



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION VII
601 EAST 12TH STREET, ROOM 0429
KANSAS CITY, MO 64106

April 3, 2012

Report Number: A-07-11-04185

Ms. Susan E. Birch
Executive Director
Colorado Department of Health Care Policy and Financing
1570 Grant Street
Denver, CO 80203

Dear Ms. Birch:

Enclosed is the U.S. Department of Health and Human Services, Office of Inspector General (OIG), final report entitled *Review of Colorado Direct Medical Service and Specialized Transportation Costs for the Medicaid School Health Services Program for State Fiscal Year 2008*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

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

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

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Debra Keasling, Audit Manager, at (816) 426-3213 or through email at Debra.Keasling@oig.hhs.gov. Please refer to report number A-07-11-04185 in all correspondence.

Sincerely,

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

Enclosure

Direct Reply to HHS Action Official:

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

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF COLORADO DIRECT MEDICAL
SERVICE AND SPECIALIZED
TRANSPORTATION COSTS FOR THE
MEDICAID SCHOOL HEALTH SERVICES
PROGRAM FOR STATE FISCAL YEAR 2008**



Daniel R. Levinson
Inspector General

April 2012
A-07-11-04185

Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

Medicaid Program and Health-related Services to Children

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

Congress amended section 1903(c) of the Act in 1988 to allow Medicaid coverage of health-related services provided to children under the Individuals with Disabilities Education Act. The school health program permits children to receive health-related services through each child's individualized education plan, generally without having to leave school.

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, provides, among other initiatives, fiscal relief to States to protect and maintain State Medicaid programs in a period of economic downturn. These provisions include temporary increases in States' Federal medical assistance percentage (FMAP). The Federal Government pays its share of a State's medical assistance expenditures under Medicaid based on the FMAP, which varies depending on that State's relative per capita income.

Medicaid allows the use of funds from units of government within the State to fund a portion of the State's share of Medicaid expenditures. States may use funds that have been certified by units of government within the State as representing Medicaid expenditures for the State share. These funds are referred to as certified public expenditures (CPE).

Colorado Medicaid School Health Services Program

The Department of Health Care Policy and Financing (State agency) administers the Medicaid program in Colorado, including the School Health Services (SHS) program. In June 2007, the State agency contracted with Public Consulting Group, Inc., to manage portions of the SHS program.

To ascertain and allocate the portion of time and activities that is related to the provision of Medicaid services, Colorado developed a methodology that is approved by CMS. Random moment sampling, which makes use of random moment time studies (RMTS), is an approved allocation methodology and must reflect all of the time and activities (whether allocable or allowable under Medicaid) performed by employees participating in the SHS program.

On an ongoing basis, participating school districts in Colorado submitted claims to the State agency for SHS provided to students. The school districts received interim payments from the

State agency for these services. The State agency claimed Federal reimbursement for these interim payments on a quarterly basis, but it reconciled these payments to actual costs annually. That is, after determining annual actual costs for each participating school district, the State agency reconciled the total interim payments for the State fiscal year for the participating school district to the annual actual costs. If the school district had received an overpayment from the State agency, it remitted the difference to the State agency. If on the other hand the participating school district had been underpaid by the State agency, it received a cost reconciliation payment from the State agency.

The State agency claimed \$21,901,743 (\$13,238,518 Federal share) for costs associated with SHS provided by 77 participating school districts for the period July 1, 2008, through June 30, 2009. Of this, the Weld County School District #6 (Greeley school district) claimed \$1,284,045 (\$767,651 Federal share) and the Adams Arapahoe School District #28J (Aurora school district) claimed \$1,612,864 (\$991,543 Federal share); we focused on these two school districts in this review, with particular attention to that portion of SHS that dealt with direct medical service costs including specialized transportation costs.

OBJECTIVE

Our objective was to determine whether the direct medical service costs including specialized transportation costs that the State agency claimed for SHS provided during the period July 1, 2008, through June 30, 2009, were reasonable, allowable, and adequately supported pursuant to applicable Federal and State requirements.

SUMMARY OF FINDINGS

Not all of the costs that the State agency claimed for SHS during the period July 1, 2008, through June 30, 2009, were reasonable, allowable, and adequately supported pursuant to applicable Federal regulations and State requirements. Specifically, of the \$1,759,194 (Federal share) that the State agency claimed in costs for the Greeley and Aurora school districts for this period, \$247,736 (Federal share) was unallowable for Federal reimbursement due to a variety of errors.

In addition, errors identified during our review of the audited (Greeley and Aurora) school districts impacted not only these school districts, but also other Colorado school districts and the State agency. As a result of these errors, these other Colorado school districts received a total of \$467,153 (Federal share) in unallowable Medicaid payments for the period July 1, 2008, through June 30, 2009. Specifically:

- Errors in the RMTS allocation methodology affected the calculation of the statewide RMTS percentages. As a result, other participating Colorado school districts received unallowable Federal reimbursement totaling \$428,608.
- Two other school districts submitted interim claims for Federal reimbursement but did not submit annual actual costs for reconciliation. As a result, these two school districts received unallowable Federal reimbursement totaling \$38,545.

