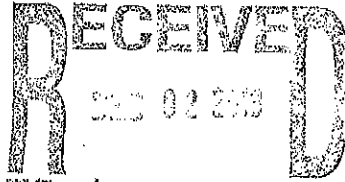


DEPARTMENT OF HEALTH & HUMAN SERVICES  
Centers for Medicare & Medicaid Services  
San Francisco Regional Office  
90 Seventh Street, Suite 5-300 (5W)  
San Francisco, CA 94103-6706



**DIVISION OF MEDICAID & CHILDREN'S HEALTH OPERATIONS**

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NOV 21 2013

Mr. Toby Douglas, Director  
California Department of Human Services  
P. O. Box 997413997413, MS 0000  
Sacramento, California 95899-7413

Dear Mr. Douglas:

Enclosed is the final Financial Management Report entitled, "Review of California's School Based Administrative Claiming Program" (Control Number 09-FM-2012-CA-01-F).

The purpose of this review was to determine if California properly claimed Federal Medicaid reimbursement for school based administrative costs in accordance with Federal regulations and California's approved School Based Administrative Claiming Guide. Our review found serious deficiencies within this program that CMS is in the process of addressing with DHCS.

We have incorporated your response into the enclosed final report and look forward to assisting California in addressing these deficiencies.

Should you or your staff have any questions regarding this matter, please contact Brian Burdullis at (916) 498-6523 or by e-mail at [brian.burdullis@cms.hhs.gov](mailto:brian.burdullis@cms.hhs.gov).

Sincerely,

A handwritten signature in black ink, appearing to read "Gloria Nagle". The signature is written in a cursive style with some loops and flourishes.

Gloria Nagle, Ph.D., MPA  
Associate Regional Administrator  
Division of Medicaid and Children's Health Operations

cc: Melanie Pascua, Audit Coordinator

**Financial Management Review**

**CALIFORNIA'S SCHOOL BASED  
ADMINISTRATIVE CLAIMING PROGRAM**

**State Fiscal Year 2011**

**FINAL REPORT**

**CONTROL NUMBER 09-FM-2012-CA-01-F**

**Date Issued: November 21, 2013**



**Prepared by:**  
**Financial Management Branch**  
**Division of Medicaid and Children's Health Operations / San Francisco Regional Office**

# TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY</b>	<b>1</b>
<b>BACKGROUND</b>	<b>2</b>
<b>PURPOSE, SCOPE AND METHODOLOGY</b>	<b>4</b>
<b>OVERVIEW</b>	<b>6</b>
Turlock Unified School District	7
Tulare County Office of Education – Special Services	8
Santa Barbara County Education Office – Special Education	9
DHCS Oversight	10
Approved School Based Claiming Guide	10
<b>FINDINGS, RECOMMENDATIONS, STATE RESPONSE, &amp; CMS COMMENTS</b>	<b>11</b>
<b>ATTACHMENTS</b>	
CMS Calculation of Unallowable Claims	Attachment A
CMS Letter to State Agency	Attachment B
State Response	Attachment C

## **EXECUTIVE SUMMARY**

The Centers for Medicare & Medicaid Services (CMS) completed a review of California's School Based Administrative Claiming Program for the period July 2010 through June 2011 (SFY 2011).

The primary objectives of this review were to:

- Determine if California properly claimed federal Medicaid reimbursement for school-based administrative costs in accordance with federal regulations and California's approved School Based Administrative Claiming Guide, and
- Determine if the amounts claimed for three distinct claiming units on the Quarterly Medicaid Statement of Expenditures Reports (Form CMS-64) for the review period were allowable.

Our review included visiting the three distinct claiming units selected to gain an understanding of the school-based administrative claiming process and to determine if the amounts submitted for Medicaid reimbursement were allowable and in accordance with federal regulations and California's approved School Based Administrative Claiming Guide.

As a result of our review, we found the following:

1. Costs claimed for two of the three claiming units reviewed did not comply with 42 Code of Federal Regulations (CFR) § 433.15 (b)(7) and Office of Management and Budget (OMB) Circular A-87
2. There is a lack of internal controls to ensure compliance with 42 CFR §433.15(b)(7) and OMB A-87.
3. There is a lack of operating procedures and financial oversight to ensure administrative costs are not duplicative of costs claimed for direct medical services.
4. The approved claiming plan does not comply with 42 CFR §433.15(b)(7) and OMB A-87.

Consequently, the state agency should:

1. Return \$4,135,263 federal financial participation (FFP) in unsupported school-based administrative costs.
2. Notify all school districts regarding the proper procedures relating to time studies to ensure that participants are not directed to perform specific activities or utilize their time in specific ways during time study periods and remind all districts of the need to maintain integrity in the time study process. Remedial ethics education and training specific to Turlock and Tulare school districts should be provided.
3. Implement a reasonableness review to ensure the time studies and invoices are reasonable and allocable and that proper time coding is utilized.
4. Implement internal controls to ensure compliance with 42 CFR §433.15(b)(7) and OMB A-87.
5. Implement internal controls to ensure administrative costs are not duplicative of costs claimed for direct medical services.

6. Amend the currently approved school-based administrative claiming plan, including the time study allocation methodology used as a basis for developing costs to be in compliance with 42 CFR§433.15(b)(7) and OMB A-87.

The state's response to the draft report has been incorporated into the findings and recommendations section of this report along with our comments. The state's response in its entirety is included with this report in Attachment C.

## **BACKGROUND**

The Medicaid program was established in 1965 through enactment of Title XIX of the Social Security Act (the Act). Under Medicaid, federal grant awards are made available to the states to share in the costs of providing necessary services to eligible low-income individuals. Each state has an approved state plan, which is the contract between the state and federal government describing how that state administers its Medicaid program. In order to receive federal Medicaid dollars, a state must meet the requirements of certain federal laws and regulations in the operation of its program, including, but not limited to, an appropriate source of the state share of Medicaid payments.

### Medicaid in California

The California Department of Health Care Services (DHCS) is responsible for administering the state's Medicaid program, including the School Based Administrative Claiming Program. More than four million children received Medicaid services in California in 2011.

Approximately three quarters of these children were enrolled in managed care plans for much of their care, and California has indicated its intent to continue to expand managed care to other parts of the state. School-based services are excluded from managed care contracts, and schools can enroll as Medicaid providers and bill for specific approved services. There are a variety of approved services, including physical, occupational, and speech therapy; psychology; nursing; and health aide services. Children receiving Medicaid school-based services in California are not required to have an Individualized Education Program (IEP); any medically necessary service included in the state plan provided to a Medicaid eligible child may be billed to Medicaid if other federal requirements have been met. School districts pay for the direct medical services they provide to Medi-Cal eligible students and are reimbursed at cost from federal funds; there is no state General Fund expense for this program. State law requires funds from Medi-Cal school-based services to be reinvested in medical services at schools.

