Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

MASSACHUSETTS GENERALLY COMPLIED WITH MEDICAID REQUIREMENTS WHEN CLAIMING REIMBURSEMENT FOR SCHOOL-BASED HEALTH SERVICES

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Office of Inspector General

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EXECUTIVE SUMMARY

Massachusetts generally complied with Medicaid requirements when claiming reimbursement for school-based health services. However, school districts may have received up to $720,000 ($377,000 Federal share) in potential overpayments due to salaries claimed as both direct and indirect costs. Two districts were overpaid a total of $47,000 ($24,000 Federal share) because of errors in their cost reports. Additionally, the State lacked an important internal control over interim payments.

WHY WE DID THIS REVIEW

States are permitted to use their Medicaid programs to help pay for certain services delivered to Medicaid-eligible children in schools. States may use random moment time studies (RMTS) to ascertain (for purposes of claiming Federal reimbursement) the portion of time and activities related to the provision of Medicaid school-based health services (SBHS).

During previous Office of Inspector General reviews, we determined that the use of an RMTS allocation methodology may allow costs that are not reasonable, adequately supported, or otherwise allowable. We, therefore, have undertaken a series of reviews of the use of RMTS for the claiming of direct medical service costs related to SBHS, including this review of the Massachusetts Office of Medicaid (State agency).

The objective of this review was to determine whether the State agency complied with Federal and State requirements when using an RMTS to claim direct medical service costs related to Medicaid SBHS for State Fiscal Year (SFY) 2012.

BACKGROUND

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. The State agency administers the Medicaid program in Massachusetts, including the SBHS program, in accordance with a Medicaid State plan. The Massachusetts plan defines SBHS as certain services provided pursuant to a child's individualized education plan (IEP), specifically: physical therapy; occupational therapy; services provided by audiologists; services for individuals with speech, hearing, and language disorders; nursing services; personal care services; and behavioral health services.

The State agency contracted with the University of Massachusetts Medical School (the Contractor) to manage portions of the SBHS program. The Contractor worked with the State agency on the design and implementation of a process for reporting and claiming costs at both the school district and State level. The current cost reimbursement process became effective in July 2009 and includes the use of RMTS. The cost reimbursement process includes the filing of interim fee-based claims and final cost report-based claims, which are reconciled in a cost settlement process. The reimbursement resulting from the cost settlement process is the final reimbursement for a fiscal year.

WHAT WE FOUND

The State agency generally complied with Federal and State requirements when using an RMTS to claim direct medical service costs related to Medicaid school-based health services for SFY 2012. However, some districts may have claimed certain personnel costs twice, resulting in a potential overpayment of $719,564 ($377,095 Federal share) of the $91,461,960 ($47,799,516 Federal share) claimed. The New Bedford and Springfield school districts received overpayments of $31,338 ($16,147 Federal share) and $15,292 ($7,769 Federal share), respectively, because of errors in their cost reports. In addition, the State agency did not have internal controls to stop interim payments that districts claimed after the cost settlement process. The potential errors related to personnel costs occurred because the State-issued guidance for school-based Medicaid claiming does not advise districts to exclude personnel from the direct services cost pool if their personnel costs are already included in the districts' indirect cost rates. New Bedford school district officials stated that they could not provide supporting records for certain retirement costs because of staff turnover. Springfield school district officials stated that their district cost report contained incorrect payroll information because of a clerical error.

WHAT WE RECOMMEND

We recommend that the State agency:

- refund the estimated Federal share ($377,095) or the actual Federal share of the amount overpaid for personnel costs included in some districts' indirect rates and also claimed as direct costs;

- educate school districts regarding the need to exclude personnel from the RMTS and related costs pools if their personnel costs are included in the indirect cost rate;

- require districts to certify, in accordance with CMS requirements, that costs claimed as direct costs do not duplicate costs reimbursed through the indirect cost rate;

- enhance the RMTS to collect actual job titles to facilitate the identification of employees whose costs might be included in the indirect cost rate;

- refund $16,147 (Federal share) in employees' retirement costs overpaid to the New Bedford Public Schools;

- refund $7,769 (Federal share) in employees' payroll costs overpaid to the Springfield Public Schools;

- determine the amount of interim payments made after cost settlement and refund any Federal share not already returned; and

- implement internal controls to stop interim payments after the cost settlement process.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency agreed with our findings and recommendations.

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INTRODUCTION

WHY WE DID THIS REVIEW

The Social Security Act (the Act) permits Medicaid payment for medical services provided to children under the Individuals with Disabilities Education Act of 2004. States are permitted to use their Medicaid programs to help pay for certain services, such as physical and speech therapy, which are delivered to Medicaid-eligible children in schools. To ascertain (for purposes of claiming Federal reimbursement) the portion of time and activities of a school-based health program that is related to the provision of Medicaid services, States may develop an allocation methodology that is approved by the Centers for Medicare & Medicaid Services (CMS). Random moment sampling, which makes use of random moment time studies (RMTS), is an allocation methodology that reflects all of the time used and activities performed (whether allocable or allowable under Medicaid) by employees participating in a school-based health program.

