



DEPARTMENT OF HEALTH & HUMAN SERVICES  
OFFICE OF INSPECTOR GENERAL  
OFFICE OF AUDIT SERVICES  
150 S. INDEPENDENCE MALL WEST  
SUITE 316  
PHILADELPHIA, PENNSYLVANIA 19106-3499

APR 26 2007

Report Number: A-03-05-00201

Michael L. Stauffer  
Deputy Secretary for Administration  
Office of Administration  
Department of Public Welfare  
Commonwealth of Pennsylvania  
Health and Welfare Building, Room 234  
P.O. Box 2675  
Harrisburg, Pennsylvania 17105-2675

Dear Mr. Stauffer:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Allegheny County's Medicaid Administrative Case Management Costs Claimed by Pennsylvania Between January 2002 and June 2003." We addressed our recommendations to the Centers for Medicare & Medicaid Services. These copies are for informational purposes only.

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If you have any questions or comments about this report, please do not hesitate to contact me at (215) 861-4470 or through e-mail at [Stephen.Virbitsky@oig.hhs.gov](mailto:Stephen.Virbitsky@oig.hhs.gov) or Robert Baiocco, Audit Manager, at (215) 861-4486 or through e-mail at [Robert.Baiocco@oig.hhs.gov](mailto:Robert.Baiocco@oig.hhs.gov). Please refer to report number A-03-05-00201 in all correspondence.

Sincerely,

Stephen Virbitsky  
Regional Inspector General  
for Audit Services

Enclosure

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF ALLEGHENY  
COUNTY'S MEDICAID  
ADMINISTRATIVE CASE  
MANAGEMENT COSTS CLAIMED  
BY PENNSYLVANIA BETWEEN  
JANUARY 2002 AND JUNE 2003**



Daniel R. Levinson  
Inspector General

April 2007  
A-03-05-00201

# ***Office of Inspector General***

<http://oig.hhs.gov>

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# *Notices*

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## **OAS FINDINGS AND OPINIONS**

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



## **EXECUTIVE SUMMARY**

### **BACKGROUND**

In 1965, Congress established Medicaid as a jointly funded State and Federal program that provides medical assistance to low-income people who qualify pursuant to Title XIX of the Social Security Act (the Act). In the Commonwealth of Pennsylvania, the Department of Public Welfare (Pennsylvania) administers the Medicaid program in accordance with a State plan approved by the Centers for Medicare & Medicaid Services (CMS).

In Allegheny County, the Department of Human Services administers mental health programs with oversight by Pennsylvania. Allegheny County reports its expenditures to Pennsylvania, which then submits a claim for Federal matching funds. Included in these claims are administrative case management expenditures. Pennsylvania defines administrative case management as those activities and administrative functions that ensure intake into the mental health system and appropriate and timely use of available resources.

Pennsylvania claimed \$25.3 million (Federal share) for administrative case management costs. These claims included costs for the period January 1, 2002, through June 30, 2003. For this period, the Federal share for Allegheny County administrative case management expenditures was \$6.1 million. The next largest Federal share claimed was \$2.5 million for Philadelphia County, the State's largest county. CMS requested that we determine the nature of this discrepancy.

### **OBJECTIVE**

Our objective was to determine whether administrative case management costs claimed on behalf of Allegheny County were comparable to those costs claimed on behalf of Philadelphia County.

### **SUMMARY OF FINDINGS**

Pennsylvania stated that administrative case management is one of three case management functions provided by county mental health programs. The other two are intensive case management and resource coordination. Pennsylvania contends that the three should be viewed in total to provide a fair comparison. For State Fiscal Year 2002 – 2003, Allegheny County case management expenditures totaled \$16.2 million or \$399 per client. For this same period, Philadelphia County case management expenditures totaled \$42.1 million or \$461 per client. These costs are comparable.

We also found, contrary to Federal regulations (45 CFR § 95.509), that Pennsylvania did not submit an amendment to its cost allocation plan prior to submitting its initial claim for Federal reimbursement of administrative case management expenditures. In addition, Office of Management and Budget (OMB) Circular A-87 requires States to ensure that these costs are reasonable and necessary, and are not currently reimbursed as part of other Federal matching programs. We did not determine whether the allocation methodology to determine county administrative case management costs was reasonable nor could we determine whether these

costs were reimbursed as part of other Federal matching programs. The Department of Health and Human Services's Division of Cost Allocation (DCA) stated that an amendment to the State's cost allocation plan was needed.

## **RECOMMENDATIONS**

We recommend that CMS:

- direct Pennsylvania to amend its cost allocation plan in order to claim administrative case management costs and
- reconsider its acceptance of Pennsylvania's claim for Federal matching funds for administrative case management services provided from January 2002 until a cost allocation plan amendment is submitted.

## **PENNSYLVANIA COMMENTS**

Pennsylvania concurred with our finding that, when taken together, Allegheny County's costs per client for the three levels of case management are generally comparable. Pennsylvania also agrees that its current cost allocation plan does not provide procedures to identify, measure, and allocate administrative case management costs. However, Pennsylvania stated that administrative case management costs are covered under language added to its cost allocation plan in 1984 to address services provided by outside agencies. Further, Pennsylvania stated that it addressed the administrative case management costs in the State Medicaid plan, which precludes an amendment to the cost allocation plan. However, Pennsylvania amended its cost allocation plan to state that it would claim administrative case management costs. Pennsylvania also did not agree that CMS should reconsider its acceptance of claims for administrative case management costs. Pennsylvania's comments are included in their entirety as Appendix A.

## **CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS**

CMS believes the language Pennsylvania added to the cost allocation plan is sufficient and it would be an administrative burden to require 67 county amendments. CMS's comments are included in their entirety as Appendix B.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

Pursuant to Federal regulations, the State must submit an amendment to its cost allocation plan when the procedures shown in the existing cost allocation plan become outdated because of significant changes in program levels that affect the validity of the approved cost allocation procedures (45 CFR § 95.509). The cost allocation plan must identify costs and describe the methods used to allocate them (OMB Circular A-87). In January 2002, Pennsylvania began to claim administrative case management costs. During our audit period, these costs totaled \$25.3 million (Federal share), which constitutes a significant change in program levels. In our March 2007 discussion with DCA, DCA personnel stated that Pennsylvania's amendment to claim

administrative case management costs was insufficient because it did not comply with the regulatory requirements. Accordingly, we continue to support our recommendations.

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# INTRODUCTION

## BACKGROUND

### Medicaid Overview

In 1965, Congress established Medicaid as a jointly funded State and Federal program that provides medical assistance to low-income people who qualify pursuant to Title XIX of the Social Security Act (the Act). In the Commonwealth of Pennsylvania, the Department of Public Welfare (Pennsylvania) administers the Medicaid program in accordance with a State plan approved by the Centers for Medicare & Medicaid Services (CMS).

CMS requires States to report all Medicaid expenditures on Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64). The Federal Government pays its share of medical assistance expenditures according to a formula defined in section 1905(b) of the Act. That share, known as the Federal medical assistance percentage, depends upon each State's relative per capita income and ranges between 50 and 83 percent. The Federal share for most administrative services is 50 percent.

