

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NORTH CAROLINA CLAIMED MILLIONS IN
UNALLOWABLE SCHOOL-BASED
MEDICAID ADMINISTRATIVE COSTS**

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Office of Inspector General

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EXECUTIVE SUMMARY

North Carolina claimed more than \$53.7 million (Federal financial participation) in unallowable school-based Medicaid administrative costs for a 3-year period.

WHY WE DID THIS REVIEW

In prior reviews of school-based and community-based administrative costs that States allocated to Medicaid using random moment sampling (RMS), we identified significant overpayments. As part of our Medicaid risk assessment, we noted that the North Carolina Department of Health and Human Services, Division of Medical Assistance's (State agency) cost allocation plan (CAP) amendment describing a new RMS methodology, which covered public assistance costs, had not been submitted or approved. However, for Federal fiscal years (FFYs) 2010 through 2012, the State agency claimed school-based administrative costs, which are public assistance costs, totaling almost \$107.5 million (more than \$53.7 million Federal financial participation (FFP)). We conducted this audit because of the significant amount that the State agency claimed, the State agency's lack of an approved CAP amendment describing its new RMS methodology, and our prior findings related to costs that States allocated to Medicaid using RMS.

OBJECTIVE

The objective of our review was to determine whether the State agency claimed school-based Medicaid administrative costs for FFYs 2010 through 2012 in accordance with Federal requirements.

BACKGROUND

The Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved Medicaid State plan. Although each State has considerable flexibility in designing and operating its Medicaid program, it must comply with Federal requirements. In North Carolina, the State agency administers the Medicaid program.

States can claim 50-percent FFP for the cost of certain Medicaid administrative activities that are necessary for the proper and efficient administration of the State plan. However, a State must claim FFP for administrative costs associated with a program only in accordance with its CAP approved by the cognizant Federal agency, the U.S. Department of Health and Human Services, Division of Cost Allocation (DCA). If costs under a public assistance program are not claimed in accordance with the approved CAP, or if the State fails to promptly submit an amendment to its CAP when required, the costs improperly claimed will be disallowed.

States can be reimbursed for school-based administrative activities that directly support identifying and enrolling potentially eligible children in Medicaid. School-based Medicaid administrative costs are one type of public assistance cost that can be reimbursed, if costs claimed comply with Federal requirements.

RMS is one acceptable method for allocating salaries and wages among Medicaid and other programs. However, the sampling methodology must meet acceptable statistical sampling standards, the results must be statistically valid, and costs must be adequately documented to be allowable.

On its quarterly Medicaid expenditure reports for FFYs 2010 through 2012, the State agency claimed \$107,438,397 (\$53,719,199 FFP) for school-based administrative costs allocated to Medicaid using RMS.

WHAT WE FOUND

The State agency claimed school-based Medicaid administrative costs that were not in accordance with Federal requirements. The State agency used statistically invalid RMS in allocating costs to Medicaid, and it did not maintain adequate support to validate its sample results and related extrapolations. In addition, it claimed these costs without promptly submitting to DCA for review its CAP amendment describing its new random moment time study (RMTS) methodology. Instead, the State agency claimed costs based on an implementation plan describing the new RMTS methodology, which was conditionally approved by CMS. As a result, the \$107,438,397 (\$53,719,199 FFP) the State agency claimed in school-based Medicaid administrative costs for FFYs 2010 through 2012 was unallowable.

WHAT WE RECOMMEND

We recommend that the State agency:

- refund \$53,719,199 to the Federal Government;
- revise its implementation plan and amend its CAP to address the statistical validity issues we identified and to incorporate CMS's sampling documentation requirements;
- implement policies and procedures to ensure that its RMS complies with Federal requirements for statistical validity;
- maintain adequate support, including all information necessary to reproduce and verify its sample results, for school-based administrative costs allocated to Medicaid;
- promptly submit to DCA for review and approval its future CAP amendments describing its procedures for identifying, measuring, and allocating costs to Medicaid; and

- review school-based Medicaid administrative costs claimed after our audit period and refund unallowable amounts.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency disagreed with our findings but did not specifically address our recommendations. The State agency submitted an independent statistical review of its RMTS methodology and maintained that it used statistically valid RMS and that it provided all of the sampling documentation required to demonstrate the statistical validity of its RMTSs and claims for FFP. The State agency acknowledged that there was a delay in submission and approval of its CAP amendment, which incorporated the RMTS methodology; however, it maintained that DCA recently authorized the CMS-approved RMTS methodology with an effective date of October 1, 2007. Accordingly, the State agency did not agree that it claimed unallowable school-based Medicaid administrative costs.

OUR RESPONSE

We disagree with the State agency's comments, and the State agency did not provide any additional documentation that warranted significantly changing our findings. However, we modified our report to reflect that the State agency had submitted its CAP amendment to DCA and received retroactive approval.

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INTRODUCTION

WHY WE DID THIS REVIEW

In prior reviews of school-based and community-based administrative costs that States allocated to Medicaid using random moment sampling (RMS), we identified significant overpayments.¹ As part of our Medicaid risk assessment, we noted that the North Carolina Department of Health and Human Services, Division of Medical Assistance's (State agency) cost allocation plan (CAP) amendment describing a new RMS methodology, which covered public assistance costs, had not been submitted or approved. However, for Federal fiscal years (FFYs) 2010 through 2012, the State agency claimed school-based administrative costs, which are public assistance costs, totaling almost \$107.5 million (more than \$53.7 million Federal financial participation (FFP)). We conducted this audit because of the significant amount that the State agency claimed, the State agency's lack of an approved CAP amendment describing its new RMS methodology, and our prior findings related to costs that States allocated to Medicaid using RMS.

OBJECTIVE

The objective of our review was to determine whether the State agency claimed school-based Medicaid administrative costs for FFYs 2010 through 2012 in accordance with Federal requirements.

BACKGROUND

Medicaid Program

The Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved Medicaid State plan. Although each State has considerable flexibility in designing and operating its Medicaid program, it must comply with Federal requirements. In North Carolina, the State agency administers the Medicaid program.

States can claim 50-percent FFP for the cost of certain Medicaid administrative activities that are necessary for the proper and efficient administration of the State plan (Social Security Act (the Act) § 1903(a)(7)). However, a State must claim FFP for administrative costs associated with a program only in accordance with its CAP approved by the cognizant Federal agency, the U.S.

¹ We conducted nine audits in five States. These audits resulted in more than \$99 million in questioned costs and \$78 million in costs that we set aside for CMS determination of allowable cost. Appendix A contains a list of related Office of Inspector General reports.

Department of Health and Human Services (DHHS), Division of Cost Allocation (DCA).² If costs under a public assistance program are not claimed in accordance with the approved CAP, or if the State fails to promptly submit an amendment to its CAP when required, the costs improperly claimed will be disallowed (45 CFR § 95.519 and 45 CFR § 95.509(a)).

