEDICARE & MEDICAID SERVICES

Division of Medicaid and Children's Health Operations

December 3, 2008

Ian McCaslin, MD, MPH, Director
MO Health Net Division
Department of Social Services
Broadway State Office Building
P.O. Box 6500
Jefferson City, Missouri 65102-6500

Dear Dr. McCaslin: *Ian*

We have reviewed the revisions submitted on September 29, 2008 by the Missouri Department of Social Services to the template for the MO HealthNet School District Administrative Claiming (SDAC) program, proposed effective date July 1, 2008.

CMS may have additional comments and/or questions on the proposed revisions to the MO HealthNet School District Administrative Claiming program, after implementation and/or application of changes to the program.

CMS Questions and Comments on Missouri's SDAC Guide

1. Please clarify if the Random Moment Sampling (RMS) methodology will be conducted statewide or by school district. This is based on if the worker-moment sample will be drawn from a statewide universe of worker-moments or district-wide universe. Please keep in mind that in either case the statistical criteria of 95% confidence level and +/-2% precision (or +/-5% precision if the highest utilization rate for any activity code is 5% or less) must be met. In district-wide methodology, a minimum statistically valid sample of worker-moments has to be studied for each district. This would require a larger number of worker-moments per school district versus a statewide sample universe. Either way, please calculate the sample size to include 15% oversampling to ensure an adequate response rate.
2. The State is also proposing to conduct continuous time-logs for some administrative staff. In this case, given the small number of participating staff in each district, 100% time-logs must be studied, meaning all time for all staff must be logged, which is quite burdensome. State may consider a state-wide time-logs that may require only a one-or two-week time study per quarter depending on the total number of participating staff. A one-week time-log meets the statistical criteria if the number of staff is 400 or higher, whereas a two-week time-

Page 2 – Ian McCaslin, MD, MPH

study is needed for staff number between 200 and 400. Please indicate the anticipated approximate number of staff participating in this type of worker log time study, as well as in the RMS time study.

CMS can provide additional technical assistance on the RMS and time-log methodologies, as needed. As a general question, why is the State allowing for the use of two different time study methodologies? This would seem to increase the level of oversight and monitoring that the State must conduct.

3. A validation method for both time studies is needed to ensure the accuracy of the time study data. Validation of collected data implies the authenticity of the data or in other words, we are collecting the data that we intended to collect in the time study. Various methods are available for this purpose. An acceptable method is validation of 10% of the sample by an independent observer(s). CMS needs specific percentage of moments that will be checked and validated (at least 5% of moments will be validated) by an independent source (by someone other than the person who completed the time study). For example, an acceptable method for administrative cost time studies is validation of 10% of the sample by an independent observer(s). This method verifies the accuracy and authenticity of the collected data.
4. The State needs to include a protocol for the treatment of time study non-responses. The May 2003 CMS Medicaid School-Based Administrative Claiming Guide (the Guide) describes the treatment of time study non-responses on page 41. While the Guide states that "...all non-responses should be coded non-Medicaid," it also includes language suggesting that oversampling can be used to substitute responses for non-responses, as follows: "...many schools oversample and/or factor in a non-response rate in their time study methodology." inclusion of both of these statements in the Guide recognizes the possibility for the use of alternate methodologies to address non-responses. As a general principle, any alternate methodology for the treatment of non-responses must be statistically valid, as per OMB Circular A-87. Such alternate methodologies would need to be submitted to CMS for review and approval by CMS. Subsequent to the issuance of the Guide, CMS has reviewed and approved the use of an alternate methodology. The alternate methodology CMS has approved elsewhere involves the use of an 85% sample response rate, below which all non-responses must be coded as non-Medicaid, and above which non-responses may be discarded. This alternate methodology must include sanctions for non-compliant time study participants. It has been approved for use by CMS in a number of plans in recent years. Please describe the non-response protocol in the implementation plan. CMS can provide an example from an approved plan upon request.
5. The State needs to submit for CMS review and approval the time study forms that participants will utilize to complete the time study, as well as the training materials for school districts.