In addition to reimbursement for medical services, federal funding is available for the administrative costs incurred that directly support efforts to identify and enroll potential eligibles into the Medicaid program, or that directly support the provision of medical services covered under the state Medicaid plan.

### Brief History

In the mid-1990's, a handful of California school districts began claiming some administrative costs through the allocation mechanism already established for County Health Departments. This claiming was limited, however, and there was broad interest in expanding the ability of schools to perform and claim for outreach activities. In May 2003, CMS released the *Medicaid*

*School-Based Administrative Claiming Guide* to provide guidance on the appropriate methods to claim federal reimbursement for the costs of Medicaid administrative activities performed in a school setting. California, however, had already begun work on a state-specific claiming guide to provide instructions and details related to codes, the time study survey used to determine allowable costs, preparation of invoices, and supporting worksheets. California's School Based Administrative Claiming Guide was approved on December 31, 2003.

The California Department of Education has organized more than 1000 Local Education Agencies (LEAs) into eleven Local Education Consortia (LECs). The regional LEC is a school district or County Office of Education (COE) within each region holding a contract with DHCS to coordinate the Medi-Cal Administrative Activities (MAA) program for school districts and county education offices within its region. All claiming units that wish to participate in the School Based Administrative Claiming Program must contract through either the California County Superintendents Educational Services Association (CCSESA), their regional Local Education Consortia (LEC), or their county local governmental agency (LGA). This preserves the original claiming structure through Public Health Departments as an option.

A claiming unit is typically a school district, or program within a district. California has claiming units that are as diverse as County Offices of Education, Special Education Local Plan Areas (SELPA's), local school districts, community colleges, and Healthy Start programs. There is no limit to the number of claiming units a school district can have and it is not uncommon for a school district to have several. Each participating claiming unit must participate in a time survey, complete the grid identifying staff positions and activities those staff have claimed, determine the actual cost incurred, submit an invoice, and maintain an audit file.

Detailed invoices for school-based administrative reimbursement are submitted by the participating claiming units for each quarterly period of activities. These invoices document the certified costs incurred by the claiming unit that qualify for federal reimbursement. The LEC/LGA is responsible for reviewing the invoice and providing DHCS with a complete submission no later than 15 months after the end of the quarter for which school-based administrative activities were performed.

To determine the invoice amount, each participating claiming unit must perform a time study survey which is the primary basis for allocating allowable cost for the school-based administrative activities. The time survey must account for 100 percent of the payable time and activities (whether allowable or unallowable) performed by each employee participating in the school-based MAA claiming program. The time survey categorizes the activities into four groups:

- 1) Unallowable – the activity is unallowable as administration under the Medicaid program;
- 2) 100% Medicaid Share – the activity is solely attributable to the Medicaid program and is not subject to the application of the Medicaid share percentage;
- 3) Proportional Medicaid Share – the activity is allowable as administration under the Medicaid program, but the allocable share of costs must be determined by applying

the percentage of the Medicaid eligible population for each school or school district included in the time study; or

- 4) Reallocated Activities – those activities which are reallocated across other costs based on the percentage of time spent on allowable/unallowable administrative activities.

Each quarter, DHCS designates one week as the time survey period. The LEC/LGA must provide training to each participating claiming unit prior to the time survey and maintain training verification. The Los Angeles Unified School District (LAUSD) is the only claiming unit that uses an alternative Random Moment Time Study (RMTS) methodology, for which the state sought and received separate approval from CMS. LAUSD's RMTS was approved by CMS on October 18, 2010. It is not part of the scope of this financial management review. The state plan amendment for California's school-based direct medical services reimbursement methodology was approved in 2005.

## **PURPOSE, SCOPE AND METHODOLOGY**

The primary objectives of this review were to:

- Determine if California properly claimed federal Medicaid reimbursement between July 1, 2010 through June 30, 2011 (SFY 2011) for school-based administrative costs in accordance with federal regulations and California's approved School Based Administrative Claiming Guide, and
- Determine if the amounts claimed for three selected claiming units on the Quarterly Medicaid Statement of Expenditures Reports (Form CMS-64) for the review period were allowable.

To accomplish our objectives we used the following methodology:

- Reviewed applicable federal and state regulations, policy and procedures; and the 2003 CMS *Medicaid School Based Administrative Claiming Guide*;
- Reviewed California's approved 2003 School Based Administrative Claiming Guide;
- Held discussions with state officials to gain an understanding of school-based administrative claiming process and the state's oversight of the School Based Administrative Claiming Program;
- Determined the total amount claimed by California for school-based administrative costs for the SFY 2011;
- Analyzed the claiming data and selected a judgmental sample of claiming units within the review period for on-site review;
- Obtained and reviewed supporting documentation for each selected claiming unit, which included both cost documentation and the supporting time studies;
- Conducted site visits at each of the three selected claiming units to gain an understanding of how the claiming unit completed its time studies to determine compliance with the approved School Based Administrative Claiming Guide;

- Conducted interviews with a sample of time study participants from each of the three selected sampled claiming units to discuss the time survey results and gain an understanding of the type of work each participant would normally do in an average work day;
- Performed interviews with local coordinators of each sampled claiming unit to gain an understanding of the coordination and implementation of the School Based Administrative Claiming Program;
- Conducted interviews with the LEC/LGA responsible for each of the selected claiming units to gain an understanding the review conducted prior to submitting the claim to DHCS;
- Reviewed California's approved School Based Administrative Claiming Guide including the approved time study methodology to determine if it is in compliance with federal regulations and current CMS policy; and
- Reviewed DHCS' implementation of the approved School Based Administrative Claiming Guide to assess the risk that administrative costs determined and claimed based on this Guide are duplicative of costs claimed for direct school-based medical services.

The criteria used throughout the review included:

**42 CFR § 433.15(b)(7)** allows states to claim 50% reimbursement for activities that the Secretary deems necessary for the proper and efficient administration of the state plan.

**OMB Circular A-87** requires that costs be both reasonable and allocable in addition to be necessary for the proper and efficient administration of federal awards.

Reasonable Costs: A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. In determining reasonableness of a given cost, consideration shall be given to:

- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the federal government.
- Significant deviations from the established practices of the governmental unit which may unjustifiably increase the federal award's cost.

Allocable Costs: A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

**Medicaid School-Based Administrative Claiming Guide, Section IV(B)(2)**

A time study must reflect all of the time and activities (whether allowable or unallowable under Medicaid) performed by employees participating in the Medicaid administrative claiming program.

Payments for allowable Medicaid administrative activities must not duplicate payments that have been, or should have been, included as part of a direct medical service, capitation rate, or through some other state or federal program.