Medicaid Coverage of School-Based Administrative Costs

Congress amended the Act in 1988 to allow Medicaid coverage of health-related services provided to Medicaid-eligible children under the Individuals with Disabilities Education Act.³ In addition, the Act provides for States to be reimbursed for school-based administrative activities that directly support identifying and enrolling potentially eligible children in Medicaid. School-based Medicaid administrative costs are one type of public assistance cost that can be reimbursed, if costs claimed comply with Federal requirements.

Under Federal regulations, RMS is one acceptable method for allocating salaries and wages among Medicaid and other programs (2 CFR part 225, Appendix B 8.h.(6)). School or school district employees may perform multiple administrative activities related to Medicaid and other programs that, unlike Medicaid, are not eligible for FFP. State Medicaid agencies may use either of two methods to allocate employees' salaries and wages to Medicaid: (1) personnel activity reports (e.g., timesheets) that reflect an after-the-fact distribution of the actual activity of each employee or (2) a substitute system, such as RMS.⁴ However, when using RMS, the sampling methodology must meet acceptable statistical sampling standards,⁵ the results must be statistically valid,⁶ and costs must be adequately documented to be allowable.⁷

The CMS Guide provides information on the appropriate methods for claiming Federal reimbursement for costs of Medicaid administrative activities performed in the school setting. The CMS Guide requires that documentation be retained to support time studies used to allocate costs, including the sample universe determination, sample selection, and sample results. The CMS Guide clarifies the RMS requirements in 2 CFR part 225 by providing information on the sample universe, sampling plan methodology, treatment of the summer period, documentation, training for participants, and monitoring process.

² CMS's *Medicaid School-Based Administrative Claiming Guide* (CMS Guide), dated May 2003, states that "a public assistance CAP must be amended and approved by the Division of Cost Allocation (DCA) within DHHS before FFP would be available for administrative claims in the Medicaid program.... CMS does not have direct authority for approval of the public assistance CAPs; that is the purview of the DCA" (pages 44 and 45). DCA is now called HHS Cost Allocation Services.

³ Section 1903(c) of the Act.

⁴ RMS is one of the federally acceptable methods for allocating costs to Federal awards when employees work on multiple activities not allocable to a single Federal award (2 CFR part 225, Appendix B 8.h.(6)).

⁵ See 2 CFR part 225, Appendix B 8.h.(6)(a).

⁶ See 2 CFR part 225, Appendix B 8.h.(6)(a)(iii).

⁷ See 2 CFR part 225, Appendix A (C)(1)(j) and the CMS Guide.

North Carolina Department of Health and Human Services, Division of Medical Assistance

The State agency and its delegates⁸ are responsible for the proper and efficient administration of the Medicaid State plan. Its Medicaid Administrative Claiming (MAC) program allowed schools to claim reimbursement for costs that they incurred when performing allowable Medicaid administrative activities. Allowable activities that these schools perform focus on assisting children and their families to enroll in Medicaid and on identifying, referring, and linking Medicaid-eligible or potentially eligible students to appropriate health resources both in the schools and in the community. Because these schools performed certain services required under the State plan on behalf of children and their families, the allowable portion of their administrative costs allocable to Medicaid was eligible for FFP.

Although the State agency is responsible for the proper and efficient administration of the Medicaid State plan, it had interagency agreements with Public Instruction and Education Services to support the implementation and operation of its MAC program. Each local education agency (education agency) participating in the MAC program entered into an agreement with Public Instruction to become MAC participants. Additionally, each education agency used a contractor to calculate education agency Medicaid administrative costs using RMS and submit vouchers to Public Instruction for its use in paying the education agency.

On October 7, 2004, the State agency submitted to CMS an RMS implementation plan, entitled *North Carolina School Based Medicaid Administrative Claiming Plan*. CMS and DCA approved this implementation plan effective retroactive to October 1, 2003. On July 7, 2008, CMS conditionally approved another implementation plan which described a new RMS methodology called the North Carolina School-Based Services Random Moment Time Study Methodology. One condition of this implementation plan was that the State agency promptly submit to DCA an amendment to its CAP referencing the new CMS-approved methodology.

The State agency used the RMTS methodology to capture time spent by school staff on Medicaid administrative activities. The RMTS methodology involved polling employees at random moments over a given time period and determining the percentage of time spent on Medicaid administrative activities. The State agency then used the RMTS results in a series of calculations to determine the education agency costs claimed under the MAC program.

⁸ The State agency had interagency agreements with the Department of Public Instruction (Public Instruction) and the North Carolina Department of Health and Human Services (NCDHHS), Office of Education Services (Education Services). Public Instruction served as payment distribution agent and provided project administration, general oversight, technical assistance, and claims review functions. Education Services provided technical assistance, claims review, and compliance monitoring for its district (composed of three NCDHHS schools). The State agency used two contractors. The vast majority of the education agencies were in a consortium for which the lead district's contractor conducted the random moment time study (RMTS) and prepared individual education agency claim calculations and the consortium voucher. The remaining education agencies used a different contractor that conducted their RMTS and prepared their claim calculations and vouchers.

On its quarterly Medicaid expenditure reports for FFYs 2010 through 2012, the State agency claimed \$107,438,397 (\$53,719,199 FFP) for school-based administrative costs allocated to Medicaid using RMS.

HOW WE CONDUCTED THIS REVIEW

We limited our review to the \$107,438,397 (\$53,719,199 FFP) in school-based administrative costs allocated to Medicaid using quarterly RMS and claimed by the State agency on its Medicaid expenditure reports for FFYs 2010 through 2012. We reviewed the State agency's procedures for using RMS and obtaining DCA approval.

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

Appendix B contains the details of our audit scope and methodology, and Appendix C contains applicable Federal requirements.

FINDINGS

The State agency claimed school-based Medicaid administrative costs that were not in accordance with Federal requirements. The State agency used statistically invalid RMS in allocating costs to Medicaid, and it did not maintain adequate support to validate its sample results and related extrapolations. In addition, it claimed these costs without promptly submitting to DCA for review its CAP amendment describing its new RMTS methodology. Instead, the State agency claimed costs based on an implementation plan describing the new RMTS methodology, which was conditionally approved by CMS. As a result, the \$107,438,397 (\$53,719,199 FFP) the State agency claimed in school-based Medicaid administrative costs for FFYs 2010 through 2012 was unallowable.

RANDOM MOMENT SAMPLING WAS STATISTICALLY INVALID

Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval, if required, by the cognizant agency. Such systems may include, but are not limited to, RMS, case counts, or other quantifiable measures of employee effort. Substitute systems that use sampling methods "must meet acceptable statistical sampling standards including: [t]he sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results ...; [t]he entire time period involved must be covered by the sample; and [t]he results must be statistically valid and applied to the period being sampled" (2 CFR part 225, Appendix B, 8.h.(6)).

The CMS Guide instructs that the random moment sample "must reflect all of the time and activities (whether allowable or unallowable under Medicaid) performed by employees participating in the Medicaid administrative claiming program" (page 8).