During previous Office of Inspector General reviews of school district administrative claiming and health services programs (Appendix A), we determined that the use of an RMTS allocation methodology may allow costs that are not reasonable, adequately supported, or otherwise allowable. We, therefore, have undertaken a series of reviews of the use of RMTS for the claiming of direct medical service costs related to Medicaid school-based health services (SBHS), including this review of the Massachusetts Office of Medicaid (State agency).

OBJECTIVE

Our objective was to determine whether the State agency complied with Federal and State requirements when using an RMTS to claim direct medical service costs related to Medicaid SBHS for State Fiscal Year (SFY) 2012.

BACKGROUND

Medicaid Program and Health-Related Services to Children

The Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, CMS administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

Congress amended section 1903(c) of the Act in 1988 to allow Medicaid coverage of Medicaid services included in a child's individualized education plan (IEP). The school-based health program permits Medicaid-eligible children to receive health-related services that are specified in each child's IEP, generally without having to leave school.

SBHS included in a child's IEP may be covered under Medicaid as long as (1) the services are listed in section 1905(a) of the Act and are medically necessary; (2) all other relevant Federal and State regulations are followed; and (3) the services are included in the State Medicaid plan or are available under the Early and Periodic Screening, Diagnosis, and Treatment Medicaid benefit. Similarly, school-based health services are also covered under the Children's Health Insurance Program (CHIP) as long as those services meet the requirements of section 2103 of the Act and the CHIP State plan. Covered direct medical services may include, but are not limited to, physical therapy, occupational therapy, speech pathology/therapy, psychological counseling, nursing, and specialized transportation services. Direct medical service costs are composed of salary and benefit costs for employees or contractors of the school districts who provide direct medical services to students, as well as the costs of equipment, material, supplies, and purchased services relating to direct medical services provided to students.

To report actual Medicaid expenditures for each quarter, States use the standard Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64 report), and the standard Form CMS-21, Quarterly Children's Health Insurance Program Statement of Expenditures for Title XXI (CMS-21 report). CMS uses the CMS-64 and CMS-21 reports to reimburse States for the Federal share of Medicaid expenditures. The amounts that States report on the CMS-64 and CMS-21 reports and their attachments must be actual expenditures with supporting documentation.

Massachusetts School-Based Health Services Program

The State agency administers the Medicaid program in Massachusetts, including the SBHS program, in accordance with a CMS-approved State plan. Massachusetts Medicaid State Plan Amendment (SPA) No. 08-005, effective July 1, 2009, governs SBHS. The SPA defines SBHS as certain services provided pursuant to an IEP, specifically: physical therapy; occupational therapy; services provided by audiologists; services for individuals with speech, hearing, and language disorders; nursing services; personal cares services; and behavioral health services.

In July 2009, the State agency contracted with the University of Massachusetts Medical School (the Contractor) to manage portions of the SBHS program. The Contractor worked with the State agency on the design and implementation of a process for reporting and claiming costs at both the school district and State level. The current cost reimbursement process became effective in July 2009. It includes the filing of interim fee-based claims and final cost report-based claims, which are reconciled during the cost settlement process.

Interim Claims and Payments

On an ongoing basis, participating school districts submit fee-based claims to the State agency for SBHS provided to students. The State agency pays the participating school districts interim payments for these services. The State agency claims Federal reimbursement for interim payments on its quarterly CMS-64 and CMS-21 reports.

Cost Reporting

The Contractor administers a Web-based cost reporting system on behalf of the State agency. Participating school districts use this system to report the actual costs of providing direct medical services to students. These costs include salary and benefits for direct medical service providers and other costs, such as equipment and supplies used for direct medical services and districts' tuition payments to private special education schools.

The Contractor also administers a Web-based RMTS system on behalf of the State agency. The purpose of the direct medical services RMTS is to estimate the percentage of time providers spent providing medical services that are eligible for reimbursement under Medicaid. Appendix B contains details of the direct medical services RMTS methodology.

To determine a district's Medicaid-eligible direct costs for the year, the Contractor's cost reporting system multiplies each school district's direct costs for providing medical services by the statewide direct medical service percentage. To determine indirect costs, the cost-reporting system multiplies Medicaid-eligible direct costs by the district's indirect cost rate, which is set by the Massachusetts Department of Elementary and Secondary Education. The system adds indirect costs to direct costs to calculate total costs.

To allocate costs to the Medicaid program, the cost-reporting system multiplies total costs by the district's percentage of students eligible for each of the applicable Massachusetts Medicaid programs.[1] The resulting amounts are the district's Medicaid-allowable direct medical service costs for each Medicaid program.