### County Mental Health Programs

In Pennsylvania, mental health services are provided through county Mental Health/Mental Retardation (MH/MR) program offices. These offices are part of the county government. The county MH/MR offices serve as a referral source. Most mental health services are delivered by local provider agencies under contract with the county MH/MR office. In Allegheny County, the Department of Human Services administers mental health programs with oversight by Pennsylvania.

### Case Management Services

Pennsylvania counties provide three levels of case management: administrative case management, intensive case management, and resource coordination. Pennsylvania defines administrative case management as those activities and administrative functions that ensure intake into the mental health system and appropriate and timely use of available resources.

Intensive case management is targeted to adults with serious and persistent mental illness and children with serious mental illness and emotional disorders requiring a higher level of care. It is designed to ensure access to community agencies, services, and people whose functions are to provide the support, training, and assistance required for a stable, safe, and healthy community life.

Resource coordination services are targeted to adults with serious and persistent mental illness and children and adolescents with mental illness or serious emotional disturbance, and their families, who do not need the level of care, intensity and frequency of contacts provided through intensive case management, but who do need assistance in accessing, coordinating, and monitoring of resources and services. Services are provided to assess an individual's strengths

and meet needs in order to achieve stability in the community. Resource coordination is similar to intensive case management in that the activities are the same. However, caseload limits are larger and there is no requirement for 24-hour service availability. Resource coordination is established as an additional level of case management and is not intended to replace intensive case management.

Pursuant to section 1903(a)(7) of the Act, the Federal share for administrative case management services is 50 percent as Pennsylvania contends these expenditures are “necessary for the proper and efficient administration of the State plan.” Pennsylvania reports intensive case management and resource coordination as targeted case management pursuant to section 1905 (a)(19) of the Act, which allows States to claim its statutory Federal matching rate for these services. Pennsylvania’s rate during this review period was approximately 55 percent.

### **Cost Allocation Plan Requirements**

Administrative costs for Medicaid are to be allocated in accordance with a public assistance cost allocation plan approved by the Department of Health and Human Service’s Division of Cost Allocation (DCA)<sup>1</sup> after CMS reviews and comments on the fairness of the cost allocation methodologies. Federal regulations require that cost allocation plans conform to the accounting principles and standards in Office of Management and Budget (OMB) Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments.” The circular states that costs are allocable to particular cost objectives (programs) only to the extent of the benefits received by such objectives, only allocable costs are allowable, and costs must be reasonable and necessary for proper administration of the program.

A State must adhere to its cost allocation plan in computing claims for a Federal share or update its plan by submitting an amendment (45 CFR § 95.509). Pursuant to 45 CFR § 95.517, a State may claim costs based on a proposed plan or plan amendment provided that the State makes retroactive adjustments to its claims, if necessary, in accordance with the subsequently approved plan. Claims for costs that do not adhere to the approved or proposed cost allocation plan will be disallowed (45 CFR § 95.519).

### **Potential Excess Administrative Case Management Costs**

CMS requested that we determine why there was a discrepancy in administrative case management costs claimed on behalf of Allegheny County. During the audit period, January 1, 2002, through June 30, 2003, Pennsylvania claimed a Federal share of \$6.1 million for administrative case management costs submitted by Allegheny County. This amount far exceeded costs submitted by all other counties in the State for the same period. By contrast, the far more populous Philadelphia County claimed only \$2.5 million (Federal share).

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<sup>1</sup>The Division of Cost Allocation is part of the Office of the Deputy Secretary for Program Support.

## **OBJECTIVE, SCOPE AND METHODOLOGY**

### **Objective**

Our objective was to determine whether administrative case management costs claimed on behalf of Allegheny County were comparable to those costs claimed on behalf of Philadelphia County.

### **Scope**

Our review covered Pennsylvania's claim of \$6,099,758 (Federal share) for Allegheny County administrative case management costs from January 1, 2002, through June 30, 2003. Our objective did not require a review of the overall internal control structure of Pennsylvania or Allegheny County. Therefore, we limited our review of internal controls to Medicaid eligibility and administrative case management costs.

We performed our fieldwork at the Department of Public Welfare in Harrisburg, Pennsylvania and County offices in Pittsburgh, Pennsylvania.

### **Methodology**

To accomplish our objective:

- We reviewed relevant criteria, including the Act, Federal Medicaid regulations, OMB Circulars, CMS's State Medicaid Manual, Pennsylvania's State Medicaid plan, and Allegheny County's contracts with its mental health providers.
- We interviewed Pennsylvania State and County officials to determine how mental health services are provided and claimed.
- We reconciled the Federal share claimed on the CMS-64 to the Federal share calculated by Pennsylvania using County financial records.
- We reviewed and compared Philadelphia County and Allegheny County financial records to determine the counties' allocation of administrative expenses.
- We spoke to DCA officials to determine the necessity of a cost allocation plan amendment.

We performed our review in accordance with generally accepted government auditing standards.

## **FINDINGS AND RECOMMENDATIONS**

Pennsylvania claimed \$6.1 million (Federal share) for Allegheny County's administrative case management expenditures, more than double the \$2.5 million (Federal share) claimed for Philadelphia County, the State's largest county. However, Pennsylvania stated that the counties' costs are comparable when all case management costs (administrative case management, intensive case management, and resource coordination) are considered together. For State Fiscal Year (FY) 2002 – 2003, expenditures for all case management in Allegheny County averaged \$399 per client. For this same period, case management expenditures in Philadelphia County averaged \$461 per client. These costs are comparable.

However, Pennsylvania did not submit an amendment to its cost allocation plan prior to submitting its initial claim for Federal reimbursement of administrative case management expenditures. As a result, we could not determine whether the allocation methodology to determine county administrative case management costs was reasonable nor could we determine whether these costs were reimbursed as part of other Federal matching programs.

### **COMPARABLE CASE MANAGEMENT COSTS**

Pennsylvania stated that administrative case management is one of three case management functions provided by county mental health programs. The other two are intensive case management and resource coordination. Pennsylvania contends that the three should be viewed in total to provide a fair comparison. For State FY 2002 – 2003, all case management expenditures in Allegheny County totaled \$16.2 million, or \$399 per client. For this same period, all case management expenditures in Philadelphia County totaled \$42.1 million, or \$461 per client. These costs are comparable.

Between July 2001 and June 2003, Allegheny County reported \$26.7 million (\$13.2 million and \$13.5 million) in administrative case management costs. For this same period, Philadelphia County reported \$20.0 million (\$9.7 million and \$10.3 million) for the same services. Allegheny County had \$4.0 million (\$2.0 million and \$2.0 million) in Federal grants and county funds to offset its expenditures. Conversely, Philadelphia County had \$12.1 million (\$5.8 million and \$6.3 million) in offsets, leaving a significantly smaller State share than Allegheny County.

The following table compares Pennsylvania's claim for administrative case management services for Allegheny County with Philadelphia County. Pennsylvania accumulated county costs by State FY ending June 30. The claim for Federal funds for State FY 2001 – 2002 represented one half of State expenditures for that year. For comparison, the totals of \$6.1 million for Allegheny County and \$2.5 million for Philadelphia County represent the Federal share of State expenditures between January 2002 and July 2003 for each of the two counties.