In a simple random sample, each item in the sample frame must have an equal chance of being selected, and all items selected must be evaluated. If sample frame items are duplicated, excluded from sample selection, or not evaluated, this produces an invalid sample and the extrapolation from this sample produces an invalid result.

We identified the following factors that rendered the State agency's RMS results statistically invalid:

- **Duplicates on the Participant Lists:** Our analysis of the RMTS data files found that, for both contractors in every quarter, the participant list contained duplicate employees. For example, one contractor confirmed that it had 64 duplicate employees listed during the first quarter of 2012. Including an employee more than once will increase the chances of that employee's being selected. Therefore, all employees did not have an equal chance of selection.
- **Limited Work Schedules:** Not all moments had an equal chance of selection because the sampling frame did not account for the entire work period. When selecting the RMTS sample, one contractor used a standardized work schedule of 8 a.m. to 3:30 p.m. However, not all education agencies used the same standardized work schedule. Some schools started before 8 a.m. and some ended after 3:30 p.m. The other contractor used the latest start time and earliest end time of the schools within each education agency, instead of using the earliest start time and latest end time, which would have given all moments an equal chance of being selected. For example, a contractor official stated that, if a district's high school started at 8:15 a.m., elementary school at 8:20 a.m., and middle school at 8:25 a.m., it would use 8:25 a.m. as the district's start time. If the end times for a district's schools were 2:15 p.m., 2:20 p.m., and 2:25 p.m., it would use 2:15 p.m. as the district's end time. Thus, not all available moments had an equal chance of selection.
- **Improper Treatment of Invalid Responses:** One contractor treated moments selected for occupied positions for which no response was received (nonresponses) as invalid responses, but the other contractor treated such moments as non-Medicaid moments. Nonresponses must be treated the same by all contractors in order to assure statistical validity and to comply with the approved cost allocation plan.

The State agency did not have policies and procedures to ensure that its RMS complied with Federal requirements for statistical validity. Instead, its officials stated that they relied on the implementation plan, describing the new RMTS methodology, which was conditionally approved by CMS but not promptly submitted to or approved by DCA.

Because of the statistical validity issues identified, the State agency's RMS did not meet Federal requirements, was not reliable, and did not accurately identify Medicaid administrative costs.

SUPPORTING DOCUMENTATION WAS INADEQUATE

Federal regulations state that costs must “[b]e adequately documented” (2 CFR part 225, Appendix A (C)(1)(j)) to be allowable.

The CMS Guide states, “As with all administrative costs that are related to time study activities, there must be documentation of the costs for which FFP will be claimed under Medicaid. Documentation retained must support and include the following: the sample universe determination, sample selection, sample results, sampling forms,⁹ cost data for each school district, and summary sheets showing how each school district’s claim was compiled” (pages 42 and 43).

One of the State agency’s contractors did not program the software used to generate the RMTS sample to store the information necessary to reproduce the sample. The electronic sampling function generated pseudorandom numbers.¹⁰ However, this function did not store the pseudorandom numbers or the information used to generate them once the sample moments were selected. Although the sampling frame, from which the sample was selected, was not stored, contractor officials said that it could be validated. The other contractor did not provide the information necessary to reproduce the sample for the first year in our audit period.

The State agency did not maintain adequate documentation, including all information necessary to reproduce and verify its sample results, for school-based administrative costs allocated to Medicaid. Without the random numbers used to select the sample, there was no way to recreate the sample to ensure the sample was selected properly or to support that the resulting estimate was valid.

Because the State agency did not always have documentation required to support its claims for school-based administrative costs, the costs it claimed did not comply with Federal requirements.

COST ALLOCATION PLAN AMENDMENT NOT PROMPTLY SUBMITTED OR APPROVED

States must submit for DCA review a CAP that follows Federal requirements (45 CFR § 95.507(a)). States must also promptly amend the CAP and submit the amended CAP when certain conditions are met (45 CFR § 95.509(a)).

Contrary to Federal requirements, the State agency claimed \$107,438,397 (\$53,719,199 FFP) in school-based Medicaid administrative costs without promptly submitting to DCA for review its CAP amendment describing its new RMTS methodology. Instead, the State agency claimed

⁹ Time study participants complete sampling forms to record their activities. These forms provide a basis to allocate the administrative costs of the agency and its staff.

¹⁰ Pseudorandom numbers are computer generated and are based on algorithms that use mathematical formulae or simply precalculated tables to produce sequences of numbers that appear random. Pseudorandom number generators can produce many numbers in a short time and can reproduce a given sequence of numbers at a later date if the starting point in the sequence is known.

these costs based on an implementation plan describing the new RMTS methodology, which was conditionally approved by CMS.¹¹

On July 7, 2008, CMS conditionally approved the State agency's implementation plan describing the new RMTS methodology. One condition of CMS's approval was that the State agency promptly submit to DCA its CAP amendment referencing the new RMTS methodology, but the State agency did not do so. Instead, the State agency implemented significant changes without promptly submitting to DCA for review a CAP amendment as required by 45 CFR § 95.509.

At the conclusion of our fieldwork on October 28, 2015, the State agency still had not submitted to DCA for review and approval its CAP amendment describing its RMTS methodology. On April 14, 2016, the State agency finally submitted its CAP amendment to DCA for review and approval. DCA approved the CAP amendment four days later, on April 18, 2016, with a retroactive effective date of October 1, 2007.

Because it did not promptly submit to DCA for review and approval its CAP amendment, the State agency did not comply with Federal requirements.

THE STATE AGENCY CLAIMED MILLIONS IN UNALLOWABLE COSTS

The State agency's RMS was statistically invalid and its supporting documentation was inadequate. As a result, the \$107,438,397 (\$53,719,199 FFP) the State agency claimed in school-based Medicaid administrative costs for FFYs 2010 through 2012 was unallowable.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$53,719,199 to the Federal Government;
- revise its implementation plan and amend its CAP to address the statistical validity issues we identified and to incorporate CMS's sampling documentation requirements;
- implement policies and procedures to ensure that its RMS complies with Federal requirements for statistical validity;

¹¹ CMS conditionally approved the new RMTS methodology as included in the implementation plan entitled North Carolina School-Based Services Random Moment Time Study Methodology, which was a working document that identified proposed procedures for operating the State agency's MAC program. While it may have served as the basis for CMS review and negotiation, it was not a CAP or plan amendment approved by the cognizant agency at the time we conducted our field work. "[W]here a State has claimed costs based on a proposed plan or plan amendment the State, if necessary, shall retroactively adjust its claims in accordance with the plan or amendment as subsequently approved by the Director, DCA" (45 CFR § 95.517(a)). Furthermore, "[i]f costs under a Public Assistance program are not claimed in accordance with the approved cost allocation plan (except as otherwise provided in § 95.517), or if the State failed to submit an amended cost allocation plan as required by § 95.509, the costs improperly claimed will be disallowed" (45 CFR § 95.519).