Cost Settlement

On an annual basis, the State agency subtracts each school district's total interim payments for dates of service within the SFY from the Medicaid-allowable direct medical service costs derived through the cost reporting process. The reconciliation process is referred to as cost settlement. The reimbursement resulting from the cost settlement process is the final reimbursement to the district for that fiscal year.

If interim payments are less than the Medicaid direct medical service costs, the State agency pays the school district the difference and receives reimbursement for the Federal share of that difference. If the interim payments are greater than the Medicaid direct medical service costs, the school district pays the State agency the difference and the State agency refunds the Federal share.

[1] Massachusetts has a "combination CHIP" program consisting of a Medicaid expansion CHIP and a separate ("standalone") CHIP. Accordingly, each district has three Medicaid penetration rates: one for Medicaid, one for the Medicaid expansion CHIP, and one for the standalone CHIP.

Guidance for the State Agency

In 2003, CMS published the Medicaid School-Based Administrative Claiming Guide, which informs States about the appropriate methods for claiming the costs of school-based Medicaid administrative activities. The Administrative Claiming Guide also describes what standards an RMTS must meet. CMS has not issued a claiming guide on school-based Medicaid direct medical services. CMS officials and Massachusetts State agency officials said they consider the RMTS standards in the Administrative Claiming Guide to apply to direct medical services RMTS.

Guidance for School Districts

Policies and procedures that Massachusetts school districts must follow to receive Medicaid reimbursement are set forth in SPA No. 08-005 and the State agency's CMS-approved *Instruction Guide for Massachusetts School-Based Cost Report* (Cost Report Guide) and *Implementation Guide for Statewide Random Moment Time Study* (RMTS Guide). The RMTS Guide also describes procedures for how the RMTS should be conducted. The State agency also issues school-based Medicaid bulletins to the school districts to disseminate additional information and instructions.

HOW WE CONDUCTED THIS REVIEW

We reviewed Medicaid direct medical service costs claimed by the State agency for SBHS provided by 306 participating school districts[2] during SFY 2012 (July 1, 2011, through June 30, 2012). The State agency claimed a total of $91,461,960 ($47,799,516 Federal share) for the period, which included $8,273,792 ($4,260,224 Federal share) for interim payments and $83,188,168 ($43,539,292 Federal share) as a result of the cost settlement process.

We reviewed the sections of the CMS-64 and CMS-21 reports pertaining to SBHS direct medical services for the quarter ending September 30, 2011, through the quarter ending September 30, 2013. In addition, we reviewed the cost settlement process at the State agency, including a review of the interim payments to each school district.

We reviewed all 2,286 RMTS responses that were coded as IEP-covered direct medical services to determine whether the Contractor had coded these moments appropriately. Additionally, we selected a statistical sample of 200 of those 2,286 responses and requested documentation from the school districts to support the activities reported in the survey responses.

We performed an in-depth review of the cost reports filed by the Boston, Springfield, and New Bedford public school districts. We selected these districts on the basis of the costs claimed. Of the Statewide claim of $91,461,960 ($47,799,516 Federal share) mentioned above, Boston claimed $10,634,363 ($5,580,179 Federal share), Springfield claimed $3,670,261 ($1,864,668 Federal share), and New Bedford claimed $2,717,737 ($1,400,345 Federal share).

[2] Of the 306 participating school districts, 285 are school districts for cities, towns, or regions, and 21 are charter public schools. For the purposes of this review, each charter school is considered a school district.

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

Appendix C contains the details of our audit scope and methodology, Appendix D contains the details of our statistical sampling methodology, and Appendix E contains our sample results and estimates.

FINDINGS

The State agency generally complied with Federal and State requirements when using an RMTS to claim direct medical service costs related to Medicaid school-based health services for SFY 2012. However, some districts may have claimed certain personnel costs twice, resulting in a potential overpayment of $719,564 ($377,095 Federal share) of the $91,461,960 ($47,799,516 Federal share) claimed. The New Bedford and Springfield school districts received overpayments of $31,338 ($16,147 Federal share) and $15,292 ($7,769 Federal share), respectively, because of errors in their cost reports. In addition, the State agency did not have internal controls to stop interim payments that districts claimed after the cost settlement process. The potential errors related to personnel costs occurred because the State-issued guidance for school-based Medicaid claiming does not advise districts to exclude personnel from the direct services cost pool if their personnel costs are already included in the districts' indirect cost rates. New Bedford school district officials stated that they could not provide supporting records for certain retirement costs because of staff turnover. Springfield school district officials stated that their district cost report contained incorrect payroll information because of a clerical error.

CERTAIN PERSONNEL COSTS POTENTIALLY CLAIMED TWICE

The CMS Administrative Claiming Guide (page 45) states that a school district may claim indirect costs related to school-based Medicaid services when the State authorizes the claiming of indirect costs and when those costs are claimed in accordance with an approved indirect cost rate issued by the cognizant State agency. Massachusetts SPA No. 08-005 allows districts to claim indirect costs. The SPA states that districts must calculate indirect costs by multiplying direct costs allocable to Medicaid by the district-specific unrestricted indirect cost rate set by the Massachusetts Department of Elementary and Secondary Education (DESE).