## OVERVIEW

California claimed \$188,894,409 federal financial participation (FFP) on the Form CMS-64 for school-based administrative costs for the period July 1, 2010 through June 30, 2011 (SFY 2011). We obtained detailed supporting documentation from DHCS for these expenditures to analyze the data. In order to focus our review on higher risk claiming units, we created a database of all invoices that had been claimed during this period for quarterly reimbursement in excess of \$100,000 FFP. We found that there were 207 unique claiming units that had at least one invoice for quarterly reimbursement greater than \$100,000 FFP during our review period. The total amount claimed for all 207 claiming units during SFY 2011 was \$111 million FFP, or 59% of the total amount claimed for SFY 2011.

From this listing, we compared the reimbursement amounts amongst the 207 different claiming units and selected three claiming units for detailed onsite work. In making these selections, we considered factors that included the geographic location of the claiming unit, cost per participant within the claiming unit, overall size of the claiming unit, and approximate cost per student. The three claiming units selected were all located in different portions of the state so that we did not select two that were subject to the same LEC/LGA review process.

The three claiming units selected for review were:

1. Turlock Unified School District
2. Tulare County Office of Education- Special Services Division
3. Santa Barbara County Education Office – Special Education

Since the time survey results serve as the primary basis for allocating costs to the Medicaid program, we focused the review on the implementation and operation of the time survey and determining the reasonableness of the time reported by the participants. For all three of these claiming units, we obtained supporting documentation from DHCS for all invoices the state had claimed during SFY 2011. Because the number of participants and overall time survey participants were fairly consistent across all invoices claimed for each of the three claiming units, we selected one quarter at each claiming unit to perform detailed test work. For each quarter selected, CMS obtained the time surveys for all of the individual participants. From these time studies, we selected a judgmental sample of staff to interview during the onsite review. Our samples included a mixture of various positions within each claiming unit in order for us to gain a general understanding of the various types of activities being claimed. Specifically, through the interviews, CMS gained an understanding of how the time survey was operationalized in each claiming unit as well as an understanding of the individual participant's

job duties. An understanding of each individual's job duties was needed to comprehend how activities were coded throughout the week to the various codes within the time survey.

In addition to the selected time study participants, we also interviewed the local coordinator and responsible LEC/LGA reviewer. These interviews were conducted to gain an understanding of how the local claiming unit had implemented the School Based Administrative Claiming Guide and also the type of oversight performed after the participants had completed their time studies by the local coordinator.

We used the information obtained from all of these interviews to assess the reasonableness of the results of the individual time study in relation to that individual's normal job duties; as well as the reasonableness of the claiming units overall time survey results.

### **Turlock Unified School District**

During SFY 2011, DHCS claimed \$3.4 million FFP related to invoices for school-based administrative expenditures incurred for Turlock Unified School District (TUSD). TUSD is a school district serving over 13,500 children and operating 15 schools. Approximately 500 school personnel participated in each quarter's time survey. The majority (over 300) of these participants were regular classroom teachers. The remaining participants mainly included other office and administrative staff throughout the district. Each quarterly invoice submitted by TUSD was first reviewed and approved by the Stanislaus County LEC prior to submission to DHCS for further review and reimbursement.

Compared to all other claiming units throughout California that utilized the quarterly time survey, TUSD claimed the most school-based administrative costs during SFY 2011 based on DHCS reported expenditures.

We selected the invoice for the 2<sup>nd</sup> Qtr SFY 2010 for our time survey sample. The summary time survey results for this quarter indicated that as a collective claiming unit, only 73% of the collective time was coded to school/educational activities but over 15% of staff's collective time was coded for activities that qualify for Medicaid reimbursement. Given that the position responsibilities of the participants were mainly for education purpose, it does not seem reasonable that 15% of the time spent on activities would qualify for Medicaid reimbursement. Most of these staff in the survey included regular education teachers so it was unreasonable that 15% of their time would be on Medicaid outreach and enrollment activities.

We selected twenty nine time study participants for interviews and also conducted interviews with both the LEC and LEA coordinators. Based on our participant interviews and discussion with the LEA coordinator, we concluded that staff within the claiming unit were directed to perform activities during each time survey week that were outside their normal job duties in an effort to maximize reimbursement for the amount of FFP that could be claimed by TUSD. This practice resulted in time survey results that were not reflective of how staff within the claiming unit would routinely spend time during an average typical work week. Since the time survey results from this week were applied to the entire quarter's worth of salaries, this resulted in an over allocation of costs to the Medicaid program.

The FFP maximization effort could be seen in the time survey results across the entire claiming unit. For example, over 300 individuals noted on their time studies that they were copying, discussing, or distributing Medicaid outreach materials during the time study week. The scope of the Medicaid outreach activities recorded on the time surveys was inconsistent with the normal job duties of the participants across the claiming unit, as they are primarily employed to provide school instruction and implement the academic curriculum, not provide Medicaid education.

The results of this effort were also evident in a review of the individual participant time study surveys. For example, two of the time studies submitted by TUSD were for preschool teachers indicating that time was spent during every hour of every workday conducting Medicaid outreach and Medi-Cal claims administration activities. The certified time studies indicated that these two teachers only spent 50% of their time on school related activities while the remaining 50% of their time was spent doing Medicaid administrative activities.

The time survey results from TUSD were not questioned by either the LEC or DHCS because neither of those oversight reviews included any assessment of the reasonableness of the time survey results from the claiming unit. Due of the extent of TUSD's FFP maximization practices, we are unable to validate that any portion of the \$3.4 million FFP claimed by DHCS during SFY 2011 for TUSD complied with 42 CFR § 433.15 (b)(7) and OMB Circular A-87.

#### **Tulare County Office of Education – Special Services**

During SFY 2011, DHCS claimed \$2.1 million FFP related to invoices for school-based administrative expenditures incurred for Tulare County Office of Education – Special Services (TCOE). Approximately 95 individuals participated in each quarter's time survey. The majority of these participants were special education teachers and instructional assistants. TCOE was selected for review due to the large amount claimed per time study participant and the overall size of TCOE's claim compared to similar claiming units. Each quarterly invoice submitted by TCOE was first reviewed and approved by the Tulare County Health and Human Services Agency LGA prior to submission to DHCS for further review and reimbursement.

We selected the invoice for the 2<sup>nd</sup> Qtr SFY 2010 for our time survey sample. We found that the time survey participants in TCOE were mostly individuals that were conducting home visits and monitoring Medi-Cal services. These routine job duties were reflected in the overall time survey results that indicated 25% of the claiming unit's collective time being charged to Code 8 for the ongoing referral, coordination, and monitoring of Medi-Cal services. We also noted that an additional 16% of the collective time was charged to Medicaid outreach activities (Code 4).

We selected twenty time study participants for interviews and also conducted interviews with both the LGA and LEA coordinators. Based on our participant interviews and discussion with the LEA coordinator, we concluded that staff within the claiming unit were directed to perform outreach activities during each time survey week that were outside their normal job duties in an effort to maximize reimbursement for the amount of FFP that could be claimed by TCOE. We found that staff was instructed to distribute and discuss outreach materials during the time survey

week. This practice was evident in the time survey results for Code 4 where we noted many participants coding significant amounts of time for Medicaid outreach and providing samples that outreach materials were discussed on the home visits throughout the week. TCOE staff was serving children, which the claiming unit informed us were already predominantly enrolled in the Medicaid program.