- maintain adequate support, including all information necessary to reproduce and verify its sample results, for school-based administrative costs allocated to Medicaid;
- promptly submit to DCA for review and approval its future CAP amendments describing its procedures for identifying, measuring, and allocating costs to Medicaid; and
- review school-based Medicaid administrative costs claimed after our audit period and refund unallowable amounts.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State agency disagreed with our findings but did not specifically address our recommendations. The State agency submitted an independent statistical review of its RMTS methodology and maintained that it used statistically valid RMS and that it provided all of the sampling documentation required to demonstrate the statistical validity of its RMTSs. The State agency acknowledged that there was a delay in submission and approval of its CAP amendment, which incorporated the RMTS methodology; however, it maintained that DCA recently authorized the CMS-approved RMTS methodology with an effective date of October 1, 2007. Accordingly, the State agency did not agree that it claimed unallowable school-based Medicaid administrative costs.

The State Agency's comments and DCA's CAP amendment approval letter, redacted to exclude personally identifiable information, are included as Appendix D. We did not include the State agency's CAP amendment, its contractor's comments, or the results of its independent statistical review because they were too voluminous.

We disagree with the State agency's comments, and the State agency did not provide any additional documentation that warranted significantly changing our findings. However, we modified our report to reflect that the State agency had submitted its CAP amendment to DCA and received retroactive approval.

RANDOM MOMENT SAMPLING WAS STATISTICALLY INVALID

State Agency Comments

The State agency disagreed with this finding and maintained that it had complied with the approved RMTS methodology since October 1, 2007, its retroactive effective date, and that its RMTS was statistically valid. With its comments, the State agency sent an independent statistical review of its RMTS methodology.¹² The State agency commented:

- Each RMTS vendor had a minimal number of duplicates on the participant lists as a result of school district reporting errors, but the independent statistical reviewer's

¹² The State agency cited the independent statistical review, which addressed limited work schedules, randomness, and the effect of duplicates, as proof that the RMTS methodology was statistically valid. The review did not address the treatment of nonresponses.

analysis demonstrated that the duplicates immaterially affected the quarterly claims and did not render the RMTS statistically invalid.

- The CMS Guide and the CMS-approved RMTS methodology did not set forth requirements regarding beginning and ending time periods for selection of the random moment sample. The RMTS, which was also included in the CAP amendment, required standard workdays to be determined on a quarterly basis, but there was no requirement regarding workday hours. The independent statistical reviewer’s analysis concluded that extending the time period to account for the entire work period would have resulted in a higher claimable expenditure.
- The responses that our audit cited as incorrect were treated properly and consistently with the CMS-approved RMTS methodology included in the CAP amendment because the RMTS methodology included oversampling provisions. The State agency indicated that it will continue to work with the RMTS vendors to assure that nonresponses are coded consistently per the approved methodology.

Office of Inspector General Response

According to Federal requirements, RMS results “must be statistically valid.” For the audit period, we identified 631 potential duplicates, and the State agency’s contractors confirmed that 508 of these were actual duplicates. We maintain that the RMS was statistically invalid because all employees did not have an equal chance of selection.

We agree with the State agency’s comment that the CAP amendment did not address limited work schedules. However, using a variety of work schedules resulted in all time not being included in the sampling frame. “The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results . . . ; [t]he entire time period involved must be covered by the sample; and [t]he results must be statistically valid and applied to the period being sampled” (2 CFR part 225, Appendix B, 8.h.(6)). We maintain that all time, not just the majority of the time, must be included in the sampling frame to ensure that all available moments have an equal chance of selection and that the sample is statistically valid.

We acknowledge that the RMTS methodology included oversampling provisions. However, one contractor coded nonresponses as invalid, while another coded them as non-Medicaid. We maintain that all nonresponses must be treated the same by all contractors in order to assure statistical validity and to comply with the approved cost allocation plan.

SUPPORTING DOCUMENTATION WAS INADEQUATE

State Agency Comments

The State agency disagreed with this finding and commented that the CMS Guide and the North Carolina MAC CAP did not identify any requirements for the State to store seed numbers (i.e., the information used to generate the pseudorandom numbers). The State agency maintained

that it provided all of the sampling documentation required to demonstrate statistical validity. It stated that storing a seed number allows the replication of a sample but does not prove the statistical validity of the sample. Although the State agency did not agree with this finding, it acknowledged that it took steps to prospectively retain seed numbers for RMTSs to enable replication of the sample.

Office of Inspector General Response

Federal regulations state that costs must “[b]e adequately documented” (2 CFR part 225, Appendix A (C)(1)(j)) to be allowable, and the CMS Guide instructs that documentation retained must support and include sample selection. Without the random numbers used to select the sample, there is no way to recreate the sample to ensure that it was selected properly and to support the validity of the resulting estimate.

Furthermore, the State agency commented that it complied with the RMTS methodology approved by CMS and DCA. However, the implementation plan, which was conditionally approved by CMS and incorporated into the CAP amendment retroactively approved by DCA, states that the sampling methodology and records for each quarter’s time study sample must be documented and maintained in the audit file.

We maintain that the seed numbers are an integral part of the State’s RMTS methodology and, therefore, are part of the methodology and records for each quarter’s time study sample that must be documented and maintained in the audit file. Without the random numbers used to select the sample, there was no way to recreate the sample and ensure that the sample was selected properly or to support that the resulting estimate was valid.

COST ALLOCATION PLAN AMENDMENT NOT PROMPTLY SUBMITTED OR APPROVED

State Agency Comments

The State agency acknowledged that there was a delay in submission and approval of its CAP amendment, which incorporated the RMTS methodology; however, it maintained that DCA recently authorized the CMS-approved RMTS methodology with a beginning effective date of October 1, 2007. The State agency commented that it “formally submitted the required amendment and received approval from the DCA on April 18, 2016,” and it sent us the CAP amendment and the DCA approval letter. The State agency commented that it had complied with the CMS-approved RMTS methodology since October 1, 2007, and it requested that this finding be excluded from the final report.

Office of Inspector General Response

The State agency acknowledged that it did not submit to DCA its CAP amendment referencing the RMTS methodology until April 14, 2016, which was after we completed our audit fieldwork and over 7 years after CMS conditionally approved the State agency’s implementation plan describing the new RMTS methodology. The State agency implemented significant changes

without promptly submitting to DCA for review a CAP amendment as required by 45 CFR § 95.509 and, as such, did not meet the first condition of CMS's approval.

The DCA approval letter, dated April 18, 2016, states:

This approval relates only to the methods of identifying and allocating costs to programs, and nothing contained herein should be construed as approving activities not otherwise authorized by approved program plans or Federal legislation and regulations. Implementation of the approved cost allocation plan may subsequently be reviewed by authorized Federal staff. The disclosure of inequities during reviews may require changes to the Plan.