The CMS Administrative Claiming Guide (page 45) specifies that a State plan should require districts to certify that costs claimed as direct costs do not duplicate those costs reimbursed through application of the indirect cost rate. Accordingly, districts may not claim the same costs twice, once as direct costs and again as indirect costs. This is in keeping with the Cost Principles for State, Local, and Indian Tribal Governments (Cost Principles), 2 CFR § 225, Appendix A, section D.2, which states that "… it is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost."

Personnel costs for certain district administrators may have been included in both direct costs and in their districts' indirect cost rates. Specifically, for SFY 2012, certain districts included administrators in the direct services RMTS and related cost pool as "Medicaid billing personnel" and claimed personnel costs for these administrators as direct costs. In reviewing costs claimed for 61 Medicaid billing personnel with net salaries and benefits above $71,000 and as high as $167,000, we found that all the individuals were administrators. Examples of actual job titles included assistant superintendent, chief financial officer, school business manager, and director of technology.

According to DESE's methodology narrative, district expenditures for superintendents, assistant superintendents, and "other district-wide administration" are always considered indirect costs for the calculation of the unrestricted indirect rate. Expenditures for business and finance administrators, human resources and benefits administrators, and district-wide information management and technology professionals are considered indirect costs if paid by the municipality or school committee, but are considered direct costs if paid from other funds, such as State, Federal, or grant funding. The scope of our audit did not include determining whether the 61 administrators mentioned above were included in their districts' indirect rates. However, given the methodology as described by DESE, it is likely that the personnel costs for some or all of these administrators were included in their districts' indirect cost rates and claimed as both direct and indirect costs.

These potential errors occurred because the State did not comply with requirements of the CMS Administrative Claiming Guide when designing the SPA and related guidance (e.g., the RMTS Guide and Cost Report Guide). Specifically, the SPA does not require districts to certify that they have not claimed the same costs twice, as both direct and indirect costs, and the RMTS and cost report guidance does not advise districts to exclude personnel from the RMTS and related costs pools if their personnel costs are included in the indirect cost rate. These omissions likely caused some districts to claim the same costs twice. Finally, the Contractor was not alerted that some administrators had been categorized as Medicaid billing personnel because the RMTS does not capture participants' actual job titles.

As a result of potentially duplicated costs, the districts may have been overpaid up to $719,564 ($377,095 Federal share) in total for SFY 2012. We are referring determination of the actual overpayments to the State.

UNSUPPORTED RETIREMENT COSTS IN THE NEW BEDFORD PUBLIC SCHOOL DISTRICT COST REPORT

Federal regulations (42 CFR § 433.32) require the State Medicaid agency and local agencies (school districts) to "… maintain an accounting system and supporting fiscal records to ensure that claims for Federal funds are in accordance with applicable Federal requirements."

The New Bedford Public School District could not provide supporting records for the retirement costs reported on its cost report. District representatives cited staff turnover and accounting system changes as the reasons why they could not locate the requested supporting

documentation. Because the retirement costs were unsupported, New Bedford's direct costs were overstated by $137,256 and it was overpaid $31,338 ($16,147 Federal share) for the period.

COSTS OVERSTATED IN THE SPRINGFIELD PUBLIC SCHOOL DISTRICT COST REPORT

SPA No. 08-005 establishes the cost reimbursement methodology for school-based health services. It states, "final reimbursement is based on the certified reports that are submitted using the methodology allowed under the Massachusetts School-Based Cost Report approved by [CMS]." The cost report includes direct costs (e.g., payroll costs).

The Springfield Public Schools' district cost report contained incorrect payroll information for the January through March 2012 quarter. Specifically, although the district provided correct payroll information, its cost report preparer made clerical errors. As a result, Springfield's direct costs were overstated by $42,984 and Springfield was overpaid $15,292 ($7,769 Federal share) for the period.

INTERIM PAYMENTS NOT STOPPED AFTER THE COST SETTLEMENT PROCESS

Under the methodology set forth in the SPA,[3] the reimbursement resulting from the cost settlement process is the final reimbursement for the fiscal year. However, it is possible for districts to receive additional fee-based "interim" payments after cost settlement, resulting in overpayment (payment in excess of costs).

This possibility exists because the State agency's cost settlement process is based on the presumption that all interim claims for dates of service within a fiscal year will be filed by September 30 of the following fiscal year, in time for interim payments to be captured in a cost settlement report run by the State agency in November. This presumption is based on the requirements set forth by the State agency in MassHealth School-Based Medicaid Bulletin 19, which instructs districts to submit interim claims within 90 days of the date of service. However, the State agency does not have internal controls to ensure that a deadline exists for interim claims submissions and payments (e.g., September 30 or at the time of cost settlement).