Page 3 – Ian McCaslin, MD, MPH

6. CMS requires the time study moments or week to be announced to the staff no sooner than 5 business days prior to the start of the time study and that the time study be closed no more than 5 business days after the moment occurs. This is necessary to ensure there is no potential for the introduction of bias. Please revise the plan accordingly.
7. Please describe the State's oversight and monitoring protocol in detail. Even if the school districts will be responsible for conducting their own time studies, the State retains overall responsibility for the accuracy and allowability of the resulting claims.

Comments/questions/concerns related to the proposed modifications to Missouri's SDAC claiming manual:

Section 2.3 (pg 3): reference is made that services are available for MO HealthNet participants. Should this be "Title XIX eligible participants"?

Section 3 – EPSDT pg 1 – same question as above – Title XIX eligible participants?

Section 4 – Administrative Claiming, pg 2 - 5th paragraph and the formula description at the bottom of the page – same issue – should that be "Title XIX eligible"

Section 5.2 – several references to "MO HealthNet eligibility – same question – should they be "Title XIX eligibility?"

5.3 A (1) – It appears (here and through out the revised manual) that the currently approved "statewide" methodology and RMS is being removed. If that is correct – each school district is responsible for its own time distribution methodology. Whether an RMS or a 100% time recording system is used, the school district is now responsible for ensuring the validity and accuracy of the method. If based on individual school district, distributing costs based on statewide RMS results is no longer acceptable.

5.3 A (2) — Time Study - pg 9: "All school district employees will participate in a random moment sample..." If sampled at a school district level, how will the statistical validity be guaranteed? Will there be sufficient staff included to ensure a sufficient number of moments will be available during the period?

5.3 A describes SDAC and 5.3 B describes ACM – Do schools have the option of one over the other?

5.3 C SDAC and ACM – pg 13 – the paragraph at the top of the page includes the sentence: "To identify the cost of providing these services, a random moment time study of staff will be conducted." This is not consistent with the last paragraph on page 11 discussing the Time Study for ACM that indicated, "Continuous logs will be the method of reporting time and effort." An alternative wording could be, "To identify the cost of

Page 4 – Ian McCaslin, MD, MPH

providing these services, either a random moment time study of staff or a continuous log, whichever is appropriate, will be conducted.”

Time Code Descriptions – The word “Medicaid” has been replaced with “MO HealthNet” – Is that acceptable?

Section 5.4 Step#4 – Time Study Methodology – beginning on pg. 24

Language that is deleted is related to the statewide RMS. It is presumed that this is because the State no longer has a contract with the consultant that had been developing the RMS moments, distributing to the schools, and administering the cost pool and submitting the claims on behalf of the school districts. The OIG has an audit in progress that reviews the SDAC in Missouri. Preliminary findings indicate problems with the application of the RMS. Specifically, the State is discarding non-responses in the RMS. According to the 2003 CMS guidance, non-responses should be treated as “non-Medicaid” for purposes of the RMS.

At a minimum, we need to obtain the details of the methodology from the State regarding the number of moments in the sample; are they oversampling; how are non-responses treated; is each district responsible for the selecting the random moments; do they eliminate time not scheduled to work from the universe of moments; etc.

We should also inquire and gain assurance that the RMS results are only applied to each respective school district’s cost pool. In other words, since they are no longer using a statewide RMS, it is no longer acceptable to pool the RMS results and apply the same results to all of the cost pools for all of the schools. We should also inquire what the State Agency will be doing to ensure that validity of each districts RMS and that the cost pools are developed appropriately.

5.4 A (3) – page 26 – the second paragraph says that a random moment sampling system provides “absolute” assurance that costs associated with both direct services and administrative services are captured as discrete cost pools. Is that correct, or is it “reasonable” assurance?

Same section, in the paragraph that begins with “The pool group...” the term “contracted staff” is used. This term should be defined better. Do they mean employees or do they mean non-employees? In schools, typically the certified staff, such as, teachers, therapists, and administrators are all under contract for the school year and are considered employees of the district.

5.4 A(7) – Data accumulation, Maintenance and Validation. This is where the State should describe the details of the methodology – sample size, oversampling techniques, etc.