### Administrative Case Management Costs

	<b>Allegheny County</b>	<b>Philadelphia County</b>
July 1, 2001 – June 30, 2002		
Clients	39,950	85,614
Cost Per Client	\$330	\$113
County Expenditures	\$13.2 million	\$9.7 million
Federal/County Offsets	\$2.0 million	\$5.8 million
State Expenditures	\$11.2 million	\$3.9 million
Medicaid Eligibility Rate	73.30 percent	88.28 percent
Total Computable	\$8.2 million	\$3.4 million
Federal Matching Rate	50 percent	50 percent
Federal Share	\$4.1 million	\$1.7 million
Form CMS-64 Claim	\$2.0 million <sup>2</sup>	\$0.9 million

	<b>Allegheny County</b>	<b>Philadelphia County</b>
July 1, 2002 – June 30, 2003		
Clients	40,599	91,302
Cost Per Client	\$332	\$113
County Expenditures	\$13.5 million	\$10.3 million
Federal/County Offsets	\$2.0 million	\$6.3 million
State Expenditures	\$11.4 million	\$3.9 million
Medicaid Eligibility Rate	70.95 percent	82.98 percent
Total Computable	\$8.1 million	\$3.3 million
Federal Matching Rate	50 percent	50 percent
Federal Share	\$4.1 million	\$1.6 million
Form CMS-64 Claim	\$4.1 million	\$1.6 million
<b>Total Form CMS-64 Claim</b>	<b>\$6.1 million</b>	<b>\$2.5 million</b>

#### **COSTS NOT IDENTIFIED IN COST ALLOCATION PLAN**

Pennsylvania did not comply with Federal regulations and guidance when it claimed administrative case management costs. Pennsylvania did not submit an amendment to DCA to identify administrative case management costs, or the procedures for claiming them in its cost allocation plan as required by Federal regulations (45 CFR § 95.509). In addition, OMB Circular A-87 requires States to ensure that these costs are reasonable and necessary, and are not currently reimbursed as part of other Federal matching programs. We did not determine if the allocation methodology to determine county administrative case management costs were reasonable nor could we determine whether these costs were reimbursed as part of other Federal matching programs.

<sup>2</sup>The amount of \$2.0 million represents the Federal share claimed for the 6-month portion of the State FY included in our audit.

## **Federal Requirements**

State and local governments, including Pennsylvania's Department of Public Welfare, allocate administrative costs to the Medicaid program in accordance with a cost allocation plan that must be approved by DCA. Federal regulations (45 CFR § 95.507(a)) states that the cost allocation plan shall “ (1) Describe the procedures used to identify, measure and allocate all costs to each of the programs operated by the State agency” and “(2) Conform to the accounting principles and standards prescribed in Office of Management and Budget Circular A-87 . . . .” Federal regulations require that the cost allocation plan must contain sufficient detailed information for Federal officials to reach an informed judgment about the correctness and fairness of the methods employed by the State (45 CFR § 95.507). Federal regulations (45 CFR § 95.509) also require that “(a) The State shall promptly amend the cost allocation plan and submit the amended plan to the Director, DCA if . . . (2) A material defect is discovered in the cost allocation plan by the Director, DCA or the State.” The Federal Government will disallow costs not claimed in accordance with the cost allocation plan (45 CFR § 95.519).

## **Cost Allocation Plan Not Amended**

Pennsylvania's cost allocation plan allocates costs for public welfare programs administered through the county assistance offices. Pennsylvania did not include in its cost allocation plan the procedures used to identify, measure, and allocate administrative case management costs. The State's cost allocation plan did not provide detailed information for Federal officials to reach an informed judgment about the correctness or fairness of the allocation method used to determine these costs as required by Federal regulations.

The State submitted three claims totaling \$25.3 million (Federal share) for administrative case management costs on its CMS-64. These claims included costs for the period January 1, 2002, through June 30, 2003. Pennsylvania stated that CMS was aware of its intention to claim these costs and raised no objection during its quarterly review of CMS-64 expenditures conducted in May 2004.

DCA stated that the State must submit an amendment to its cost allocation plan. Pennsylvania contends that no amendment is required since administrative case management services are identified as part of its State plan. Because Pennsylvania did not submit an amendment to its cost allocation plan, the State did not comply with Federal regulations (45 CFR § 95.507) to describe the claimed costs or with OMB Circular A-87, which requires States to ensure that these costs are reasonable and necessary, and are not currently reimbursed as part of other Federal matching programs.

## **RECOMMENDATIONS**

We recommend that CMS:

- direct Pennsylvania to amend its cost allocation plan in order to claim administrative case management costs and

- reconsider its acceptance of Pennsylvania’s claim for Federal matching funds for administrative case management services provided from January 2002 until a cost allocation plan amendment is submitted.

## **PENNSYLVANIA COMMENTS**

Pennsylvania concurred with our finding that, when taken together, Allegheny County’s costs per client for the three levels of case management are generally comparable. Pennsylvania also agrees that its current cost allocation plan does not provide procedures to identify, measure, and allocate administrative case management costs. However, Pennsylvania did not concur with our recommendation to amend its cost allocation plan to claim administrative case management costs. Pennsylvania contends that it followed instructions provided by DCA in 1984, to include a statement that costs were claimed for services by an outside agency and supported by a written agreement. Pennsylvania stated that administrative case management costs are also claimed for services by an outside agency, the counties, and therefore are covered under this language, and that CMS did not question the initial claim for these costs. Further, Pennsylvania states that the administrative case management costs are addressed in the State Medicaid plan, which precludes an amendment to the cost allocation plan.

Pennsylvania also did not agree that CMS should reconsider its acceptance of claims for administrative case management costs. However, Pennsylvania added the following language to its cost allocation plan: “In accordance with a request from the OIG, we are including this reference that the Department of Public Welfare claims administrative case management expenditures associated with the medical assistance eligible clients in the counties.” Pennsylvania’s comments are included in their entirety as Appendix A.

## **CENTERS FOR MEDICARE & MEDICAID SERVICES COMMENTS**

CMS also does not believe that Pennsylvania needs to submit an amendment to its cost allocation plan in order to claim administrative case management costs. CMS believes the language Pennsylvania added to the cost allocation plan is sufficient and it would be an administrative burden to require 67 county amendments. CMS’s comments are included in their entirety as Appendix B.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

Pursuant to Federal regulations, the State must submit an amendment to its cost allocation plan when the procedures shown in the existing cost allocation plan become outdated because of significant changes in program levels, affecting the validity of the approved cost allocation procedures. The State must also submit an amendment to the cost allocation plan when it amends the State plan so as to affect the allocation of costs (45 CFR § 95.509). As stated in our report, Federal regulations also require that the cost allocation plan must identify, measure, and allocate costs, in sufficient detail that Federal officials may reach an informed judgment about the correctness and fairness of the methods employed by the State (45 CFR § 95.507). The cost allocation plan must conform to the accounting principles and standards prescribed in OMB

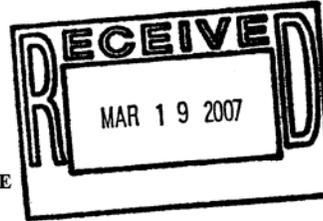
Circular A-87. If costs are not claimed in accordance with the cost allocation plan, the costs improperly claimed will be disallowed (45 CFR § 95.519).