Specifically, the State's Medicaid Management Information System (MMIS) has an edit to deny claims automatically if they are not submitted within 95 days of the date of service, but this edit is bypassed automatically under certain predefined conditions. Although the edit and bypasses are functioning as designed, one effect is that some interim claims can be submitted and paid after cost settlement. We are referring determination of any actual overpayments to the State, and we will review SFY 2013 MMIS data when it becomes available.

[3] See "Cost Settlement" in the "Background" section of this report.

RECOMMENDATIONS

We recommend that the State agency:

- refund the estimated Federal share ($377,095) or the actual Federal share of the amount overpaid for district administrator personnel costs included in some districts' indirect rates and also claimed as direct costs;

- educate school districts regarding the need to exclude employees from the RMTS and related costs pools if their personnel costs are included in the indirect cost rate;

- require districts to certify, in accordance with CMS requirements, that costs claimed as direct costs do not duplicate costs reimbursed through the indirect cost rate;

- enhance the RMTS to collect actual job titles to facilitate the identification of employees whose costs might be included in the indirect cost rate;

- refund $16,147 (Federal share) in employees' retirement costs overpaid to the New Bedford Public Schools;

- refund $7,769 (Federal share) in employees' payroll costs overpaid to the Springfield Public Schools;

- determine the amount of interim payments made after cost settlement and refund any Federal share not already returned; and

- implement internal controls to stop interim payments after the cost settlement process.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency agreed with our findings and recommendations. The State agency said it has already begun to address each of our recommendations and, in some cases, the recommendations have been fully implemented.

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

OTHER MATTERS

RANDOM MOMENT TIME STUDY EXCLUDED THE BEGINNING OF THE SCHOOL YEAR

According to the CMS Medicaid School-Based Administrative Claiming Guide (page 42), if the regular school year begins in the middle of a calendar quarter, the first time study for that school year should include all days from the beginning of the school year. For example, if the school year begins on August 31, then the moments from August 31 onward must be included among

the potential moments that may be selected for the time study. This is in keeping with the Cost Principles, 2 CFR § 225, Appendix B, section 8.h.6.a(iii), which states that random moment sampling must meet acceptable statistical sampling standards, which require that the entire time period involved be covered by the sample (i.e., that the cost period match the sampling period).

The Massachusetts regular school year typically begins in late August or early September and runs through June. However, the RMTS does not include sample moments in the months of August or September, even though the cost pool includes costs from August and September. According to State officials, the CMS-approved RMTS plan excludes moments from August and September because (1) there are few, if any, regular school days in the month of August and (2) therapists provide fewer direct services to students in September as opposed to the rest of the school year. As a result, the RMTS is not representative of the cost period (the entire school year) and does not meet the statistical sampling standards set forth in the Cost Principles.[4]

PARTICIPANTS RECEIVE 3-DAY ADVANCE NOTICE OF MOMENTS

According to the Cost Principles, 2 CFR § 225, Appendix B, section 8.h.6.a(iii), random moment sampling must meet acceptable statistical standards, which require that the results be statistically valid.

In the Massachusetts RMTS, participants are notified of their exact moment by email 3 days in advance and they are given 120 hours (5 days) from the random moment to respond to the time study. After consulting with CMS, the State incorporated the 3-day advance notice into the RMTS to keep response rates up. For example, someone on vacation or sick leave at the time of their moment would have advance notice to complete their response as soon as possible after returning to work. Advance notice potentially could bias the participant responses, making the results statistically invalid and the RMTS noncompliant with the statistical sampling standards set forth in the Cost Principles (see footnote 4).

RANDOM MOMENT TIME STUDY SAMPLES NOT REPRODUCIBLE

According to the Cost Principles 2 CFR § 225, Appendix B, section 8.h.6.a(iii), random moment sampling must meet acceptable statistical standards, which require that the results be statistically valid.

The State's RMTS samples cannot be reproduced and tested for statistical validity because of limitations of the Oracle software used to generate the sample. Specifically, the software does not use a seed number, which is necessary for a sample to be reproduced and tested for statistical validity. As a result, we could not determine whether the State's RMTS sample was statistically valid. CMS approved the State's use of Oracle software (see footnote 4).

[4] The Cost Principles provide that the cognizant agency (in this case, CMS) may approve a random sampling plan that is less than fully compliant with statistical sampling standards if the agency "concludes that the amounts to be allocated to Federal awards will be minimal, or if it concludes that the system proposed by the governmental unit will result in lower costs to Federal awards than a system which complies with the standards." The scope of our audit did not include determining whether CMS approved the Massachusetts plan under this provision.