5.4 B(3) – page 36: It appears there may be some inconsistency in the two paragraphs on page 36. The first paragraph says that if a time study log shows no billable time

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then it must be counted as part of the average. The second paragraph says that if all logs in a quarter for a cost pool member show no billable time, then that person is removed from the cost pool. Which is correct – leave them in or take them out?

5.5 Step#5 - Prepare a Claim for Payment

5.5A(1) page 39 – the first paragraph indicates that staff costs can not be included in the unrestricted indirect cost allocation and in the sampling process; that staff paid totally from federal (presuming other than Medicaid) sources can not be included in the cost pool and that persons whose costs are paid with a combination of federal and general funds can be included but must have the associated costs adjusted accordingly. This appears to be good instructions, but how does the State monitor and assure that the schools are doing this appropriately?

The second paragraph in the section also uses the term "contracted employees." As discussed earlier – this should be defined. Also in this paragraph, other costs to be reported included non-sampled supervisory and clerical staff. Is this in conflict with the directions that all staff should be included in the RMS?

5.5 A(3) MO HealthNet Percentage Rate for School Districts – page 40.

The second paragraph indicates that the school districts' student data files will be matched with the July – September eligibility file. How will eligibility and/or school enrollment changes that occur throughout the year be handled? What is the frequency with which the Medicaid eligibility rate will be calculated?

Section 5.5 A(7) – Certification of Match. This caption is not correct; it should be Certification of Expenditures. The school district should also provide a certification with each invoice that the expenditures are supported in the school district's accounting system and are total computable expenditures that meet federal matching requirements. The school district is certifying 100% of expenditures, not just the matching amount.

The same issues identified for Section 5.5 A are also applicable to Section 5.5 B. Also, the last sentence on page 46 before the heading for 5.6 says that invoices that reflect insufficient samplings will be rejected for payment. What criteria will the State use to determine if the samplings are insufficient and will these standards also apply to the SDAC in addition to ACM?

Section 5.6 Step #6 Program Monitoring

Section 5.6 A(1) Activities – This section describes what the State will be doing, but it does not indicate what action the State will take if there are errors found or if standards are not met. The last bullet says that twice a year, MHD will review the PPR data for a select 1% sample of districts participating during the prior quarter. What will MHD establish through this review?

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Attachment A – Cooperative Agreement – School District responsibilities

#9 Provide to DSS/MHD the information necessary to request federal funds available under the state MO HealthNet match rates. This should read – the State's Medicaid match rate.

#11 Certify to DSS the provisions of the non-federal share for SDAC via completion of MHD "Certification of General Revenue" form. This should be a certification of total expenditures, not just the non-federal share.

#16 There is a sentence that reads, "The date of service is considered the first day of the calendar quarter immediately following the quarter in which the expenditure was made." For administrative claims, this will not be an issue because the federal regulations allow a state two years to file a claim, but the time period begins in the quarter in which the expenditure was made or when recorded in the accounting system. However, this could cause a problem for direct services, because the date of service should be the date that the service was provided, not the first day of the following quarter.

Attachment B – Cooperative Agreement

Under School District agrees to:

#3 This should read "the State's Medicaid match rates."

#5 The certification needs to be total expenditures, not the non-Federal share.

Attachment C Sample ACM Methodology

Section IV Time Study Procedures.

In paragraph B Cost Pool Group, it indicates the District should describe - if contracted personnel will participate. The entire document should use consistent terminology. This is the third different term. Are they talking about employees under contract or non-employees under contract?

Section VI Reimbursement Process:

C. Certification of Match. This section title is incorrect; it should read Certification of Expenditures. The certification statement should include language that indicates that the expenditures are documented in the school district's accounting system; that the expenditures being billed are eligible for reimbursement under Title XIX; and the district has expended the non-federal share of the expenditures from permissible sources.

Attachment G: ACM Worksheet.

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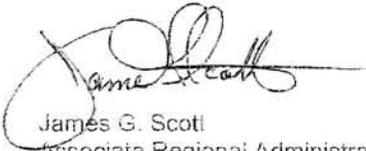
The language in the certification is not correct. The school district needs to certify the expenditure of the total amount eligible under Title XIX, not that they have adequate non-federal funds available. The annual certification is also inadequate; the statement should accompany each invoice.