As the staff within this claiming unit would normally conduct other activities that would qualify for school-based administrative reimbursement, we found that, with the exception of code 4, the time charged appeared generally reasonable and consistent with program requirements. However, we are unable to validate that any portion of the outreach costs claimed by DHCS during SFY 2011 for TCOE is in compliance with 42 CFR § 433.15 (b)(7) and OMB Circular A-87.

The time survey results from TCOE were not questioned by either the LGA or DHCS because neither of those oversight reviews included any assessment of the reasonableness of the time survey results from the claiming unit.

### **Santa Barbara County Education Office – Special Education**

During SFY 2011, DHCS claimed \$995,305 FFP related to invoices for school-based administrative expenditures incurred for Santa Barbara County Education Office- Special Education (SBCEO). Approximately 230 individuals participated in each quarter's time survey. The majority of these participants were special education teachers and instructional assistants. SBCEO was selected for review due to the lower amount claimed per time study participant and the fact that Medicaid is administered through a single managed care plan in Santa Barbara County. Due to the provision of most health care services to all Medicaid eligible children by the health plan, we wanted to see how SBCEO worked with the local health plan to determine the likelihood of duplicate claiming. Each quarterly invoice submitted by SBCEO was first reviewed and approved by the Kern County Superintendent of Schools LEC prior to submission to DHCS for further review and reimbursement.

We selected the invoice for the 3<sup>rd</sup> Qtr FFY 2010 for our time survey sample. The overall time survey results indicated that the majority of the staff time was spent on school related activities, while only 1.4% was spent performing Medicaid outreach (Code 4). Approximately 10% of the claiming unit's collective time was charged to monitoring and coordinating Medicaid services (Code 8). These percentages were significantly lower than staff in somewhat similar positions had recorded in TCOE.

We selected seventeen time study participants for interviews and also conducted interviews with both the LEC and LEA coordinators. Based on our participant interviews and discussion with the LEA coordinator, we found that the time survey results for the individual participants were reasonable given the job responsibilities for the positions. We also found that the local LEA coordinator conducted thorough reviews of the time surveys in an effort to identify errors prior to the submission of the invoice to the LEC. In addition, the LEC also performed a thorough review of the invoice prepared by SBCEO, including an assessment of the reasonableness of both the time study results and other direct charges reported on the invoice.

Based on the results of our onsite work, we concluded that the claiming unit was administering the time study and completing the invoices in accordance with the approved School Based Administrative Claiming Guide. Accordingly, we were able to validate that all costs claimed by DHCS during SFY 2011 for SBCEO met federal requirements. No coordination of activities with the health plan was occurring, which eliminated our duplicate claiming concerns with the school district. It raises concerns about the health plan meeting their contracting requirement to coordinate with schools, however, and we will follow up with DHCS.

### **DHCS Oversight**

We conducted interviews with the DHCS staff responsible for administering the School Based Administrative Claiming Program and found that the reviews conducted on the costs submitted by the claiming units were extremely limited and did not provide adequate assurance that the amounts claimed were compliant with federal regulations and policies, and the approved School Based Administrative Claiming Guide.

We also found that instead of providing consistent oversight and monitoring guidance to the LEAs, LECs and LGAs that were responsible for the initial reviews of the invoices, DHCS allows LECs and LGAs to either establish their own standards or perform a very cursory review of the claiming units' submission. This was evident in the variation of reviews being conducted at the three claiming units we visited.

DHCS also lacks internal controls to ensure that costs being claimed are compliant with 42 CFR §433.15(b)(7), which requires that all costs are necessary for the proper and efficient administration of the state plan. For example, DHCS does not require claiming units to submit a plan that details the activities they expect to perform. DHCS does not identify the types of positions that can participate in the program. Given the lack of DHCS approval of any specific activities the claiming unit is authorized to perform, it is unclear how DHCS monitors that all costs claimed were compliant with 42 CFR §433.15(b)(7),

DHCS allows direct service providers to also participate in school-based administrative claiming. In these cases, the staff would be allocating costs to the Medicaid program for school-based administration using a different methodology that was used to determine allowable costs for direct medical services. DHCS did not have any internal controls in place to ensure that the administrative costs claimed were not duplicative of costs already claimed as direct medical services.

### **Approved School Based Claiming Guide**

We reviewed California's approved School Based Claiming Guide, including the current time survey methodology to determine if it was compliant with federal regulations and current CMS policy. We found that the approved time survey, as implemented, was not compliant with OMB A-87 because it allowed for staff to record activities that were only performed during the time study week to codes that applied those results against the entire quarter's worth of salaries.

On June 26, 2012, the CMS Regional Office notified DHCS that it must submit a revised School Based Administrative Claiming Guide prior to September 30, 2012. DHCS submitted a revised claiming guide to CMS in October 2012. CMS provided comments to DHCS on December 6, 2012. DHCS provided CMS its response on April 5, 2013. This revised Claiming Guide would be required for any costs claimed after July 1, 2012.

The letter to DHCS is included as Attachment B to this report.

## **FINDINGS, RECOMMENDATIONS, STATE RESPONSE, & CMS COMMENTS**

### **FINDING 1: INVOICES DID NOT COMPLY WITH 42 CFR §433.15(B)(7) AND OMB A-87**

Each school-based administrative claiming unit completes a time survey on a quarterly basis that records the claimable and non-claimable school-based administrative activities that each participant has performed. The time survey is the basis used to determine the amount of expenditures that each claiming unit invoices and certifies to the state to claim FFP for Medicaid school-based administrative activities.

During our site visits of school-based administrative claiming units, CMS noted that due to a lack of oversight and monitoring by the state, the invoices submitted by the LEC/ LEA, were not reflective of what the time study participants would actually do in a typical average school workday. As a result, the FFP paid to the state for the sampled school districts were unreasonable.

During our review of the Turlock School District time surveys we noted that approximately 335 of the 486 time study participants during the quarter ended December 30, 2010 (about 70%) used Code 4, Initial Medi-Cal Outreach (100% Medi-Cal code), for activities that included copying and distributing of Medi-Cal Outreach materials to their students. Through the interviews conducted with a selected sample of participants (including the local MAA coordinator), it was confirmed that the staff in the claiming unit were instructed to copy, distribute, and discuss Medi-Cal outreach materials during the time survey week. This was done in an effort to maximize FFP since the time survey results from this week that were applied against the salaries from the entire quarter. In addition; when reviewing the time study participants' job duties 294 of the 486 positions (approx. 60.5%) that were time surveyed were regular educational teachers and would not be expected to have any significant time towards Medicaid activities, yet 15.61% of the time study was coded towards Medicaid reimbursable codes.