NO REQUIREMENT TO MAINTAIN DOCUMENTATION TO SUPPORT MOMENTS

The CMS-approved RMTS Guide does not require school districts to maintain documentation supporting the RMTS participants' responses. In comparison, the CMS Administrative Claiming Guide, says that States must adequately document Medicaid sampled activities and the CMS and State agency officials we spoke with agreed that the RMTS principles outlined in the Administrative Claiming Guide also apply to direct medical services RMTS.[5]

We selected a statistical sample of 200 random moments coded as Medicaid-eligible direct services and requested documentation from the school districts to support the activities reported (Appendix D). School districts could not provide support for 121 of the 200 moments. Examples of supporting documentation would include therapists' schedules, treatment notes, and students' IEPs. Based on our sample, we estimate that 60.5 percent of the RMTS moments coded as Medicaid-eligible direct services do not have documentation to support coding as a Medicaid-eligible service (Appendix E). Without documentation, we cannot validate whether moments were correctly coded as Medicaid-eligible direct services.

INADEQUATE GUIDANCE ON TREATMENT OF CERTAIN INDIRECT COSTS

In contacting school districts, we learned that some had categorized employees as Medicaid billing personnel based on their involvement in RMTS administration and cost report preparation. Those districts then claimed the personnel costs for these employees as direct costs. In speaking with CMS, we learned that CMS considers costs relating to RMTS administration and cost report preparation to be indirect costs that should be captured in the indirect cost rate and not reported as direct costs. CMS's position is not incorporated into SPA No. 08-005, the RMTS Guide, or the Cost Report Guide. As a result, some districts may be claiming costs contrary to CMS's position. State agency officials said school districts in our review properly categorized RMTS administration and cost report preparation time as direct costs based on the guidance that the State agency received from CMS.

NO GUIDANCE FOR CHARTER SCHOOLS REGARDING INDIRECT COSTS

SPA No. 08-005, the RMTS Guide, and the Cost Report Guide do not specify whether or how charter schools may claim indirect costs. CMS and the State agency allow school districts to claim indirect costs related to school-based Medicaid services. SPA No. 08-005 instructs districts to calculate their indirect costs by multiplying direct costs allocable to Medicaid by the district-specific unrestricted indirect cost rate set by the Massachusetts DESE. Under DESE's rules, charter schools are assigned indirect cost rates of 0.00 percent. Accordingly, we were unable to determine how charter schools should be reimbursed for indirect costs.

INTERIM CLAIMS PAYMENTS MUCH LOWER THAN FINAL REIMBURSEMENTS

During this review, we noted that the interim claim rates set by the State agency were far less than actual costs. Specifically, interim claims for SFY 2012, totaling $8.3 million ($4.3 million

[5] See "Guidance for the State Agency" in the "Background" section of this report.

Federal share), were 91 percent less than what the State agency claimed during the cost settlement process ($91.5 million, $47.8 Federal share). The State agency sets interim claim rates and CMS does not review those rates. We include this matter as information for the State agency as it reviews interim claim rates.

ALLOCATION METHODOLOGY FOR PRIVATE SPECIAL EDUCATION TUITION PAYMENTS NOT DESCRIBED IN STATE PLAN AMENDMENT

To claim tuition payments made to private special education schools by school districts, the State used a Medicaid allocation methodology not approved by CMS through the SPA. We provided CMS for its consideration the State's narrative of how it develops the school-specific direct services percentages used to estimate the Medicaid-eligible portion of tuition payments. Additionally, we noted that the State uses district Medicaid penetration percentages to allocate the eligible portion of tuition payments to Medicaid, rather than simply claiming the eligible portion of tuition identified to specific Medicaid-covered students.

APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Report Title	Report Number	Date Issued
Review of Missouri Medicaid Payments for the School District Administrative Claiming Program for Federal Fiscal Years 2004 Through 2006	A-07-08-03107	March 2010
Review of Colorado Direct Medical Service and Specialized Transportation Costs for the Medicaid School Health Services Program for State Fiscal Year 2008	A-07-11-04185	April 2012
Review of Kansas Medicaid Payments for the School District Administrative Claiming Program during the Period April 1, 2006, Through March 31, 2009	A-07-10-04168	October 2012
Arizona Improperly Claimed Federal Reimbursement for Medicaid School-Based Administrative Costs	A-09-11-02020	January 2013
Kansas Improperly Received Medicaid Reimbursement for Medicaid School-Based Health Services	A-07-13-04207	August 2014

APPENDIX B: MASSACHUSETTS SCHOOL-BASED MEDICAID RANDOM MOMENT TIME STUDY METHODOLOGY

The purpose of the direct medical services RMTS is to estimate the percentage of time providers spent providing medical services that are eligible for reimbursement under Medicaid.

The CMS-approved RMTS Guide divides the calendar year into quarters. Moments from three calendar quarters are included in the RMTS: October through December, January through March, and April through June. No moments are selected from the quarter consisting of July through September.

For each of the 3 calendar quarters in the RMTS, each school district gives the Contractor a list of all school district employees and contractors expected to provide direct medical services in the SBHS program. The Contractor consolidates these personnel lists into a statewide pool of RMTS participants. The Contractor then creates a statewide pool of moments by applying each school district's calendar to potential participants, with a "moment" being defined as the combination of a specific 1-minute unit of time within the quarter and an individual time study participant.