Attachment I: SDAC Claiming Certification

Same comments as above for Attachment G.

If you have any question concerning this letter, please contact Narinder Singh, of my staff, at (816) 426-5925.

Sincerely,

A handwritten signature in black ink, appearing to read "James G. Scott". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James G. Scott
Associate Regional Administrator
for Medicaid and Children's Health Operations

Attachment D

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
601 East 12th Street, Suite 235
Kansas City, Missouri 64106

CMS

CENTERS for MEDICARE & MEDICAID SERVICES

Division of Medicaid and Children's Health Operations

March 23, 2009

Ian McCaslin, MD, MPH, Director
MO Health Net Division
Department of Social Services
Broadway State Office Building
P.O. Box 6500
Jefferson City, Missouri 65102-6500

Dear Dr. McCaslin: *Jam*

We have reviewed the responses submitted on January 15, 2009 by the Missouri Department of Social Services to our questions dated December 3, 2008 for the MO HealthNet School District Administrative Claiming (SDAC) program, proposed effective date July 1, 2008.

Please respond to our additional questions/comments listed below. CMS may have additional comments and/or questions on the proposed revisions to the MO HealthNet School District Administrative Claiming program after implementation and/or application of changes to the program.

CMS Additional Questions/Comments on Missouri's SDAC Guide

1. The State needs to submit the revised SDAC implementation plan that incorporates the State's responses to CMS' previous set of comments (dated 01/15/09) and the guidance provided to Missouri below.
2. The State confirmed that the time study is not conducted on a statewide basis, but rather by individual school district. What assurances are there that the number of sampled moments in each district is sufficient to produce statistically valid results? Also, CMS is approving one methodology for use by the State with each school district following the same sampling methodology. Therefore, why does each district submit its own methodology to the State for conducting the time study? There should only be one methodology that's adopted by participating school districts to conduct their own time studies. Please provide some sample data from the school districts to assure statistical validity as described in your response to question #1.
3. In response to question #2, the State described the time logs for the two remaining school districts in the State still participating in the Administrative Case

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Management (ACM) program as "continuous". Does that mean the time logs represent 100% time and effort reporting? Please also provide the estimated number staff in each of these districts who would be participating in the time studies using time logs so that we can determine the number of weeks per quarter required for such study to be statistically valid.

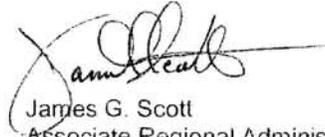
4. Please provide a sample of the training materials and the time study forms and instructions to implement the time study from the State used by each school district.
5. The State's response to question #4 is that the State will simply discard all non-responses. All non-responses must either be coded as non-Medicaid or there should be an alternate protocol for the treatment of non-responses approved by CMS. The State requested an example of an acceptable non-response protocol. Please see below.
 - a. The State will require a state-wide response rate for the time study survey of at least 85%. If the 85% response rate is not met, all non-returned moments will be included and coded as non-Medicaid time. If the 85% compliance rate is reached without having to code to non-Medicaid time, then non-returned moments will be ignored since they are compensated by the 15% over sampling of the sample size.
6. The response to question #23, please provide additional information on these individuals in the differing school districts. Please clarify why these "contracted" staff may be participating in time studies.
7. The references to absolute and reasonable reassurances regarding the cost pools should be removed. Instead, please provide assurances that the cost pools are mutually exclusive. Additional information is requested on each of the cost pools.
8. The State's response to Question #22 indicates it will sample 1% of participating schools for the cost pool data and review the rosters for discrepancies in the cost pools. Is this sampling in addition to the 10% validation? What discrepancies is the State looking for? Also, the response to Question #27 refers to a 1% sample of districts. Is this the same 1% review referred to in the State's response to Question #22? CMS is looking for a description of the State oversight and monitoring to be provided by the State in the school district implementation of SDAC.
9. In the State's response to Question #21, you indicate that if any participant in the ACM program has a log with no billable time for that month, that log is thrown out. Again, it is not acceptable for the State to disregard responses, in either the worker log or random moment time studies. As stated above in Comment #5, the

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State should code all worker logs with no billable time as non-Medicaid, or develop an alternate protocol.