During our review of the Tulare time surveys we noted that approximately 64 of the 95 time study participants during the quarter ended December 30, 2010 (about 67%) were instructional assistants (e.g., home visitors). Through the interviews conducted with a selected sample of participants (including the local MAA coordinator) it was confirmed that the staff in the claiming unit were instructed to distribute and discuss Medi-Cal outreach materials during the time survey week. This was done in an effort to maximize FFP since the time survey results from this week were applied against the salaries from the entire quarter. We were also informed that the populations being served by the claiming unit were children who are already predominately

enrolled in the Medicaid program. While it was reasonable that these participants would have Medicaid allowable activities, it is unreasonable that approximately 15.76% of their time would be coded towards Code 4, Initial Medi-Cal Outreach (100% Medi-Cal code).

The invalid time study results and resulting unallowable costs were caused by the claiming unit's practice of having staff perform additional outreach and other Medicaid administrative activities during the time study week in an effort to maximize federal reimbursement through the MAA program. The directing of participants to perform specific activities during the time study week is a serious breach of the integrity of the time study process, which effectively invalidates the associated results. Even though the claiming unit staff were following the time study instructions and recording the activities actually performed, the resulting Medicaid claim did not comply with federal requirements. Therefore, the time studies that serve as the basis of Turlock's and Tulare's MAA invoice are not compliant with 42 CFR § 433.15 (b)(7) and OMB Circular A-87.

For the state fiscal year (SFY) ended June 30, 2011, the entire amount claimed, \$3,476,812 FFP, by Turlock is unallowable as the costs determined using the invalid time study results are not reasonable or allocable to the Medicaid program

For SFY ended June 30, 2011, \$658,451 FFP claimed by Tulare related to Code 4 -- Initial Medi-Cal Outreach is unallowable as the costs are not reasonable or allocable to the Medicaid program.

#### **RECOMMENDATION(S):**

The state must:

- (1) Return the \$4,135,263 FFP (\$3,476,812 FFP related to Turlock and \$658,451 FFP related to Tulare) claimed costs incurred for Medicaid school-based administrative costs during the SYF ended June 30, 2011.
- (2) Implement internal controls to ensure that claiming units are not directing participants to perform specific activities or utilize time during the time study period in order to inflate claims for FFP. Furthermore, the state should provide specific training with the Turlock and Tulare claiming units to address this practice.

#### **STATE RESPONSE**

DHCS partially agreed with recommendation #1 and indicated that it would require both Turlock and Tulare to return the funds associated with the unallowable costs for code 4. However, DHCS does not believe that Turlock should have to return funds associated with other codes.

DHCS agreed with recommendation #2 and provided a proposed corrective action plan.

## **CMS Comments**

*CMS does not agree that the remaining claim from Turlock is supportable based on the available documentation and the results of our review. After evaluating the types of positions claiming for Medicaid administrative costs, the reasonableness of the time charged to the other codes in relation to the participant's routine job duties in the school setting, and the claiming unit's implementation of the school based administrative claiming process, CMS does not agree that the remaining claim from Turlock complies with 42 CFR 433.15(a)(7). CMS requests the funds be returned on the next CMS-64. In addition, in light of the magnitude of the findings identified in this report – most specifically, the instructions provided to time study participants to maximize Medicaid activities during time survey weeks; the state should develop a training avenue and process for employees to properly identify, and timely report any perceived fraud and abuse activities related to the SBS program.*

*CMS will work with DHCS on the proposed corrective action plan during its development and review of a prospective administrative claiming plan proposal for costs incurred after July 1, 2012.*

### **FINDING 2: LACK OF APPROPRIATE INTERNAL CONTROLS TO ENSURE COMPLIANCE WITH 42 CFR §433.15(B)(7) AND OMB A-87**

The state does not perform a test of reasonableness and review invoices billed for the school-based ADM activities. In addition, there is an inconsistency across school districts over the oversight that each individual LEC/LGA performs in a review over the amounts claimed for school administrative activities to review reasonable costs. Only one of the three LEC/LGAs we visited was performing any sort of a reasonableness review on the time studies and direct costs submitted by the claiming unit. The other two LEC/LGAs were conducting very cursory reviews. It was evident that DHCS was not monitoring the reviews at the local level to ensure that consistent standards were being applied. For example, as a result of this lack of reasonableness reviews, we noted the following practices:

- a. Participants were not reasonably or more importantly accurately accounting for their time spent on various activities. Participants account for their time on the survey in fifteen minute increments and are allowed to round up each increment; therefore the participant would account for any activity taking at least eight minutes. CMS noted cases where regular classroom teachers were coding fifteen minute increments for time spent referring a student to the school nurse. While it may be possible that a referral might take eight minutes, it seems unreasonable that it would routinely take that much time. This practice combined with the lack of oversight from DHCS, results in a high risk that Medicaid is being over allocated costs from the claiming unit.
- b. There is an inconsistency among participants when selecting and coding activities. For example, some participants may include their lunch break as code 16, General Administration/Paid Time Off, while other staff with the same job classification within the same claiming unit may not charge any time to code 16.

- c. We found that vendor fees ranged from just over \$60 per time survey participant to \$750 per participant. It was unclear from our review of the contracts what justified DHCS allowing such wide range of vendor costs. DHCS does not have any procedures or standards to assess the reasonableness and appropriateness of vendor fees and therefore, there is no basis to demonstrate that the costs are compliant with OMB A-87.
- d. There is no documentation to support DHCS' decision that the costs being claimed were necessary for the proper and efficient administration of the state plan. There is not a preapproved claiming plan between DHCS and the claiming unit detailing the types of school-based administrative activities each claiming unit/position will be performing.

There is a lack of reasonableness and limited reviews conducted at each level, from the local school district, LEA/LGA to the state Medicaid agency, to determine the claimed costs are in compliance with federal regulations. In addition, there is also a lack of oversight and monitoring and inconsistent guidance provided to the school districts and the LECs/LGAs from the state which results in inconsistent claiming practices by each individual claiming unit. Neither the approved claiming plan nor guidance provided by the state Medicaid agency to the claiming units contained specific guidance on assessing the reasonableness of claims.

The lack of internal controls, preapproved claiming plan between DHCS and various claiming units, and consistent guidance from DHCS results in a high risk that unallowable costs are being claimed that are not compliant with 42 CFR § 433.15 (b)(7) and OMB A-87. Due to the lack of guidance from the state the claiming units are left to themselves to decide not only who participates in the time study but what activities those individuals will perform and how much of those activities are needed.

#### **RECOMMENDATION(S):**

In order for the state to be in compliance with 42 CFR § 433.15 (b)(7) and OMB Circular A-87, the state must implement:

- (a) A reasonableness review to ensure the time studies and invoices are reasonable and allocable and that proper time coding is utilized, and,
- (b) Internal controls to ensure compliance with the regulations and guidelines.

#### **STATE RESPONSE**

DHCS partially agreed with these recommendations but indicated that it would use the findings from this review to require claiming units to provide additional supporting documentation to support the invoice and time study results.