In January 2002, Pennsylvania began to claim administrative case management costs. During our audit period, these costs totaled \$25.3 million (Federal share), which constitutes a significant change in program levels. Pennsylvania stated in its comments that it amended its State plan to include these costs, which would also require an amendment to the cost allocation plan pursuant to the Federal regulation. In 2006, after the audit period, Pennsylvania submitted an amendment to its cost allocation plan to include the words “In accordance with a request from the OIG, we are including this reference that the Department of Public Welfare claims administrative case management expenditures associated with the medical assistance eligible clients in the counties.” However, this amendment does not conform to the regulatory requirements to identify, measure, and allocate costs, in sufficient detail that Federal officials may reach an informed judgment about the correctness and fairness of the methods employed by the State (45 CFR § 95.507). The amendment also does not conform to the accounting principles and standards prescribed in OMB Circular A-87. In our March 2007 discussion with DCA, DCA personnel stated that Pennsylvania’s amendment was insufficient because it did not comply with the regulatory requirements. Accordingly, we continue to support our recommendations.

# **APPENDIXES**



COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF PUBLIC WELFARE  
P.O. BOX 2675  
HARRISBURG, PENNSYLVANIA 17105-2675



Michael Stauffer  
Deputy Secretary for Administration

MAR 13 2007

(717) 787-3422  
Email: mistauffer@state.pa.us

Mr. Steven Virbitsky, Regional Inspector  
General for Audit Services  
Office of Audit Services  
Office of Inspector General  
Department of Health & Human Services  
Suite 316  
150 South Independence Mall West  
Philadelphia, Pennsylvania 19106-3499

Dear Mr. Virbitsky:

Thank you for the January 11, 2007, letter in which you transmitted the draft report entitled, "Review of Allegheny County's Medicaid Mental Health Administrative Case Management Costs Claimed by Pennsylvania Between January 2002 and June 2003." Report Number: A-03-05-00201. We appreciate the opportunity to review the draft report as well as the extensions that you granted for submitting a response.

Our response to the Summary of Findings and Recommendations included in the draft report is set forth below.

#### SUMMARY OF FINDINGS

**Department of Public Welfare (DPW) response:** The Department of Public Welfare concurs that administrative case management (ACM) is one of three case management functions provided by county mental health programs. The other two are intensive case management and resource coordination. The three should be viewed in total to provide a fair comparison county by county. For State Fiscal Year 2002-2003, Allegheny County case management expenditures totaled \$16.2 million or \$399 per client. For this same period, Philadelphia County case management totaled \$42.1 million or \$461 per client. As is stated in the draft report, these costs are comparable. The difference in comparing just administrative case management services is due in part to larger Federal grants and county funds that offset Philadelphia County expenditures, resulting in a smaller State share and corresponding Federal match. Moreover, there are differences in the programs in the two counties. For example, more intensive case management and resource

Mr. Steven Virbitsky

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coordination are provided in Philadelphia due to the closure of the Philadelphia State Hospital, hence less administrative case management is billed to Medicaid.

#### RECOMMENDATIONS

[The OIG] recommend that CMS:

- direct Pennsylvania to amend its cost allocation plan in order to claim administrative case management costs

**DPW response:** The Commonwealth of Pennsylvania (State), Department of Public Welfare disagrees with this recommendation. As stated in our original response to OIG questions, dated July 17, 2006 (enclosure 1), the Commonwealth's Indirect Cost Allocation Plan (CAP) includes only departmental and statewide level administrative costs for programs administered by State staff. There are no allocations of these costs to the ACM program. All of the departmental Indirect Cost Allocation plans contain the language on page vi citing 45 CFR 95.507(b) 6 and the language on pages vii and viii citing 45 CFR 95.507(b)-2 (enclosure 2), which the DPW was instructed to include by the Department of Health and Human Services, Division of Cost Allocation (DCA) to cover programs such as ACM. This language was incorporated into our CAP in 1984 based on direction from DCA (enclosure 3) and has continued to be included in each amendment since then. At that time, discussions between the States, Federal Program offices, and DCA resulted in direction from DCA that they only wanted the Departmental Cost Allocation Plan (DCAP) to include the written narrative(s) for state staff administering the Federal programs. The DPW has followed this practice in our DCAP since 1984 when we were instructed to do so and have never received any questions from auditors for programs such as ACM.

Since the time the ACM claim was discussed with the CMS Regional Office and claims were submitted for the period beginning January 2002, CMS and the DCA have approved our Departmental Cost Allocation Plan and have not required us to include ACM in our CAPs based on the CFR citations identified above. Additionally, as described in our response of July 17, 2006, the services included for the ACM claim are services included in the **State Plan**, so no amendment to the State Plan was required. In order to satisfy the OIG auditor's insistence that we include something in our DCAP for ACM, Pennsylvania submitted a CAP amendment in September 2006 which includes a reference to the ACM claim on page iv, number twelve (enclosure 4) and received approval (enclosure 5).

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[The OIG] recommend that CMS:

- reconsider its acceptance of Pennsylvania's claim for Federal matching funds for administrative case management services provided from January 2002 until a cost allocation plan amendment is submitted.

**DPW response:** The DPW disagrees with this recommendation based on the same information included in our response above. Pennsylvania received approval for a CAP amendment submitted in September 2006 (enclosure 5) which includes a reference to the ACM claim on page iv, number twelve (enclosure 4), in order to satisfy the OIG's insistence that something be in the Plan even though these are non-state county employees and we **do not allocate** Departmental Indirect costs to this program. Again, based on direction from DCA, all of the Departmental Indirect Cost Allocation Plans contain the language on page vi citing 45 CFR 95.507(b) 6 and the language on pages vii and viii citing 45 CFR 95.507(b)-2 (enclosure 2), which has always covered programs such as ACM for non-state county employees. These citation(s) have been included in every Departmental plan since 1984 (enclosure 3) and that direction has remained in effect since that time.

Thank you again for the opportunity to respond to the draft report. Please contact Linda Swick, Bureau of Financial Operations, Audit Resolution Section, at (717) 783-7218 if you have any questions or require additional information.

Sincerely,



Michael Stauffer

Enclosures

Enclosure 1



COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF PUBLIC WELFARE  
**BUREAU OF FINANCIAL OPERATIONS**  
3<sup>rd</sup> Floor, Bertolino Building  
Harrisburg, Pennsylvania 17105-2675

JOHN H. BUNGO, CGFM, CFS  
DIRECTOR

TELEPHONE NUMBER  
(717) 787-9200  
FAX NUMBER  
(717) 705-6334

**JUL 17 2006**

Mr. Robert Baiocco, Audit Manager  
Office of Audit Services  
Office of Inspector General  
Department of Health and Human Services  
Suite 316  
130 South Independence Mall West  
Philadelphia, Pennsylvania 19106-3499

Dear Mr. Baiocco:

Thank you for the opportunity to discuss the Administrative Case Management (ACM) audit in a telephone conference with Deputy Secretary Joan Erney on June 16, 2006. We believe the conference was useful in clarifying your questions about the Department of Public Welfare's (DPW) ACM claim for the Office of Mental Health and Substance Abuse (OMHSAS).

A couple of the questions needed additional research before answering. The purpose of this letter is to provide information and answers to those questions. As we understand it, these are the last two outstanding issues as discussed in the telephone conference.

- Did the DPW speak to the Centers for Medicare and Medicaid Services (CMS) before submitting the first ACM claim?
- Does this ACM claim have any impact on the DPW Cost Allocation Plan?