The statistical validity and sampling documentation issues we identified exemplify program risks and "inequities" that should be mitigated by compliance with Federal requirements and prompt Federal oversight.

We maintain that the State agency claimed \$107,438,397 (\$53,719,199 FFP) in school-based Medicaid administrative costs for FFYs 2010 through 2012 without promptly submitting to DCA for review its CAP and certain amendments describing its RMS methodologies. However, we modified our report to reflect that the State agency submitted its CAP amendment to DCA and received retroactive approval.

STATE AGENCY CLAIMED MILLIONS IN UNALLOWABLE COSTS

State Agency Comments

The State agency did not agree with this finding on the basis of its previous responses.

Office of Inspector General Response

On the basis of our responses to the State agency's comments, we continue to recommend that the State agency refund \$53,719,199 to the Federal Government.

APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Report Title	Report Number	Date Issued
<i>Alabama Claimed Millions in Unallowable School-Based Medicaid Administrative Costs</i>	<u>A-04-13-00094</u>	7/13/16
<i>Florida Claimed Some Medicaid Administrative Costs That Did Not Comply With Program Requirements</i>	<u>A-04-10-00076</u>	3/7/13
<i>Review of Florida’s Developmental Disabilities Medicaid Administrative Claiming Costs for the Period October 1, 2003, Through September 30, 2006</i>	<u>A-04-07-00028</u>	5/26/10
<i>Review of Missouri Medicaid Payments for the School District Administrative Claiming Program for Federal Fiscal Years 2004 Through 2006</i>	<u>A-07-08-03107</u>	3/18/10
<i>Review of Medicaid Administrative Costs Claimed for the Massachusetts Department of Transitional Assistance</i>	<u>A-01-08-00014</u>	2/11/10
<i>Review of Connecticut’s Community Based Medicaid Administrative Claims for State Fiscal Years 2005 and 2006</i>	<u>A-01-08-00003</u>	9/8/09
<i>Review of Connecticut’s Community Based Medicaid Administrative Claim for State Fiscal Year 2004</i>	<u>A-01-06-00008</u>	2/20/09
<i>Medicaid Payments for Skilled Professional Medical Personnel to Missouri School Districts</i>	<u>A-07-06-03075</u>	10/20/06
<i>Review of Administrative Costs Claimed by the Florida Medicaid Agency for School-Based Health Services</i>	<u>A-04-00-02160</u>	3/22/01

APPENDIX B: AUDIT SCOPE AND METHODOLOGY

Scope

Our review covered \$107,438,397 (\$53,719,199 FFP) in school-based administrative costs allocated to Medicaid using quarterly RMS and claimed by the State agency on its quarterly Medicaid expenditure reports during FFYs 2010 through 2012.

We did not review the overall internal control structure of the State agency, its contractors, or the Medicaid program. Instead, we limited our internal control review to the State agency and contractor systems and procedures for claiming school-based administrative costs allocated to Medicaid using quarterly RMS.

We conducted our fieldwork at the State agency's office in Raleigh, North Carolina, from April 2015 through October 2015.

Methodology

To accomplish our objective, we:

- reviewed applicable laws, regulations, and guidelines;
- interviewed State agency and contractor officials regarding their Medicaid administrative costs, CAP, and related policies and procedures;
- reviewed the State agency's procedures for using RMS and obtaining DCA approval;
- reviewed calculations supporting the State agency's Medicaid observation percentages;
- reviewed the State agency's Medicaid enrollment and indirect cost rates;
- reconciled the State agency's allocated Medicaid administrative costs to the quarterly Medicaid expenditure reports;
- reviewed participant lists for duplicates and vacant positions;
- verified duplicates on the participant lists with contractors;
- consulted with the Office of Inspector General's contracted statistician on statistical validity issues; and
- discussed the results of our audit with State agency officials.

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

APPENDIX C: FEDERAL REQUIREMENTS

CODE OF FEDERAL REGULATIONS

Definition of a Cost Allocation Plan

The State shall submit a cost allocation plan for the State agency as required below to the DCA Director in the appropriate DHHS Regional Office. The plan shall: (1) Describe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the State agency; (2) Conform to the accounting principles and standards prescribed in Office of Management and Budget [OMB]Circular A-87 [now 2 CFR part 225], and other pertinent Department regulations and instructions; (3) Be compatible with the State plan for public assistance programs described in 45 CFR Chapters II, III and XIII, and 42 CFR Chapter IV Subchapter C and D; and (4) Contain sufficient information in such detail to permit the Director, Division of Cost Allocation, after consulting with the Operating Divisions, to make an informed judgment on the correctness and fairness of the State's procedures for identifying, measuring, and allocating all costs to each of the programs operated by the State agency [(45 CFR § 95.507(a))].

A “[p]ublic assistance cost allocation plan [is a] narrative description of the procedures that will be used in identifying, measuring and allocating all administrative costs to all of the programs administered or supervised by State public assistance agencies ...” (2 CFR part 225 (formerly OMB Circular A-87), Appendix A (B)(17)).

Substitute Systems

Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. (a) Substitute systems which use sampling methods (primarily for Temporary Assistance to Needy Families (TANF), Medicaid, and other public assistance programs) must meet acceptable statistical sampling standards including: (i) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in subsection 8.h.(6)(c) of this appendix; (ii) The entire time period involved must be covered by the sample; and (iii) The results must be statistically valid and applied to the period being sampled [(2 CFR part 225, Appendix B 8.h.(6))].

Cost Allocation Plan Approval

A State must claim FFP for costs associated with a program only in accordance with its approved cost allocation plan. However, if a State has submitted a plan or plan amendment for a State agency, it may, at its option claim FFP based on the

proposed plan or plan amendment, unless otherwise advised by the DCA. However, where a State has claimed costs based on a proposed plan or plan amendment the State, if necessary, shall retroactively adjust its claims in accordance with the plan or amendment as subsequently approved by the Director, DCA. The State may also continue to claim FFP under its existing approved cost allocation plan for all costs not affected by the proposed amendment [(45 CFR § 95.517(a))].

“If costs under a Public Assistance program are not claimed in accordance with the approved cost allocation plan (except as otherwise provided in § 95.517), or if the State failed to submit an amended cost allocation plan as required by § 95.509, the costs improperly claimed will be disallowed” (45 CFR § 95.519).

The State shall promptly amend the cost allocation plan and submit the amended plan to the Director, DCA if any of the following events occur: (1) The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes in Federal law or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures. (2) A material defect is discovered in the cost allocation plan by the Director, DCA or the State. (3) The State plan for public assistance programs is amended so as to affect the allocation of costs. (4) Other changes occur which make the allocation basis or procedures in the approval cost allocation plan invalid [(45 CFR § 95.509(a))].

Documentation Requirements

Costs must “[b]e adequately documented” to be allowable (2 CFR part 225, Appendix A (C)(1)(j)).