If you have any question concerning this letter, please contact Narinder Singh, of my staff, at (816) 426-5925.

Sincerely,

A handwritten signature in black ink, appearing to read "James G. Scott". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James G. Scott
Associate Regional Administrator
for Medicaid and Children's Health Operations

Bcc: Leticia Barraza
Narinder Singh
Deborah Read
Tina Gray
Dee Mizell
Jim Burns

Attachment E

Example

Missouri School District Administrative Claiming Invoice

Quarter Ended:
School District Name/Number:

Section 1 - Cost Data	Salaries	Fringe	Other	Total
Total Costs Less Indirect	12,760,949	3,622,564	641,791	17,025,303.80

Section 2-RMS Data

Activity Code	Activity Description	Response Count	Less (Or) Admin	Sub-Total	% to Total	Redistributable Admin	Net Adjusted Total	Claim %'s	Cost Pool
1.a	Non-Medicaid Outreach	22		22	0.98%	5	27	0.98%	U
1.b	Medicaid Outreach	23		23	1.02%	5	28	1.02%	A-1
2.a	Fact Application-Non-Medicaid	9		9	0.40%	2	11	0.40%	U
2.b	Fact Application-Medicaid	32		32	1.42%	7	39	1.42%	A-1
3	School Education-Related	1173		1,173	52.20%	254	1,427	52.20%	U
4	Direct Medical Service	375		375	16.69%	81	456	16.69%	U
5.a	Transport -Non-Medicaid	6		6	0.27%	1	7	0.27%	U
5.b	Transport -Medicaid	15		15	0.67%	3	18	0.67%	A-2
6.a	Non-Medicaid Translation	2		2	0.09%	0	2	0.09%	U
6.b	Medicaid Related Translation	5		5	0.22%	1	6	0.22%	A-2
7.a	Prog. Plan/Policy Develop -Non-Medical	79		79	3.52%	17	96	3.52%	U
7.b	Prog. Plan/Policy Develop -Medical	46		46	2.05%	10	56	2.05%	A-2
8.a	Non-Medical/Non-Medicaid Training	24		24	1.07%	5	29	1.07%	U
8.b	Medical/Medicaid Training	2		2	0.09%	0	2	0.09%	A-2
9.a	Referral/Coordination-Non-Medicaid	187		187	8.32%	41	228	8.32%	U
9.b	Referral/Coordination-Medicaid	247		247	10.99%	54	301	10.99%	A-2
10	General Administration	487	-487	0	0.00%	0	0	0.00%	N/A
Total Response Count		2,734		2,247	100.00%	487	2,734	100.00%	

Section 3-Medicaid Eligibility/Provider Participation

Medicaid Elig	Provider Participation Rate	Claimable Elig %	Students	Recipients
74.72		74.72		

Section 4-Cost Distribution:

Cost Pool A-1: Non-Discounted

%	Salaries Gross Claimable	Fringe Gross Claimable	Other Exp Gross Claimable	TOTAL CLAIMABLE
1.b 1.02				
2.b 1.42				
Sub-Total 2.44	311,367.16	88,390.66	15,859.70	415,417.41

Cost Pool A-2: Discounted

%	Salaries Gross Claimable	Fringe Gross Claimable	Other Exp Gross Claimable	TOTAL CLAIMABLE	
5.b 0.67					
6.b 0.22					
7.b 2.05					
8.b 0.09					
9.b 10.99					
Sub-Total	14,020.00				
Claimable Elig %	74.72				
Total Claimable %	10.48	1,337,347.46	379,644.71	67,259.68	1,784,251.84

TOTAL COST POOL A	1,648,714.61	468,035.27	82,919.37	2,199,669.25	Claimable @ 50%	1,099,834.63
Indirect Costs	19.98					329,413.18
TOTAL CLAIM						1,429,247.80
					Original Payment	1,495,525.52
					Overpayment	66,277.72