Although most of the employees involved in submitting the first ACM claim have since retired from Commonwealth or federal service, research has proven that indeed the DPW staff from the OMHSAS, the Office of Medical Assistance Programs, and the Office of Budget/Bureau of Financial Reporting (BFR) were in contact with CMS employees to discuss the ACM proposal and claim process both prior to and after the initial submission. The OMHSAS ACM Proposal and Activities Comparison was discussed and provided to you in previous answers. Before their retirements, Tom Zlakowski and John Crewalk from the CMS discussed the ACM with the Director of the Bureau of Financial Management and Administration in OMHSAS, along with the Director and other BFR staff. State staff had informed CMS staff of their intention to include the claim on the HCFA-64 report.

Mr. Baiocco/Mr. Lobs

- 2 -

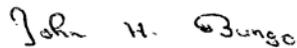
Upon submission of the first claim for ACM, as noted on May 19, 2004 (Enclosure 1), the claim was reviewed by Mr. Zlakowski in early May 2004. The review of the claim did not raise any issues and passed the quarterly review without any questions, deferrals, or disallowances.

The Commonwealth's Indirect Cost Allocation Plan includes only departmental and statewide level administrative costs for programs. The DPW does not allocate any statewide or departmental indirect costs to the ACM program. All of the departmental Indirect Cost Allocation plans contain the language on page vi (Enclosure 2), which is taken directly from OMB Circular A-87 and has always covered programs such as ACM. However, to further satisfy the OIG, if necessary, the DPW will add a reference to the ACM process on page iv, as number twelve (Enclosure 3), in the next scheduled submission, which will be no later than the end of September 2006. As you are aware from our many discussions, the ACM claim captures administrative costs provided by the counties. As the services to be included in the ACM claim are services **included** in the state plan, no amendment to the state plan was required.

The claim is calculated from **actual** income and expenditures from **annual** county Income and Expenditure Reports. **Instructions** are updated each year and sent to the counties so that costs are included in the appropriate cost centers on the report. The ACM claim is then generated by the DPW based on the prior quarter/year's **actual expenditures**. At the time of submission, a memorandum is generated by the OMHSAS to the Office of Budget for submitting the ACM claim (see the enclosed example, Enclosure 4) dated September 19, 2005.

The DPW hopes this information answers all of your questions and can bring this audit to a close. We appreciate your assistance throughout this process. Please contact Linda L. Swick, Audit Resolution Section, at (717) 787-8890 if you should need any other information.

Sincerely,



John H. Bungo

Enclosures

cc: Mr. Lobs

bc: Ms. Zeisloft  
Mr. Weaver/Mr. Sentz  
Mr. Polek/Ms. Swick

**Nagle, Wendy**

---

**From:** Mader, Philip E  
**Sent:** Wednesday, May 19, 2004 11:11 AM  
**To:** Wild, Robert  
**Cc:** Colasante, Carol; Delellis, Daniel P; Wimmer, Warren; Ferrario, Susan M; Erney, Joan L; Leuschner, Keith; Nagle, Wendy  
**Subject:** RE: ACM Claim Supporting Documents

Bob

I learned this morning that the initial claim was not deferred or questioned so we should get things in order to do the next claim. If we process the claim as part of the June CMS 64 report we would not need to pre-file as we did with the first claim since we would be within the two year limit. As I recall, we intend on claiming the entire 2002/2003 fiscal year with the next submission. Sounds like a nice going away gift for you to be remembered by.

Let me know you thoughts and what, if anything, we need to do to get the information assembled.

Thanks

**Phil**

-----Original Message-----

**From:** Wild, Robert  
**Sent:** Monday, May 03, 2004 3:37 PM  
**To:** Mader, Philip E; Leuschner, Keith; Nagle, Wendy  
**Cc:** Colasante, Carol; Delellis, Daniel P; Wimmer, Warren; Ferrario, Susan M; Erney, Joan L; Wild, Robert  
**Subject:** FW: ACM Claim Supporting Documents

Keith, Phil, and Wendy:

Here is an additional document developed by Dan and Carol that provides description of the ACM as it related to our claim. I thought it would be good for you to have something like this that presents a policy perspective and crosswalk between our Administrative Management cost center and the activities included within the federal definition of ACM.

Bob

-----Original Message-----

**From:** Colasante, Carol  
**Sent:** Monday, May 03, 2004 3:23 PM  
**To:** Wild, Robert  
**Cc:** Delellis, Daniel P  
**Subject:** FW: ACM Claim Supporting Documents

Here is the document that you asked Dan to do on Admin CM. I reviewed and edited and approved this version. Thanks.

-----Original Message-----

**From:** Delellis, Daniel P  
**Sent:** Monday, May 03, 2004 3:16 PM  
**To:** Colasante, Carol  
**Subject:** FW: ACM Claim Supporting Documents

Revised...

-----Original Message-----

**From:** Delellis, Daniel P

3/2004

In accordance with 45 CFR 95.507(b) 6, costs that are claimed for services provided by a governmental agency outside the state agency will be supported by a written agreement that includes, at a minimum, (i) the specific service(s) being purchased, (ii) the basis upon which the billing will be made by the provider agency (e. g. time reports, number of homes inspected, etc.), and (iii) a stipulation that the billing will be based on the actual cost incurred.

~~Attachment~~  
2  
Enclosure

10. In accordance with OMB Circular A-87, interest (paid or incurred on or after the date the Circular effects the Pennsylvania Cost Allocation Plan, i.e. July 1, 1996) associated with otherwise allowable **costs of building** acquisition, construction, or fabrication, reconstruction or remodeling completed on or after October 1, 1980, is allowable. Interest paid or incurred on or after July 1, 1996, associated with otherwise allowable costs of **equipment** is allowable. The allowability of **interest costs for buildings and equipment** is subject to the conditions set forth in Attachment B, Section 26, b. (1)-(4). This policy covers all costs included in the DCAP.
  
11. In accordance with a request from CMS, which cited 45 CFR 95.509, we are including this reference that the Department of Public Welfare and the Department of Education have entered into a Memorandum of Understanding (MOU) to claim programmatic and administrative school-based services.

~~Attachment~~  
3  
Enclosure

**Request for Federal Reimbursement of Administrative Case Management State Expenditures  
July 1, 2003 - September 30, 2003**