CENTERS FOR MEDICARE & MEDICAID SERVICES’ *MEDICAID SCHOOL-BASED ADMINISTRATIVE CLAIMING GUIDE*

The CMS Guide states:

As with all administrative costs that are related to time study activities, there must be documentation of the costs for which FFP will be claimed under Medicaid. Documentation to be retained must support and include the following: the sample universe determination, sample selection, sample results, sampling forms, cost data for each school district, and summary sheets showing how each school district’s claim was compiled [(pages 42 and 43)].

Additionally, the CMS Guide states, “In accordance with the federal regulations ... and OMB Circular A-87, a public assistance CAP must be amended and approved by the DCA within DHHS before FFP would be available for administrative claims in the Medicaid program.... CMS does not have direct authority for approval of the public assistance CAPs; that is the purview of the DCA” (pages 44 and 45).

APPENDIX D: STATE AGENCY COMMENTS



North Carolina Department of Health and Human Services

Pat McCrory
Governor

Richard O. Brajer
Secretary

June 6, 2016

Lori S. Pilcher, Regional Inspector
General for Audit Services
Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3141
Atlanta, GA 30303

Re: Report Number: A-04-15-00101

Dear Ms. Pilcher:

We have reviewed your draft report entitled *North Carolina Claimed Millions in Unallowable School-Based Medicaid Administrative Costs*. The following represents our response and corrective action plan to the Findings and Recommendations.

FINDINGS

COST ALLOCATION PLAN AMENDMENT NEITHER SUBMITTED NOR APPROVED

States must submit for DCA review a CAP that follows Federal requirements (45 CFR § 95.507(a)). States must also promptly amend the CAP and submit the amended CAP when certain conditions are met (45 CFR § 95.509(a)).

Contrary to Federal requirements, the State agency claimed \$107,438,397 (\$53,719,199 FFP) in school-based Medicaid administrative costs without submitting to DCA for review its CAP amendment describing its new RMTS methodology and, consequently, without having DCA approval for our audit period. Instead, the State agency claimed these costs based on an implementation plan describing the new RMTS methodology, which was conditionally approved by CMS.

On July 7, 2008, CMS conditionally approved the State agency's implementation plan describing the new RMTS methodology. One condition of CMS's approval was that the State agency submit to DCA its CAP amendment referencing the new RMTS methodology, but the State agency did not do so. Instead, the State agency implemented significant changes without submitting to DCA for review a CAP amendment as required by 45 CFR § 95.509.

Despite significant changes to its procedures used to identify, measure, and allocate school-based Medicaid administrative costs, the State agency ignored CMS's request to submit for DCA review and approval a CAP amendment referencing its new RMTS methodology. Although the State agency was aware of Federal requirements regarding submission of the CAP amendment, it did not comply

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with the requirements. At the conclusion of our fieldwork on October 28, 2015, the State agency still had not submitted to DCA for review and approval its CAP amendment describing its RMTS methodology.

Because it did not submit to DCA for review and approval its CAP amendment, the State agency did not comply with Federal requirements.

RANDOM MOMENT SAMPLING WAS STATISTICALLY INVALID

Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval, if required, by the cognizant agency. Such systems may include, but are not limited to, RMS, case counts, or other quantifiable measures of employee effort. Substitute systems that use sampling methods "must meet acceptable statistical sampling standards including: [t]he sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results...; [t]he entire time period involved must be covered by the sample; and [t]he results must be statistically valid and applied to the period being sampled" (2 CFR part 225, Appendix B, 8.h.(6)).

The CMS Guide states, "No completed responses should be deleted or ignored.... [A]ll non-responses should be coded to non-Medicaid time study codes" (page 41). Additionally, the CMS Guide instructs that the random moment sample "must reflect all of the time and activities (whether allowable or unallowable under Medicaid) performed by employees participating in the Medicaid administrative claiming program" (page 8).

In a simple random sample, each item in the sample frame must have an equal chance of being selected, and all items selected must be evaluated. If sample frame items are duplicated, excluded from sample selection, or not evaluated, this produces an invalid sample and the extrapolation from this sample produces an invalid result.

We identified the following factors that rendered the State agency's RMS results statistically invalid:

- **Duplicates on the Participant Lists:** Our analysis of the RMTS data files found that, for both contractors in every quarter, the participant list contained duplicate employees. For example, one contractor confirmed that it had 64 duplicate employees listed during the first quarter of 2012. Including an employee more than once will increase the chances of that employee's being selected. Therefore, all employees did not have an equal chance of selection.
- **Limited Work Schedules:** Not all moments had an equal chance of selection because the sampling frame did not account for the entire work period. When selecting the RMTS sample, one contractor used a standardized work schedule of 8 a.m. to 3:30 p.m. However, not all education agencies used the same standardized work schedule. Some schools started before 8 a.m. and some ended after 3:30 p.m. The other contractor used the latest start time and earliest end time of the schools within each education agency, instead of using the earliest start time and latest end time, which would have given all moments an equal chance of being selected. For example, a contractor official stated that, if a district's high school started at 8:15 a.m., elementary school at 8:20 a.m., and middle school at 8:25 a.m., it would use 8:25 a.m. as the district's start time. If the end times for a district's schools were 2:15 p.m., 2:20 p.m., and 2:25 p.m., it would use 2:15 p.m. as the district's end time. Thus,

not all available moments had an equal chance of selection.

- **Improper Treatment of Invalid Responses:** One contractor treated moments selected for occupied positions for which no response was received (nonresponses) as invalid responses, but the other contractor treated such moments as non-Medicaid moments.

The State agency did not have policies and procedures to ensure that its RMS complied with Federal requirements for statistical validity. Instead, its officials stated that they relied on the implementation plan, describing the new RMTS methodology, which was conditionally approved by CMS but not submitted to or approved by DCA.

Because of the statistical validity problems identified, the State agency's RMS did not meet Federal requirements, was not reliable, and did not accurately identify Medicaid administrative costs.

SUPPORTING DOCUMENTATION WAS INADEQUATE

Federal regulations state that costs must "[b]e adequately documented" (2 CFR part 225, Appendix A (C)(1)(j)) to be allowable.

The CMS Guide states, "As with all administrative costs that are related to time study activities, there must be documentation of the costs for which FFP will be claimed under Medicaid. Documentation retained must support and include the following: the sample universe determination, sample selection, sample results, sampling forms, cost data for each school district, and summary sheets showing how each school district's claim was compiled" (pages 42 and 43).

One of the State agency's contractors did not program the software used to generate the RMTS sample to store the information necessary to reproduce the sample. The electronic sampling function generated pseudo random numbers. However, this function did not store the pseudo random numbers or the information used to generate them once the sample moments were selected. Although the sampling frame, from which the sample was selected, was not stored, contractor officials said that it could be validated. The other contractor did not provide the information necessary to reproduce the sample for the first year in our audit period.

The State agency did not maintain adequate documentation, including all information necessary to reproduce and verify its sample results, for school-based administrative costs allocated to Medicaid. Without the random numbers used to select the sample, there was no way to recreate the sample to ensure the sample was selected properly or to support that the resulting estimate was valid.