### ***CMS Comments***

*CMS is working with DHCS on strengthening internal controls as well as oversight and monitoring of the program in the revised claiming plan currently under development for all costs incurred after July 1, 2012.*

### **FINDING 3: LACK OF OPERATING PROCEDURES TO ENSURE THAT THERE ARE NO DUPLICATED COSTS**

The state's school-based administrative claiming plan was approved in 2003. The state plan amendment for school-based services was approved in 2005. Since California has a historic program, the time study methodology used by the state to identify school-based administrative costs is separate and different than the method to identify allowable costs through the Cost Reimbursement Comparison Schedule (CRCS) used to capture direct medical services costs.

Through our review, we noted that DHCS allows direct service providers to also participate in school-based administrative claiming. In these cases, the staff would be allocating costs to the Medicaid program using a different methodology that was used to determine allowable costs for direct services. The state does not have any operating procedures or internal controls in place to ensure there is no duplication of time being reported for these individuals.

The state does not have procedures (internal controls) to ensure that the time reported in the administrative time studies is not duplicative of the amounts being claimed for direct services. The approved claiming plan did not specifically address the potential overlap between the admin claiming and reimbursement for school-based services.

The use of separate cost allocation methodologies result in the potential of claiming duplicate costs.

### **RECOMMENDATION(S):**

The state must implement internal controls to ensure administrative costs are not duplicative of costs claimed for direct services.

### **STATE RESPONSE**

DHCS disagreed with this recommendation and indicated that there is specific guidance in the claiming plan regarding duplicate payments and participants are instructed to code any time spent performing direct services to code 2, which is non-reimbursable for administrative cost purposes.

### ***CMS Comments***

*CMS does not agree that the reliance on DHCS' current internal controls provides adequate assurance that costs are not being duplicated between payments for direct services and administrative claiming activities conducted in the school setting. CMS will work with DHCS to ensure adequate internal controls are in place during the development and review of the revised claiming plan to cover all costs incurred after July 1, 2012.*

**FINDING 4: APPROVED CLAIMING PLAN DOES NOT COMPLY WITH 42 CFR § 433.15 (B)(7) AND OMB A-87**

The state's currently approved administrative claiming plan allows time study participants to code time spent completing the survey as 100% Medi-Cal, through code 15, Medi-Cal Claims Administration, Coordination and Training. This activity more appropriately should be coded as general administration which is reallocated. Coding as total Medicaid will inflate the actual claim.

The approved school-based administrative claiming plan does not properly reflect completion of the time study survey and should be charged as general administrative instead of 100% Medi-Cal and therefore is non-compliance with the requirements of 42 CFR § 433.15 (b)(7) and OMB A-87 and the 2003 School Based Administrative Claiming Guide.

The lack of an approved school-based administrative claiming plan that properly reflects the requirements of 42 CFR § 433.15 (b)(7) and OMB A-87 from DHCS results in a high risk that unallowable costs being claimed as indicated by the findings and issues identified in this review.

**RECOMMENDATION(S):**

In order for the state to be in compliance with 42 CFR § 433.15 (b)(7) and OMB Circular A-87, we request the state to amend their currently approved school-based administrative claiming plan, including the time study used as a basis for developing costs.

**STATE RESPONSE**

DHCS agreed with this recommendation and submitted a proposed corrective action plan.

***CMS Comments***

*CMS will work with DHCS to ensure the corrective action plan as well as the prospective revised administrative claiming plan covering all costs incurred after July 1, 2012 complies with all federal requirements.*

**CMS CALCULATION OF UNALLOWABLE CLAIMS**

During our review of Turlock and Tulare claiming units we noted various issues resulting in claims determined to be unallowable.

**Turlock Unified School District (TUSD)**

The questioned costs for TUSD were computed by adding all costs claimed by DHCS within SFY 2011.

<b>Turlock Unified School District</b>	
<b>Description</b>	<b>Amounts in Federal Share</b>
Invoice – Service Period July-Sept 2009	\$796,841
Invoice – Service Period Oct-Dec 2009	\$1,006,920
Invoice – Service Period Jan-Mar 2010	\$940,813
Invoice – Service Period Apr-Jun 2010	\$732,239
<b>Total Questioned Costs</b>	<b>\$3,476,812</b>

**Tulare County Office of Education – Special Services (TCOE)**

We re-computed the allowable School Based administrative costs for TCOE by excluding the percentage of time for the Initial Medicaid Outreach (Code 4) in the calculation. The questioned costs for TCOE claimed School Based administrative costs is the difference between each quarterly invoice claimed by DHCS and the CMS re-computed allowable costs.

<b>Tulare County Office of Education – Special Services</b>			
	<i>Amounts in Federal Share</i>		
<b>Period</b>	<b>Original Invoice Amount</b>	<b>CMS Adjusted Invoice Amount (removal of Code 4)</b>	<b>Difference (Amount Questioned)</b>
Invoice – Service Period July-Sept 2009	\$523,833	\$358,350	\$165,483
Invoice – Service Period Oct-Dec 2009	\$536,298	\$374,230	\$162,068
Invoice – Service Period Jan-Mar 2010	\$533,175	\$360,709	\$172,466
Invoice – Service Period Apr-Jun 2010	\$511,104	\$352,670	\$158,434
<b>Total</b>	<b>\$2,104,410</b>	<b>\$1,445,959</b>	<b>\$658,451</b>



DEPARTMENT OF HEALTH & HUMAN SERVICES Centers for Medicare & Medicaid Services

Region IX  
 Division of Medicaid & Children's Health Operations  
 90 Seventh Street, Suite 5-300 (5W)  
 San Francisco, CA 94103-6706

JUN 26 2012

Toby Douglas  
 Director, California Department of Health Care Programs  
 P.O. Box 997413, MS 0000  
 Sacramento, CA 95899-7413

Dear Mr. Douglas:

The Centers for Medicare & Medicaid Services (CMS) has completed its field work on a financial management review of school-based administrative expenditures. Based on this review, as well as examination of additional source documentation provided by the State for school-based administrative expenditures claimed on the December 31, 2011 Form CMS-64 by the State of California, CMS has determined that the State's claims do not comply with the Medi-Cal administrative claiming plan for school-based services approved by CMS in 2003. Therefore, we are deferring school-based administrative claims<sup>1</sup> until adequate documentation can be provided to show that the claims comply with Federal Medicaid administrative claiming requirements, as stipulated in the State's approved school-based administrative claiming plan. A separate report will be issued with the detailed findings related to the claiming units included in the above referenced financial management review.

We have determined that California's implementation of the currently approved school-based administrative claiming plan does not comply with requirements detailed in Office of Management and Budget (OMB) Circular A-87, including the time study used as a basis for developing invoices. OMB Circular A-87 contains cost principles for State, local, and Indian Tribal governments for the administration of federal grant awards, including Medicaid and Medicaid Administrative Activities. It requires that any costs claimed be limited to those that are reasonable and necessary for the proper and efficient administration of the Medi-Cal program. The State must implement a revised program that is in compliance with OMB Circular A-87 in order for Federal Financial Participation (FFP) to continue to be available for school-based Medicaid administrative activities.