County Program	State		Amount Reimbursable	50% Reimbursement
	Expenditures July 1 - Sept 30	% MA Eligible		
Allegheny	3,326,781	71.70%	\$ 2,385,302	\$ 1,192,651
Armstrong/Indiana	192,877	87.00%	167,803	83,901
Beaver	22,370	97.40%	21,788	10,894
Bedford/Somerset	110,356	81.00%	89,388	44,694
Berks	336,859	89.60%	301,826	150,913
Blair	85,209	57.60%	49,080	24,540
Bradford/Sullivan	50,925	58.00%	29,537	14,768
Bucks	295,238	68.80%	203,124	101,562
Butler	35,265	92.00%	32,444	16,222
Cambria	148,848	87.00%	129,498	64,749
Cameron/Elk/McKean	73,614	98.00%	72,142	36,071
Carbon/Monroe/Pike	113,736	70.90%	80,639	40,319
Centre	99,217	86.30%	85,624	42,812
Chester	193,171	94.70%	182,933	91,466
Clarion	22,349	77.00%	17,209	8,604
Clearfield/Jefferson	38,219	80.10%	30,613	15,307
Columbia/Montour/Snyder/Union	41,230	94.00%	38,756	19,378
Crawford	126,752	98.20%	124,470	62,235
Cumberland/Perry	79,937	80.80%	64,589	32,295
Dauphin	185,602	80.80%	149,966	74,983
Delaware	666,025	72.00%	479,538	239,769
Erie	380,793	63.30%	241,042	120,521
Fayette	202,034	97.80%	197,589	98,795
Forest/Warren	-	65.20%	-	-
Franklin/Fulton	74,906	80.90%	60,599	30,299
Greene	46,184	94.00%	43,413	21,706
Huntingdon/Mifflin/Juniata	32,071	89.80%	28,800	14,400
Lackawanna/Susquehanna/Wayne	228,886	78.00%	178,531	89,266
Lancaster	370,166	91.40%	338,332	169,166
Lawrence	23,568	96.00%	22,625	11,313
Lebanon	99,223	68.50%	67,968	33,984
Lehigh	338,739	92.00%	311,640	155,820
Luzerne/Wyoming	394,734	64.00%	252,630	126,315
Lycoming/Clinton	59,756	69.40%	41,471	20,735
Mercer	84,084	95.00%	79,880	39,940
Montgomery	139,298	72.90%	101,548	50,774
Northampton	176,242	84.30%	148,572	74,286
Northumberland	54,073	78.10%	42,231	21,116
Philadelphia	992,285	86.90%	862,296	431,148
Potter	-	95.60%	-	-
Schuylkill	114,203	75.90%	86,680	43,340
Tioga	32,159	55.90%	17,977	8,988
Venango	68,224	78.00%	53,215	26,607
Washington	154,796	89.20%	138,078	69,039
Westmoreland	86,950	82.50%	71,734	35,867
York/Adams	-	82.80%	-	-
<b>Total</b>	<b>\$ 10,397,954</b>		<b>\$ 8,123,119</b>	<b>\$ 4,061,559</b>

9/20/2005

ACM Claim 2003-04 1st Quarter Sept 2005.xls

**Request for Federal Reimbursement of Administrative Case Management State Expenditures  
October 1, 2003 - December 31, 2003**

County Program	State			
	Expenditures Oct 1 - Dec 31	% MA Eligible	Amount Reimbursable	50% Reimbursement
Allegheny	3,326,781	64.30%	\$ 2,139,120	\$ 1,069,560
Armstrong/Indiana	192,877	87.00%	167,803	83,901
Beaver	22,370	99.80%	22,325	11,163
Bedford/Somerset	110,356	81.00%	89,388	44,694
Berks	336,859	95.30%	321,027	160,513
Blair	85,209	39.80%	33,913	16,957
Bradford/Sullivan	50,925	58.00%	29,537	14,768
Bucks	295,238	74.40%	219,657	109,829
Butler	35,265	92.30%	32,550	16,275
Cambria	148,848	87.00%	129,498	64,749
Cameron/Elk/McKean	73,614	98.00%	72,142	36,071
Carbon/Monroe/Pike	113,736	54.70%	62,214	31,107
Centre	99,217	63.90%	63,400	31,700
Chester	193,171	92.20%	178,104	89,052
Clarion	22,349	77.00%	17,209	8,604
Clearfield/Jefferson	38,219	68.50%	26,180	13,090
Columbia/Montour/Snyder/Union	41,230	75.40%	31,087	15,544
Crawford	126,752	92.80%	117,626	58,813
Cumberland/Perry	79,937	80.80%	64,589	32,295
Dauphin	185,602	82.30%	152,750	76,375
Delaware	666,025	72.00%	479,538	239,769
Erie	380,793	65.90%	250,943	125,471
Fayette	202,034	95.70%	193,347	96,673
Forest/Warren	-	30.20%	-	-
Franklin/Fulton	74,906	66.20%	49,588	24,794
Greene	46,184	94.00%	43,413	21,706
Huntingdon/Mifflin/Juniata	32,071	74.50%	23,893	11,946
Lackawanna/Susquehanna/Wayne	228,886	78.00%	178,531	89,266
Lancaster	370,166	94.20%	348,696	174,348
Lawrence	23,568	96.00%	22,625	11,313
Lebanon	99,223	75.70%	75,112	37,556
Lehigh	338,739	92.00%	311,640	155,820
Luzerne/Wyoming	394,734	64.00%	252,630	126,315
Lycoming/Clinton	59,756	69.40%	41,471	20,735
Mercer	84,084	95.00%	79,880	39,940
Montgomery	139,298	78.00%	108,652	54,326
Northampton	176,242	74.50%	131,300	65,650
Northumberland	54,073	66.70%	36,067	18,033
Philadelphia	992,285	87.40%	867,257	433,629
Potter	-	84.60%	-	-
Schuylkill	114,203	56.00%	63,954	31,977
Tioga	32,159	46.70%	15,018	7,509
Venango	68,224	78.00%	53,215	26,607
Washington	154,796	88.20%	136,530	68,265
Westmoreland	86,950	77.70%	67,560	33,780
York/Adams	-	74.40%	-	-
<b>Total</b>	<b>\$ 10,397,954</b>		<b>\$ 7,800,977</b>	<b>\$ 3,900,488</b>

enclosure 2

In accordance with 45 CFR 95.507(b) 6, costs that are claimed for services provided by a governmental agency outside the state agency will be supported by a written agreement that includes, at a minimum, (i) the specific service(s) being purchased, (ii) the basis upon which the billing will be made by the provider agency (e. g. time reports, number of homes inspected, etc.), and (iii) a stipulation that the billing will be based on the actual cost incurred.

**SCHEDULE OF FEDERAL AND NON-FEDERAL PROGRAMS**

In accordance with the principles of cost allocation 45 CFR 95.507(b)-2, the following is a listing of federal and non-federal programs performed, administered, or serviced by these organizational units.

	1. <u>Federal Programs</u>	2. <u>State Programs</u>
Bureau of Information Systems	TANF (Block Grant) Medical Assistance, Title XIX Food Stamps Social Services (Block Grant) Child Support, Title IV-D Low-Income Energy Assistance Foster Care, Title IV-E	General Assistance General Assistance
Deputy Secretary for Income Maintenance	TANF (Block Grant) Medical Assistance, Title XIX Food Stamps Social Services (Block Grant) Low-Income Energy Assistance	General Assistance General Assistance
Bureau of Child Support Enforcement	Child Support, Title IV-D	
Division of Child Support Enforcement Systems	Child Support, Title IV-D	
Other Income Maintenance Programs	TANF (Block Grant) Medical Assistance, Title XIX Food Stamps	General Assistance General Assistance
Client Information Systems	TANF (Block Grant) Medical Assistance, Title XIX Food Stamps	General Assistance General Assistance
New Directions Program	TANF (Block Grant) Food Stamp (Employment and Training Grant) CCDF	General Assistance

ENCLOSURE 4

**SCHEDULE OF FEDERAL AND NON-FEDERAL PROGRAMS - Continued**

	1. <u>Federal Programs</u>	2. <u>State Programs</u>
County Assistance Offices	TANF (Block Grant) Medical Assistance, Title XIX Food Stamps Social Services (Block Grant) Refugee Resettlement	General Assistance General Assistance
Deputy Secretary for Medical Assistance Programs (includes MA Support & PROMISE)	Medical Assistance, Title XIX	General Assistance
Bureau of Supportive Services	Title XX (Block Grant) Medical Assistance, Title XIX	
Bureau of Home and Community Based Services	Title XX (Block Grant) Medical Assistance, Title XIX	
Bureau of County Children and Youth Programs	Foster Care, Title IV-E County Child Welfare Program, Title IV-B Medical Assistance, Title XIX TANF (Block Grant)	
Bureau of State Children and Youth Programs	Social Services (Block Grant)	
Deputy Secretary for Child Development	Social Services (Block Grant)	
OMHSAS - Medicaid Divisions	Medical Assistance, Title XIX	
Division of Planning and Accountability	Medical Assistance, Title XIX	

In addition, the Department also administers various discretionary grants that are short term in nature. The accounting for these grants is maintained on the state's Systems Application Products (SAP) system in Grant Accounting Internal Orders.