Because the State agency did not always have documentation required to support its claims for school-based administrative costs, the costs it claimed did not comply with Federal requirements.

THE STATE AGENCY CLAIMED MILLIONS IN UNALLOWABLE COSTS

The State agency's CAP amendment was not approved by DCA, its RMS was statistically invalid, and its supporting documentation was inadequate. As a result, the \$107,438,397 (\$53,719,199 FFP) the State agency claimed in school-based Medicaid administrative costs for FFYs 2010 through 2012 was unallowable.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$53,719,199 to the Federal Government;
- submit to DCA for review and approval its CAP amendment describing its procedures for identifying, measuring, and allocating costs to Medicaid;
- ensure that its CAP amendment addresses the statistical validity issues we identified;
- implement policies and procedures to ensure that its RMS complies with Federal requirements for statistical validity;
- maintain adequate support, including all information necessary to reproduce and verify its sample results, for school-based administrative costs allocated to Medicaid; and
- review school-based Medicaid administrative costs claimed after our audit period and refund unallowable amounts.

DHHS RESPONSE

Cost Allocation Plan Amendment Neither Submitted Nor Approved

The State Agency acknowledges there was a delay in submission and approval of a Cost Allocation Plan (CAP) amendment for School Based Health Centers by the Division of Cost Allocation (DCA) which incorporated the CMS approved Random Moment Time Study (RMTS) methodology. Pursuant to 45 CFR Part 95, Subpart E, the State Agency formally submitted the required amendment and received approval from the DCA on April 18, 2016. The DCA approval letter and accompanying CAP Amendment 2 for School Based Health Centers Medicaid Administrative Claiming Plan previously furnished to the OIG is enclosed. See file Enclosure 1 – LEA MAC Amendment 2.pdf. In alignment with CMS, DCA authorized the CMS approved RMTS methodology with a beginning effective date of October 1, 2007. The State Agency has complied with this methodology since that time which covers all quarters within the audit period referenced in the draft audit report. *Accordingly, the State Agency respectfully requests this finding be excluded from the final OIG audit report.*

Random Moment Sampling Was Statistically Invalid

The State Agency respectfully disagrees that the Random Moment Time Study was statistically invalid. The following represents the State Agency's position to the three attributing factors presented in the draft report:

Factor 1 – Duplicates on the Participant List

The State Agency acknowledges each RMTS vendor had a minimal number of duplicates on the participant list as a result of school district reporting errors. The State Agency asserts that the impact of the duplicates was immaterial and the small number of duplicates identified does not render the RMTS to be statistically invalid.

To further address OIG's conclusion that the RMTS was statistically invalid due to duplicates noted in the participant list, one of the RMTS vendors engaged an independent statistical review by [REDACTED] a global provider of statistical consulting. The independent external review examined claims from the North Carolina Medicaid Administrative Claiming Program from October 2009 to September 2012. In particular, [REDACTED]

The Office of the Inspector General Note - The deleted text has been redacted because it is personally identifiable.

██████████ was asked to verify the sampling process utilized by North Carolina school districts and to assess the reliability of final claim results for the audited quarters (AJ09–JS12) based on the OIG audit findings.

A copy of their evaluation, entitled *North Carolina OIG Audit – External Evaluation 2016*, is enclosed. See file Enclosure 2 – ██████████.pdf. The full analysis is contained in the report and their conclusions are shown on Page 144. The analysis of the identified duplicates was performed to determine: (1) the number of duplicates as a percentage of all eligible moments for each of the quarters under review and (2) the impact on the filed claims for each quarter under review. ██████████ concluded that the effect of duplicates actually resulted in an overall “under claimed” net amount for the audit period. Based on their analysis, ██████████ further concluded that the impact to the quarterly claims was immaterial and the statistical equivalent of zero.

Although ██████████ determined that the number of duplicates on the participant list was immaterial, there have been several actions taken to reduce the potential for duplicates since the OIG raised this issue. A series of quality checks are performed to prevent school districts from certifying a participant list that contains duplicates. The quality checks include but are not limited to the following:

- The online reporting tool utilized by school districts to submit their participant list includes automated data quality checks, which prevent the majority of errors from occurring.
- Prior to finalizing and certifying a participant list, school district personnel must review their submission and certify that staff included are accurate and eligible for program participation.
- After each school district’s participant list is certified, an analysis is conducted to determine if any potential errors were reported by the school districts, which includes trend analysis, outlier review, and peer comparisons.
- Quality checks are further conducted to assess the accuracy of the participant list, including the potential for duplicate reporting. These additional verification steps are required because there are instances where individuals that may appear to be duplicates on a participant list are in fact unique individuals at the school district.
- Based on these additional steps, follow-up phone calls and/or emails are sent to the school districts requesting their confirmation of any questions regarding the participant list, which are saved in audit documentation files.
- In the event the school district confirms that what appears to be a duplicate is not a duplicate, the information is stored and documented for future audits.

These steps take place prior to the finalization of the participant list and the selection of the time study sample. This robust reporting and review process will further assist the State Agency in reducing the possibility of duplicates being reported by school districts.

Factor 2 – Limited Work Schedules

The State Agency respectfully disagrees with the OIG’s finding on this attributing factor. Neither the 2003 CMS Medicaid Administrative Claiming Guide nor the North Carolina Cost Allocation Plan (CAP) for School Based Health Centers with the Random Moment Time Study (RMTS) set forth requirements regarding the begin and end time periods for selection of the random moment sample. Rather, the RMTS approved by CMS was designed to accommodate the schedule of the majority of the school districts and as such, standard workday hours have been applied across all school districts in the state.

The North Carolina CAP requires standard workdays to be determined on a quarterly basis, but there is no requirement regarding workday hours. The CMS approved CAP states “a representative sample of district calendars will be reviewed each quarter to determine the most common begin and end dates for sampling

purposes". The project team reviews school calendars to determine the dates to exclude based on the standard schedule for the majority of school districts, as described in the North Carolina CAP.

As a part of the independent statistical review, [REDACTED] was asked to determine the impact to claim amounts if the sampling frame was extended. [REDACTED] conducted an analysis to compare calculated results based on the original time frame to an extended time frame. [REDACTED] concluded that for eight out of the ten quarters, the claim was lower than the recalculated amounts, and, for two out of the ten quarters, the claim was higher than the recalculated amounts. In total and over the ten examined quarters, [REDACTED] concluded that extending the time frame would have resulted in higher claimable expenditure. The results of the analysis are contained in the enclosed report on Page 144.

Factor 3 – Improper Treatment of Invalid Responses

The responses cited by the OIG as incorrect were proper and consistent with the Random Moment Time Study methodology. The RMTS methodology, included in the CAP amendment, was approved by CMS on July 7, 2008 with an effective date of October 1, 2007.