Accordingly, DHCS must submit a revised time study methodology and statewide claiming plan for use in the State Fiscal Year beginning July 1, 2012, that fully complies with the OMB Circular A-87 cost allocation principles. Any invoices submitted for quarters after July 1, 2012, using the current methodology may be subject to deferral and/or disallowance.

The Medicaid administrative activities performed by schools on behalf of the Medicaid agency are important to the successful operation of the State's Medicaid program. We look

<sup>1</sup> DHCS was notified by a grant award document dated June 15, 2012, that CMS began deferring school based administrative claims. The deferrals included all amounts claimed on the December 31, 2011 Form CMS-64 with the exception of the invoice submitted for the Los Angeles Unified School District, which utilizes the recently approved random moment time study. The CMS Regional Office will continue to recommend the deferral of school based administrative claims in future quarters for all claiming units other than Los Angeles Unified School District and Santa Barbara County Education Office - Special Education until the specific documentation requested in the June 26, 2012 deferral letter to DHCS is provided.

Page 2 -- Mr. Douglas

forward to working with your staff to provide any technical assistance they may require in developing a revised administrative claiming plan for CMS review and approval.

Thank you for your attention to this matter. If you would like to discuss further please contact me at 415-744-3568.

Sincerely,



Gloria Nagle, Ph.D., M.P.A.  
Associate Regional Administrator  
Division of Medicaid & Children's Health Operations



State of California—Health and Human Services Agency  
Department of Health Care Services



MAY 17 2013

Ms. Gloria Nagle, Ph.D., MPA  
Department of Health & Human Services  
Centers for Medicare & Medicaid Services  
San Francisco Regional Office  
90 Seventh Street., Suite 5-300 (5W)  
San Francisco, CA 94103-6706

Dear Ms. Nagle:

The California Department of Health Care Services (DHCS) has prepared its response to the U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services (CMS) Financial Management Review draft Financial Management Report (Control Number 09-FM-2012-CA-01-D) entitled "California's School Based Administrative Claiming Program".

DHCS appreciates the work performed by CMS and the opportunity to respond to the draft report. Please contact Ms. Melanie Pascua, Audit Coordinator, at (916) 445-2410 if you have any questions.

Sincerely,



Toby Douglas  
Director

Enclosure

Ms. Gloria Nagle  
Page 2

cc: Karen Johnson, Chief Deputy Director  
Department of Health Care Services  
1501 Capitol Avenue, MS 0000  
P.O. Box 997413  
Sacramento, CA 95899-7413

Mari Cantwell, Chief Deputy Director  
Department of Health Care Services  
1501 Capitol Avenue, MS 0000  
P.O. Box 997413  
Sacramento, CA 95899-7413

Pilar Williams, Chief  
Safety Net Financing  
1501 Capitol Avenue, MS 4504  
P.O. Box 997413  
Sacramento, CA 95899-7413

Geri Baucom, Chief  
Administrative Claiming, Local & School Services Branch  
1501 Capitol Avenue, MS 4504  
P.O. Box 997413  
Sacramento, CA 95899-7413

Department of Health Care Services Response to the  
Centers for Medicare & Medicaid Services (CMS)  
*Financial Management Review*  
*California's School Based Administrative Claiming Program*  
For the State Fiscal Year 2011  
Control Number 09-FM-2012-VA-01-D  
April 16, 2013

**Finding #1: Invoices did not comply with 42 Code of Federal Regulations (CFR) § 433.15(B)(7) and Office of Management and Budget (OMB) A-87.**

The invoices submitted by the Local Education Consortia (LEC) / Local Education Agencies (LEA), were not reflective of what the time study participants would actually do in a typical average school workday. As a result, the federal financial participation (FFP) paid to the state for the sampled school districts were unreasonable.

The time studies that serve as the basis of Turlock's and Tulare's Medi-Cal Administrative Activities (MAA) invoice are not compliant with 42 CFR § 433.15(b)(7) and OMB Circular A-87. For the state fiscal year (SFY) ended June 30, 2011, the entire amount claimed, \$3,476,812 FFP, by Turlock is unallowable as the costs determined using the invalid time study results are not reasonable or allocable to the Medicaid program. Turlock School District time surveys included an excessive amount of time allocated to Code 4 – Initial Medi-Cal Outreach for activities that included copying and distributing of Medi-Cal Outreach materials to students. For the SFY ended June 30, 2011, \$658,451 FFP claimed by Tulare related to Code 4 – Initial Medi-Cal Outreach is unallowable as the costs are not reasonable or allocable to the Medicaid program.

**Recommendation #1:** The state must return the \$4,135,263 FFP (\$3,476,812 FFP related to Turlock and \$658,451 FFP related to Tulare) claimed costs incurred for Medicaid school-based administrative costs during the SFY ended June 30, 2011.

**Response:** DHCS partially agrees with the above recommendation. Turlock Unified School District's School Based Medi-Cal Administrative Activities (SMAA) participation included more than Initial Outreach Code 4. Turlock Unified School District's SMAA participants also documented time spent in Code 6 – Facilitating the Medi-Cal Application, Code 8 – Ongoing Referral, Coordination, and Monitoring of Medi-Cal Services, Code 10 – Arranging Transportation, Code 12 – Translation, and Code 14 – Program Planning, Policy Development, and Interagency Coordination Related to Medi-Cal Services. Turlock Unified School District should not have to return funds for allowable costs for the additional codes.

**Corrective Action:** DHCS will require Turlock Unified School District to return any funds received for Code 4 – Initial Outreach that included copying, discussing, or distributing Medicaid outreach materials during the time study week. DHCS will require Turlock Unified School District to amend the invoices submitted for SFY 2009/10 to remove the questioned costs for Initial Outreach Code 4. DHCS will require Tulare County Office of Education – Special Education to return \$658,451 of questioned costs.

**Recommendation #2:** The state must implement internal controls to ensure that claiming units are not directing participants to perform specific activities or utilize time during the time study period in order to inflate claims for FFP. Furthermore, the state should provide specific training with the Turlock and Tulare claiming units to address this practice.

**Response:** DHCS agrees with the above recommendation. DHCS conducts annual time study training in June of each year and trains LECs and LGAs on allowable activities during time study periods. SMAA participants are instructed that the time study should capture SMAA activities that are performed by school staff on a regular basis. The state will provide specific training to the Turlock and Tulare claiming units to address inappropriate practices. DHCS was not aware that claiming units were directing SMAA participants to perform specific activities during the time study period.

**Corrective Action:** DHCS will address this issue through written communications, onsite monitoring visits, and annual time study training.