Enclosure 3



COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF PUBLIC WELFARE  
HARRISBURG, PENNSYLVANIA 17120

P. O. Box 2675

April 27, 1984

Mr. Paul Petroski  
Office of Regional Director  
Division of Cost Allocation  
Department of Health and Human Services  
P. O. Box 13716, 3535 Market Street  
Philadelphia, Pennsylvania 19101

Dear Paul:

I have enclosed the additional information required for approval of BFM 84-1 in accordance with your phone request of April 19, 1984.

The attached pages are prepared in accordance with the principle of cost allocation.

If you have any questions or require additional information, please do not hesitate to contact me.

Sincerely,

Gary L. Weaver

cc: Mr. Leuschner  
Ms. Page  
Mr. Montville  
✓ Mr. Weaver/file  
Control  
GLW/cc

In accordance with 45CFR95.507(B) 6, costs that are claimed for services provided by a governmental agency outside the state agency, will be supported by a written agreement that includes, at a minimum, (i) the specific service(s) being purchased, (ii) the basis upon which the billing will be made by the provider agency (e. g. time reports, number of homes inspected, etc.) and (iii) a stipulation that the billing will be based on the actual cost incurred.

*note: this page was updated in 1996*

SCHEDULE OF FEDERAL AND NON-FEDERAL PROGRAMS

In accordance with the principles of cost allocation 45CFR95.507(B)-2, the following is a listing of federal and non-federal programs performed, administered or serviced by these organizational units.

	1. <u>Federal Programs</u>	2. <u>State Programs</u>
Office of Information Systems	Maintenance Assistance, Title IVA	General Assistance
	Medical Assistance, Title XIX	General Assistance
	Food Stamps	
	Social Services (Block Grant)	
	Child Support, Title IVD	
	Low-Income Energy Assistance (Block Grant)	
Deputy Secretary for Income Maintenance	Maintenance Assistance, Title IVA	General Assistance
	Medical Assistance, Title XIX	General Assistance
	Food Stamps	
	Social Services (Block Grant)	
Other Income Maintenance Programs	Maintenance Assistance Title IVA	General Assistance
	Medical Assistance Title XIX	General Assistance
	Food Stamps	
Client Information Systems	Maintenance Assistance, Title IVA	
	Medical Assistance Title XIX	
	Food Stamps	
Pennsylvania Employables Program (WIN Demo.)	WIN-Demonstration Project	General Assistance

*note: this page # was updated in 1976*

	<u>Federal Programs</u>	<u>State Programs</u>
Bureau of Special Investigations	Maintenance Assistance, Title IVA	General Assistance
	Medical Assistance, Title XIX	General Assistance
	Food Stamp (Fraud)	
	Child Support, Title IVD	
	Low-Income Energy Assistance, (Block Grant)	
Bureau of Claim Settlement	Maintenance Assistance, Title IVA	General Assistance
	Medical Assistance, Title XIX	General Assistance
	Food Stamps	
	Child Support, Title IVD	
County Boards of Assistance	Maintenance Assistance, Title IVA	General Assistance
	Medical Assistance, Title XIX	General Assistance
	Food Stamps	
	Social Services (Block Grant)	
	Refugee Resettlement	
Deputy Secretary Medical Assistance	Medical Assistance, Title XIX	General Assistance
Medical Assistance Support	Medical Assistance, Title XIX	General Assistance
Medical Assistance Management Information Systems (MAMIS)	Medical Assistance Title XIX	General Assistance
Bureau of Visually Handicapped (includes District Offices)	Vocational Rehabilitation Social Services (Block Grant)	
Bureau of Family and Community Programs	Foster Care, Title IVE County Child Welfare Program, Title IVB	
Bureau of Child & Youth Development	Social Services (Block Grant)	

In addition the Department also administers various discretionary grants which are short term in nature.

*note: this page # was updated in 1996*

- vii -

ENCLOSURE 4  
PA DPW07 (DCAP)  
#30

10. In accordance with 2 CFR Part 225 (OMB Circular A-87), interest (paid or incurred on or after the date the Circular effects the Pennsylvania Cost Allocation Plan, i.e. July 1, 1996) associated with otherwise allowable **costs of building** acquisition, construction, or fabrication, reconstruction or remodeling completed on or after October 1, 1980, is allowable. Interest paid or incurred on or after July 1, 1996, associated with otherwise allowable costs of **equipment** is allowable. The allowability of **interest costs for buildings and equipment** is subject to the conditions set forth in Appendix B, Section 23, b. (1)-(4). This policy covers all costs included in the DCAP.
11. In accordance with a request from CMS, which cited 45 CFR 95.509, we are including this reference that the Department of Public Welfare and the Department of Education have entered into a Memorandum of Understanding (MOU) to claim programmatic and administrative school-based services.
12. In accordance with a request from the OIG, we are including this reference that the Department of Public Welfare claims administrative case management expenditures associated with the medical assistance eligible clients in the counties.

enclosure



COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF PUBLIC WELFARE  
OFFICE OF BUDGET  
P.O. BOX 2675  
HARRISBURG, PENNSYLVANIA 17105-2675

PHONE: (717) 787-2810

FAX (717) 772-0369

FEB 09 2007

Mr. Darryl W. Mayes, Director  
Division of Cost Allocation/PSC/FMS  
U.S. Department of Health and Human Services  
330 Independence Avenue, S.W., Room 1067  
Washington, D.C. 20201

Re: Amendment PA DPW 07

Dear Mr. Mayes:

I am in receipt of your January 8, 2007, letter approving the Pennsylvania Department of Public Welfare Cost Allocation Plan effective July 1, 2006.

I have signed and enclosed the original letter, per your instruction, signifying my concurrence with the approval of the plan for inclusion in your Approved Plan file.

If you have any questions or require additional information about this plan, please do not hesitate to contact Gary L. Weaver, Bureau of Financial Reporting, Office of Budget at (717) 783-5844.