The Contractor then statistically selects 2,882 moments per quarter for a total of 8,646 moments (3 quarters x 2,882 moments). The Contractor emails each selected participant 3 days and 1 day before the selected moment and again at exact time of the moment, to notify him or her of the requirement to participate in the RMTS. Each of the selected participants has 5 days to respond via the Web-based RMTS system to three questions about the activity he or she was performing during the moment. The questions are: (1) "What were you doing?" (2) "Who were you with? Please do not use actual names." and (3) "Why were you performing this activity?" Participants may select standard answers from a drop-down list for each question or provide free-form answers.

Based on the participant's answers, the Contractor codes each completed moment with 1 of the 14 activity codes described in the RMTS Guide. One of the codes reflects Medicaid-eligible direct medical services (i.e., direct medical services listed in the SPA and provided pursuant to an IEP). One of the codes reflects general administrative time, which is allocated to the remaining codes.

The Contractor analyzes all the RMTS responses to determine the statewide direct medical services percentage—that is, the percentage of time that school districts' direct medical services personnel spent providing Medicaid-eligible medical services—and reports that information to the State agency. The direct medical services percentage for SFY 2012 was 33.05 percent before and 39.85 percent after the allocation of general administrative time.

APPENDIX C: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed Medicaid direct medical service costs claimed by the State agency for SBHS during SFY 2012 (July 1, 2011 through June 30, 2012). For this period, the State agency received $47,799,516 in Federal reimbursement for Medicaid direct medical service costs claimed by 306 participating school districts in Massachusetts.

We performed an in-depth review of the cost reports filed by the Boston, Springfield, and New Bedford public school districts. We selected these districts on the basis of the amounts that the State agency claimed on their behalf for SBHS provided during SFY 2012. Of the $47,799,516 in Federal reimbursement mentioned above, the Boston public school district claimed $5,580,179, Springfield claimed $1,864,668, and New Bedford claimed $1,400,345. We did not review Medicaid direct medical service costs at the remaining 303 participating school districts in Massachusetts.

We did not perform a detailed review of the State agency's internal controls because our objective 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 for the claiming of direct medical service costs related to Medicaid SBHS.

Our fieldwork included contacting the State agency from February 2014 through March 2015.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal and State requirements;
- reviewed the State agency's policies and procedures for school districts to claim SBHS expenditures, which included the State agency's monitoring and oversight procedures;
- interviewed State agency employees to understand how they administered the SBHS program statewide;
- interviewed Contractor employees to understand how they administered the SBHS program and how the statewide RMTS percentages were calculated;
- reviewed the sections of the CMS-64 and CMS-21 reports pertaining to SBHS direct medical services for the quarter ending September 30, 2011, through the quarter ending September 30, 2013;

- reconciled interim claims on the CMS-64 and CMS-21 reports with interim claims as shown in the Massachusetts MMIS;

- reconciled cost report-based claims on the CMS-64 and CMS-21 reports with the State agency's supporting schedules;

- discussed prior period adjustments appearing on the CMS-64 and CMS-21 reports with State agency officials to obtain an understanding of their purpose;

- reviewed the cost settlement process at the State agency, including a review of the interim payments to each school district;

- reconciled the actual costs reported on the annual cost reports for the Boston, Springfield, and New Bedford, Massachusetts, public school districts with accounting records;

- selected a statistical sample of 200 of the 2,286 RMTS responses that the Contractor coded as Medicaid-eligible direct services to estimate how many did not have documentation to support coding as a Medicaid-eligible service;

- shared the results of this review with Boston, Springfield, and New Bedford public school district officials on April 14, April 16, and June 10, 2015, respectively; and

- shared the results of this review, including the details of our recommended adjustments, with State agency officials on March 3, 2015.

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

APPENDIX D: SAMPLE DESIGN AND METHODOLOGY

POPULATION

The population consisted of all moments from the direct services RMTS for SFY 2012 that the State coded as Medicaid-eligible direct medical services.

SAMPLING FRAME

We obtained from the State quarterly reports of all participant answers for RMTS moments in State FY 2012. We combined these spreadsheets to create one listing and then extracted only the moments coded as Medicaid-eligible direct services (code K). The resulting Excel spreadsheet contained a sampling frame of 2,286 moments.

SAMPLE UNIT

The sample unit was a moment.

SAMPLE DESIGN

Our sample design was a simple random sample.

SAMPLE SIZE

We selected a sample of 200 moments.

SOURCE OF RANDOM NUMBERS

We used the Office of Inspector General (OIG), Office of Audit Services (OAS) statistical software to generate the random numbers.

METHOD OF SELECTING SAMPLE ITEMS

We consecutively numbered the sample units in the sampling frame. After generating the 200 random numbers, we selected the corresponding frame items for review.