By June 15 of each fiscal year, DHCS will send a written reminder to each LEC and Local Governmental Agency (LGA), that claiming units must not direct participants to perform specific activities or utilize their time in specific ways during time study periods.

DHCS has developed a list of questions that include asking SMAA participants if they were directed to perform specific activities during the time study period. This is a part of the onsite monitoring process and will continue for all onsite monitoring visits. Any findings based on these interviews will be documented in the monitoring reports and addressed accordingly.

Beginning with SFY 2013/14, DHCS will request copies of training materials from each of the LECs and LGAs to ensure participants are properly trained on SMAA claiming. These training materials will be sent to CMS for their review.

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**Finding #2: Lack of appropriate internal controls to ensure compliance with 42 CFR § 433.16(B)(7) and OMB A-87**

The state does not perform a test of reasonableness and review invoices billed for the school based ADM activities. In addition, there is an inconsistency across school district over the oversight that each individual LEC / Local Governmental Agency (LGA) performs in a review over the amounts claimed for school administrative activities to review reasonable costs. It was evident that DHCS was not monitoring the reviews at the local level to ensure that consistent standards were being applied.

There is a lack of reasonableness and limited reviews conducted at each level, from the local school district, LEA/LGA to the state Medicaid agency, to determine the claimed costs are in compliance with federal regulations. In addition, there is a lack of oversight and monitoring and inconsistent guidance provided to the school districts and the LECs/LGAs from the state which results in inconsistent claiming practices by each individual claiming unit.

**Recommendation:** The state must implement a reasonableness review to ensure the time studies and invoices are reasonable and allocable, and that proper time coding is utilized.

The state must implement internal controls to ensure compliance with the regulations and guidelines.

**Response:** DHCS partially agrees with the recommendations above. To administer the SMAA program, DHCS follows California's School Based Administrative Claiming Guide approved by CMS on December 31, 2003. This guide contains the policies and procedures that school claiming units must follow to submit a Claiming Unit Functions Grid (GRID) and Invoice to DHCS for reimbursement of the costs of performing SMAA and also includes audit requirements. According to the approved guide, SMAA claiming units must maintain an audit file of comprehensive documents in support of the invoice prior to its submission to DHCS. This documentation is kept at the claiming unit and is not required to be submitted to DHCS. Any changes to the claiming unit's Operational Plan are documented in the Grid and submitted to DHCS with the quarterly invoice. DHCS staff conducts detailed reviews of the documentation submitted with the invoice. Based on the findings of this FMR, DHCS recognizes the need to require claiming units to provide additional documentation to support the invoice and the time study results.

**Corrective Action:** DHCS will address this issue through changes to the current School Based Administrative Claiming Guide, by requiring additional documentation to support the invoice, and through annual trainings. These corrective actions will be implemented once CMS approves the revised claiming guide and new time study methodology.

Each LEA will also be required to submit the Grid prior to the beginning of the first quarter of the fiscal year for which they intend to claim. The Grid will identify the employment classifications of all staff who will be included in the quarterly invoice and indicate which SMAA activities each classification is approved to perform regardless of whether the staff time study or direct charge. During the fiscal year, if there are significant staffing changes in the claiming unit, an updated Grid must be submitted prior to the claiming quarter; changes made to the Grid during or after the claiming quarter has begun must not be included in the quarterly invoice.

Each LEA will be required to submit the final Grid and the time study results with each quarterly invoice. The time study results will be reviewed by DHCS staff to determine if they are reasonable, allocable, and that proper time coding was utilized.

Beginning with SFY 2013/14, DHCS will request copies of training materials from each of the LECs and LGAs to ensure participants are properly trained on SMAA claiming.

DHCS will review the invoice and all supporting documentation for reasonableness.

By December 31, 2013 DHCS will conduct a review of all vendor fees and following OMB Circular A-87, establish reasonable vendor fees.

Beginning SFY 2013/14, DHCS will implement a fiscal review of SMAA invoices during annual onsite monitoring visits to ensure SMAA costs are in compliance with OMB Circular A-87.

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**Finding #3: Lack of operating procedures to ensure that there are no duplicated costs**

DHCS allows direct service providers to also participate in school-based administrative claiming. The state does not have procedures (internal controls) to ensure that the time reported in the administrative time studies is not duplicative of the amounts being claimed for direct services. The approved claiming plan did not specifically address the potential overlap between the admin claiming and reimbursement for school-based services.

**Recommendation:** The state must implement internal controls to ensure administrative costs are not duplicative of costs claimed for direct services.

**Response:** DHCS disagrees with the recommendation that the state must implement internal controls to ensure administrative costs are not duplicative of costs claimed for direct services, as this requirement is being met. California's School Based Administrative Claiming Guide, approved by CMS on December 31, 2003 contains specific guidance on duplicate payments, direct medical services, and coding time for MAA activities separately from direct services. All SMAA participants are trained on how to complete the time study and all SMAA participants are required to keep track of 100% of their time. Participants are instructed to use Code 2 - Direct Medical Services for LEA Medi-Cal Billing Option Program activities. DHCS has implemented the guidelines in the approved School Based Administrative Claiming Guide and during onsite monitoring visits DHCS staff review documentation to ensure Direct Medical Services are not claimed incorrectly.

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**Finding #4: Approved claiming plan does not comply with 42 CFR § 433.15(B)(7) and OMB A-87**

The approved school-based administrative claiming plan does not properly reflect completion of the time study survey and should be charged as general administrative instead of 100% Medi-Cal and therefore is non-compliance with the requirement of 42 CFR § 433.15 (b)(7) and OMB A-87 and the 2003 School Based Administrative Claiming Guide.

**Recommendation:** We recommend the state to amend their currently approved school-based administrative claiming plan, including the time study used as a basis for developing costs.

**Response:** DHCS agrees with the recommendation that the state amend their current School Based Administrative Claiming Guide that was approved by CMS on December 31, 2003, including the time study used as a basis for developing costs, and is currently in the process of doing so. DHCS received a letter from CMS dated July 26, 2012 instructing DHCS to submit a revised time study methodology and statewide claiming plan for use in the SFY beginning July 1, 2012, that fully complies with the OMB Circular A-87 cost allocation principles. DHCS amended the currently approved School Based Administrative Claiming Guide and developed a new time study methodology that was submitted to CMS on October 4, 2012.

**Corrective action:** All claiming units were instructed that as of July 1, 2012, time spent related to completing the time study is coded as Code 16 - General Administration not Code 15 - Medi-Cal Claims Administration, Coordination, and Training. As part of the amended School-

based administrative claiming plan, DHCS will require each LEA to use a Random Moment Time Study (RMTS) to allocate MAA costs. A Worker Log Time Study will only be allowed if the LEA is unable to use RMTS. Any LEA approved to use a Worker Log Time Study will be instructed to account for time at the end of each time study day instead of each hour.

CMS sent comments on the amended plan and new methodology to DHCS on December 6, 2012. DHCS developed responses to these comments and sent the responses to CMS on April 5, 2013.