Sincerely,

*Linda S. Luebbering*  
Linda S. Luebbering  
Director

Enclosure



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Department of Public Welfare  
Bureau of Budget  
Division of Financial Services

Program Support Center  
Financial Management Service  
Division of Cost Allocation

Cohen Building-Room 1067  
330 Independence Avenue, S.W.  
Washington, DC 20201  
PHONE: (202)-401-2808  
FAX: (202)-619-3379

January 8, 2007

Ms. Linda Luebbering, Director  
Commonwealth of Pennsylvania  
Dept. of Public Welfare, Office of Budget  
P.O. Box 2675  
Harrisburg, PA 17105-2675

REC-1

COPIES

Department of Public Welfare  
Office of Budget

JAN 26 2007

DEFERRED TO  
COPIES TO

Dear Ms. Luebbering:

This is to advise you of the approval of the following Fiscal Year 2006-2007 Cost Allocation Plan (CAP) for the Commonwealth of Pennsylvania Department of Public Welfare:

PA DPW 07-0      Effective: July 1, 2006

The Department of Public Welfare (DPW) is reminded of conditional approvals of Amendments contained in DPW 04 and DPW 05. As such, the Cost Allocation Plan is still contingent upon the Department of Public Welfare's compliance with applicable laws and regulations pertaining to Random Moment Sampling procedures and methodologies utilized to claim Title IV-E administrative costs promulgated in Amendments contained in DPW 04 and DPW 05. DPW's Cost Allocation Plan is subject to further revisions to assure compliance with applicable laws and regulations based on approval of the Child Welfare Training Plan. DPW's Claims for Title IV-E administrative claims are subject to adjustment to refund unallowable administrative costs that may have been claimed under the provisions of these amendments as disclosed by on-going reviews initiated by the Administration for Children and Families (ACF). Policies, procedures, and methodologies utilized to claim Title IV-E administrative costs are subject to revision to assure compliance with applicable Federal regulations pertaining to the Title IV-E Foster Care/Adoption Assistance Programs in the event deficiencies are disclosed through reviews by ACF. Additionally, the State's claims for Title IV-E training costs will not be considered as final and are subject to adjustment based on the results of ACF's approval of the Training Plan resulting from deficiencies identified in Amendment DPW 04.

Please note that the approval of this amendment shall not override or supersede any unresolved issues, concerns or subject disallowances resulting from previous reviews relating to Amendment 04 and 05 until such matters are resolved by the ACF and approved by DCA.

Page 2 – Ms. Luebbering

In accordance with 45 CFR Part 95 Subpart E, this Approval is continuous until the allocation methods shown in the plan become out dated as a result of organizational changes within your department, legislative or regulatory changes, or a new plan is submitted by you. The regulations require that as a condition of receipt of Federal Financial Participation in administration services (excluding purchased services) and training for any quarterly period, the State's claim for expenditures must be in accordance with the Cost Allocation Plan on file and approved by the Director, Division of Cost Allocation, for that period. Amendments to your plan would be required for any changes indicated above. The sole responsibility for submitting proposed revisions rests with the State.

Approval of the Plan Amendment cited above is predicated upon conditions (1) that no costs other than those incurred pursuant to the approved State plan are included in claims to DHHS or other Federal Agencies and that such costs are legal obligations, (2) that the same costs that have been treated as indirect costs have not been claimed as direct costs, and (3) that similar types of costs have been accorded consistent treatment.

This approval presumes the existence of an accounting system with internal controls adequate to protect the interest of both the State and Federal Government. This approval relates to the accounting treatment accorded the costs of your programs only, and nothing contained herein should be construed to approve activities not otherwise authorized by approved program plans, Federal legislation or regulations.

The operation of the Cost Allocation Plan approved by this document may from time to time be reviewed by the authorized Federal staff, including the Division of Cost Allocation, Operating Divisions, DHHS Office of Inspector General for Audit, the Department of Agriculture, the Department of Labor and the General Accounting Office. The disclosure of inequities during such reviews may necessitate changes to the plan.

Please sign the original of this letter in the space provided to indicate your concurrence and return it to this office. In doing so, this letter becomes a part of the approved plan. If we may be of further assistance, please contact Darryl Mayes or me at (202) 401-2808.

Sincerely,



Darryl Mayes, Director  
Mid-Atlantic Field Office  
Division of Cost Allocation

Concurrence:

Linda S. Luebbering  
(Signature)

Linda S. Luebbering  
(Name)

Director, Office of Budget  
(Title)

2-9-2007  
(Date)

cc:

Gary L. Weaver, Director, Bureau of Financial Reporting

Administration for Children and Families, Region III

Centers for Medicare and Medicaid Services, Region III

Food and Nutrition Service, USDA-Region III

W6-0634

Concurrence:

Linda S. Luebbering  
(Signature)

Linda S. Luebbering  
(Name)

Director, Office of Budget  
(Title)

2-9-2007  
(Date)

cc:

Gary L. Weaver, Director, Bureau of Financial Reporting

Administration for Children and Families, Region III

Centers for Medicare and Medicaid Services, Region III

Food and Nutrition Service, USDA-Region III

W6-0634



## Memorandum

Centers for Medicare & Medicaid Services

Region III

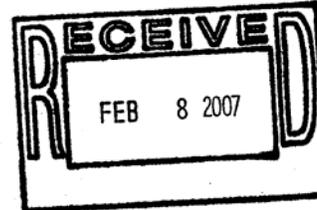
Suite 216, The Public Ledger Bldg  
150 S. Independence Mall West  
Philadelphia, PA 19106-3499

**Date:** February 7, 2007

**To:** Regional Inspector General for Audit Services

**From:** Manager, Financial Review Branch  
Division of Medicaid and Children's Health

**Subject:** Draft Audit Report – PA #A-03-05-00201

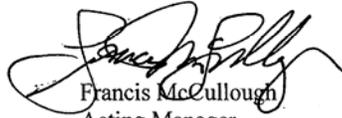


We have reviewed the subject draft audit report and the recommendations contained therein and we do not agree that Pennsylvania needs to submit a cost allocation plan amendment in order to claim administrative case management (ACM) costs. During our recent review of DPW's Cost Allocation Plan for Fiscal Year 2006-2007 we noted that there was specific reference to the claiming of ACM costs associated with the medical assistance eligible clients in the counties.

It is our understanding that the ACM costs are claimed under an agreement between the State and the Counties. The costs incurred by the Counties under the Medical Assistance program are identified, measured, and allocated in accordance with the County's cost allocation plan and reported to the Department of Public Welfare. DPW accumulates these costs for their inclusion in their quarterly claims for FFP under the Medical Assistance program. The State's claiming for these services is in accordance with 45 CFR 95.507(b)(6), "costs that are claimed for services provided by a governmental agency outside the state agency will be supported by a written agreement that includes, at a minimum, (i) the specific service(s) being purchased, (ii) the basis upon which the billing will be made by the provider agency (e.g. time reports, number of homes inspected, etc.), and (iii) a stipulation that the billing will be based on actual cost incurred."

In addition, we believe that it would be administratively burdensome to include cost allocation plans for all 67 counties in Pennsylvania as part of the Department of Public Welfare's (DPW) Cost Allocation Plan.

Thank you for giving us the opportunity to respond to your draft report. If you should have any questions regarding our comments, please contact Regina McIntyre at (215) 861-4469.

  
 Francis McCullough  
 Acting Manager  
 Financial Review Branch

# ACKNOWLEDGMENTS

This report was prepared under the direction of Stephen Virbitsky, *Regional Inspector General for Audit Services*. Other principal Office of Audit Services staff who contributed include:

Robert Baiocco, *Audit Manager*

Mark Lobs, *Senior Auditor*

Glen Tarr, *Auditor*

Camille Bacon-Smith, *Writer-Editor*

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