The RMTS (see Page 13 of 60 in Appendix G) states:

"Moments not returned or not accurately completed and subsequently resubmitted by the school district will not be included in the database unless the return rate for valid moments is less than 85%. If the return rate of valid moments is less than 85% then, non-returned moments will be included and coded as a non-allowable code until an 85% compliance rate is obtained. To ensure that enough moments are received to have a statistically valid sample, North Carolina should over sample at a minimum of fifteen percent (15 %) more moments than needed for a valid sample size."

North Carolina will continue to work with the RMTS vendors to assure that non-responses are coded consistently per the approved methodology.

Supporting Documentation Was Inadequate

The State Agency respectfully disagrees that supporting documentation was inadequate and that the samples were invalid.

The State Agency requested copies of the OIG auditors' workpapers to assess their review and conclusion that each quarter's Random Moment Time Study (RMTS) sample was statistically invalid. To date, the State Agency has not received the requested workpapers. During the OIG exit conference on October 28, 2015, the auditors indicated this finding specifically regarded the lack of a retained seed number to replicate a sample. The OIG concluded that without the seed number they were unable to replicate the original sample, and deemed those samples invalid. The State Agency does not agree.

The federal guidance referenced by the OIG in 2 CFR Part 225, the 2003 CMS Medicaid School-Based Services Claiming Guide, or the North Carolina MAC CAP does not identify any requirement for the State to store the seed numbers used in the sampling process or a requirement that the sampling process be reproducible by an outside party. Rather, both guides require that a statistically valid Random Moment Sampling methodology is followed.

The following are the relevant policy requirements:

2 CFR Part 225, Attachment A, part (C)(1)(j) states that to be allowable under federal awards, costs must "[b]e adequately documented." The 2003 CMS Medicaid School-Based Services Claiming Guide (the

Guide) states on Pages 42-43 "As with all administrative costs that are related to time study activities, there must be documentation of the costs for which FFP will be claimed under Medicaid. Documentation retained must support and include the following: the sample universe determination, sample selection, sample results, sampling forms, cost data for each school district, and summary sheets showing how each school district's claim was compiled." The Guide also states "... regardless of the validation mechanism that states employ, appropriate documentation supporting their claims must be maintained and available for audit purposes."

2 CFR Part 225, Attachment B, section 8(h)(6)(a), states: "Substitute systems which use sampling methods (primarily for Temporary Assistance to Needy Families (TANF), Medicaid, and other public assistance programs) must meet acceptable statistical sampling standards ..." Further, 2 CFR Part 225, Attachment B, section 8(h)(6)(a)(iii), states: "The results must be statistically valid"

Based on the above federal regulations and guidance, the State Agency furnished OIG with all of the sampling documentation required to demonstrate statistical validity. The supporting documentation included: the sample universe determination, sample selection, sample results, sampling forms, cost data for each school district, and summary sheets showing how each school district's claim was compiled.

As a part of its independent statistical review, [REDACTED] was requested to verify the sampling process utilized by North Carolina school districts and to assess the reliability of final claim results for the audited quarters based on the OIG audit findings. The [REDACTED] report indicates in part on Page 14:

"Assessment of the randomness of a sample can be done in two ways. One way is to replicate the sample pulled by a stored seed. The second is to use visual and analytic tools to ensure the randomness of the sample" and "While storing seeds does allow one to replicate a generated sample, the sequence could also be changed and stored, thus creating a manipulated sample, thus samples with stored and not stored seeds should be examined with visual and analytic tools to ensure the randomness of the sample."

The State Agency understands it is statistically accepted that storing a seed number allows the replication of a sample but does not prove the statistical validity of the sample. The conclusion reached is that in order to test for statistical validity, the sample should be examined with visual and analytic tools to ensure the randomness of the sample.

In absence of the review of the OIG workpapers, it is unknown if the OIG tested quarterly samples for randomness. As part of the RMTS vendor's engagement with [REDACTED], [REDACTED] performed an independent review of the randomness of the samples. They examined the random spread of sample points within school districts, the number of sampled moments at each school district by quarter, alongside expected frequencies based on district size. [REDACTED] concluded that the samples for each of the quarters cover school districts as expected based on district size and indicated valid random sampling at the district level. [REDACTED] also concluded that the sampling process was statistically valid and did not favor particular individuals, days, hours or districts over others validating the random nature of the process. (Enclosure (2), Page 144)

Although the State Agency does not agree with this OIG finding, proactive steps have been taken with each contractor to ensure RMTS seed numbers are retained per OIG's recommendation.

The State Agency Claimed Millions In Unallowable Costs

The State Agency respectfully disagrees with the finding. First, North Carolina obtained an approved Cost Allocation Plan which incorporates a CMS approved Random Moment Time Study (RMTS) methodology with a beginning effective date of October 1, 2007. The State Agency has complied with the RMTS methodology since its effective date. Second, as referenced in this response, North Carolina asserts that the three attributing factors to

Ms. Lori Pilcher
June 6, 2016
Page 8 of 8

the invalid statistical sample cited by the OIG were compliant with relevant authority, immaterial, and do not support the conclusion that the RMTS was statistically invalid. And third, the State Agency asserts that the documentation maintained was adequate and compliant with relevant authority.

We greatly appreciate the professionalism of your review staff and the analysis provided in your review report.

If you need any additional information, please contact [REDACTED] at [REDACTED]

Sincerely,

/Richard O. Brajer/

Richard O. Brajer

ROB:mrj

cc:

[REDACTED]



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April 18, 2016

[REDACTED]
Office of the Controller
North Carolina Department of Health and Human Services
2019 Mail Service Center
Raleigh, NC 27699-2019

Dear [REDACTED]

This letter provides approval of the North Carolina Department of Health and Human Services Cost Allocation Plan amendment, which was transmitted by letter dated April 14, 2016. The amendment references the School-Based Random Moment Time Study methodology that was approved by the Centers for Medicare and Medicaid Services on July 7, 2008. This amendment, which was submitted in accordance with 45 CFR 95, Subpart E, is effective October 1, 2007.

Acceptance of the actual costs in accordance with the approved Plan is subject to the following conditions:

1. The information contained in the Plan and provided by the State in connection with our review of the Plan is complete and accurate in all material respects.
2. The actual costs claimed by the State are allowable under prevailing cost principles, program regulations and law.
3. The claims conform with the administrative and statutory limitations against which they are made.

This approval relates only to the methods of identifying and allocating costs to programs, and nothing contained herein should be construed as approving activities not otherwise authorized by approved program plans or Federal legislation and regulations.

Implementation of the approved cost allocation plan may subsequently be reviewed by authorized Federal staff. The disclosure of inequities during reviews may require changes to the Plan.

If you have any questions concerning the contents of this letter, please contact [REDACTED] of my staff at [REDACTED]. Please submit your next proposed Plan amendment electronically via email to [REDACTED].

Sincerely,

[REDACTED]

[REDACTED]
Cost Allocation Services

[REDACTED]