ESTIMATION METHODOLOGY

We used the OIG/OAS statistical software attribute appraisals program to estimate the number and percentage of moments that were coded by the State as Medicaid-eligible direct medical services that do not have documentation to support that coding.

APPENDIX E: SAMPLE RESULTS AND ESTIMATES

Sample Results

Frame Size	Sample Size	Number of Responses Not Supported
2,286	200	121

Estimates of Percent and Total Number of Moments That Were Not Supported
(Limits Calculated for a 90-Percent Confidence Interval)

	Percent of Responses Not Supported	Number of Responses Not Supported
Point Estimate	60.500%	1,383
Lower Limit	54.768%	1,252
Upper Limit	66.010%	1,509

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Report Number: A-01-14-00003

September 4, 2015

Mr. David Lamir
Regional Inspector General for Audit Services
Office of Audit Services, Region I
JFK Federal Building
15 New Sudbury Street, Room 2425
Boston, MA 02203

Dear Mr. Lamir:

Thank you for your work on this audit of Massachusetts' School Based Medicaid claiming, focusing on whether Massachusetts used Random Moment Time Studies (RMTS) appropriately to claim for School Based Medicaid services during State Fiscal Year 2012.

The School Based Medicaid program provides a unique opportunity to improve access to medical services for Medicaid eligible children in the school setting, particularly for children with special needs. In turn, the program helps children come to school healthy and ready to learn. We are committed to ensuring that this program is administered correctly and in accordance with CMS rules. We appreciate the opportunity to review your draft report and provide a response.

Massachusetts agrees with the Office of Inspector General's (OIG's) findings and recommendations. We have already begun work to address each of the OIG's recommendations, and in some cases the recommendations have already been fully implemented.

Below is Massachusetts' response to each of the recommendations in the draft report:

1. **Refund the estimated Federal share ($377,095) or the actual Federal share of the amount overpaid for personnel costs included in some districts' indirect rates and also claimed as direct costs**

Auditee Response:
Massachusetts agrees to refund the amount of $377,095 on the Commonwealth's September 2015 CMS 64 report.

2. **Educate school districts regarding the need to exclude personnel from the RMTS and related costs pools if their personnel costs are included in the indirect cost rate**

Auditee Response:
The Massachusetts Executive Office of Health and Human Services (EOHHS) issued School-Based Medicaid Provider Bulletin 28 in July 2015, which contained specific instruction to school districts to exclude any personnel from the RMTS administrative claims and cost reports if they are included in the indirect cost rate.

3. **Require districts to certify, in accordance with CMS requirements, that costs claimed as direct costs do not duplicate costs reimbursed through the indirect cost rate**

Auditee Response:
EOHHS agrees to require school districts to certify that costs claimed as direct costs do not duplicate costs reimbursed through the indirect cost rate. This will be addressed by adding specific language related to indirect costs to the certification statements which school districts execute and submit with their administrative claims and annual cost reports.

4. **Enhance the RMTS to collect actual job titles to facilitate the identification of employees whose costs might be included in the indirect cost rate**

Auditee Response:
A field has been added to the RMTS system to collect actual job titles of time study participants. EOHHS issued instructions to providers on August 14, 2015, to include "actual job title" when submitting their RMTS participant lists in the RMTS system for the time study beginning October 1, 2015 and all subsequent time studies.

In addition, the RMTS Instruction Guide has been updated to include this instruction.

5. **Refund $16,147 (Federal share) in employees' retirement costs overpaid to the New Bedford Public Schools**

Auditee Response:
EOHHS will work with the New Bedford Public School district to correct the employees' retirement costs that were overpaid and will refund the amount of $16,147 (Federal share) on the Commonwealth's September 2015 CMS 64 report.

6. **Refund $7,769 (Federal share) in employees' payroll costs overpaid to the Springfield Public Schools**

Auditee Response:
EOHHS will work with the Springfield Public School district to correct the employees' payroll costs that were overpaid and will refund the amount of $7,769 (Federal share) on the Commonwealth's September 2015 CMS 64 report.

7. Determine the amount of interim payments made after cost settlement and refund any Federal share not already returned

Auditee Response:
EOHHS created a report from MMIS to identify any interim claims for FY12 dates of service processed after the 90 day rule which were not included in the Cost Report reconciliation for FY12. The report determined that two school districts had underpayments. The two school districts filed claims that MMIS paid and those sums were deducted from the annual cost reports during the reconciliation process. Later MMIS reversed these claims and denied them, which resulted in an underpayment of a total of $163.00 between those two districts.

8. Implement Internal Controls to stop interim payments after the settlement process

Auditee Response:
EOHHS has established an ongoing process to identify any claims processed after reconciliation has been completed.

If you have any questions regarding this response, please do not hesitate to contact me, or contact Joan Senatore at 617-348-5380.

Sincerely,

Daniel Tsai
Assistant Secretary, MassHealth
Executive Office of Health and Human Services