As an additional result of these errors, the State agency received a total of \$156,357 (Federal share) in unallowable Medicaid payments for the period July 1, 2008, through June 30, 2009. Specifically:

- For the errors impacting the two audited school districts and all other Colorado school districts, the State agency received reimbursements under the Recovery Act at the temporarily enhanced FMAP rate. The State agency retained this additional funding because it used a CPE funding mechanism and received unallowable Federal reimbursement totaling \$146,625.
- The State agency did not apply the FMAP rate in effect at the time interim payments were made to the provider. In addition, the cost reconciliation payments were not claimed in the quarter in which the service was provided. As a result, the State agency received unallowable Federal reimbursement totaling \$9,732.

These errors totaling \$871,246 (Federal share) in questioned costs occurred because the State agency did not have adequate policies and procedures to monitor the SHS program and to ensure that all costs claimed met Federal requirements.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$871,246 (\$207,364 for the Greeley school district, \$40,372 for the Aurora school district, \$467,153 for all other participating school districts, and \$156,357 for the State agency) to the Federal Government for unallowable SHS expenditures; and
- strengthen policies and procedures to ensure that SHS expenditures are reasonable and accurate, and are properly claimed and documented, by reviewing RMTS responses, direct medical costs, other costs, health care professionals' qualifications, and all calculations used in the annual cost reconciliation for a sample of school districts each year.

AUDITEE COMMENTS

In written comments on our draft report, the State agency disagreed with our first recommendation and agreed with our second recommendation. The State agency described the strengthened policies and procedures that it said it has developed and implemented. The State agency said that our review did not take those program improvements into account and added that it had already addressed many of the issues we had identified in our review.

Regarding our first recommendation, the State agency disagreed with all of our questioned costs and said that it began providing annual training to school districts, beginning in August 2008, regarding the issues identified in many of our findings. The State agency added that beginning in the autumn of 2010 it implemented a process for conducting program reviews and cost report audits.

The State agency raised more specific objections to the following findings: unqualified health care professionals, inaccurately coded RMTS responses, school districts not participating in the annual cost reconciliation, and interim claims and cost reconciliation payments claim in incorrect quarters. The State agency noted that after receiving our draft report it located and provided to us additional documentation on licensure and certification of three health care professionals. (The State agency subsequently clarified that it had provided documentation for only two health care professionals.) The State agency also disagreed with 116 out of the 206 RMTS responses that we had identified as inaccurately coded and stated that these random moments had been coded in a manner consistent with CMS's guidance. The State agency said that 18 of the 116 RMTS responses were related to annual or triennial IEP reviews and, according to CMS-approved coder instructions, should have been coded to non-allowable codes (i.e., non-Medicaid activities) rather than being reclassified (as we had done, during our fieldwork) to case management codes, which are allowable Medicaid codes.

With respect to our finding that two school districts submitted interim claims for Federal reimbursement but did not submit actual annual cost reports, the State agency said that the interim payments had been made in a timely manner and that it reserved the right to re-open the cost reports for reconciliation. With respect to our finding that the State agency made interim claims and claimed cost reconciliation payments in incorrect quarters, the State agency said that we based this finding on an examination of claims data and payment data in the State agency's Medicaid Management Information System (MMIS), instead of relying on the Colorado Financial Reporting System (COFRS), which is the State's accounting system. In addition, the State agency said that the costs reported on the CMS-64 were based on the paid date shown in COFRS, which is the date that the State actually incurred the expenditure.

The State agency's comments appear in their entirety as the Appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the State agency's comments, we accepted the State agency's newly provided documentation for two of the eight health care professionals whom we had identified as unqualified in our draft report; we adjusted this finding, the associated questioned costs, and the related recommendation accordingly.

With respect to the State agency's comments on the 206 inaccurately coded RMTS responses, we agree with the comments related to the 18 RMTS responses related to annual or triennial IEP reviews. We have revised the finding, questioned costs, and the recommendation associated with the 18 RMTS responses to reflect that the responses were accurately coded to non-Medicaid activities. The effect of this revision increased the amount of costs we are questioning, for the two audited school districts, other participating Colorado school districts and the State agency. In addition, we continue to believe our findings and the associated questioned costs are valid for the remaining 188 RMTS responses.

Nothing in the State agency's comments regarding the two school districts that did not submit their annual cost reports caused us to change this finding or the associated questioned costs. Neither of these school districts completed or submitted an annual cost report, which includes a

certification of funds statement certifying the provider's actual, incurred costs/expenditures. Moreover, the State agency did not complete the cost reconciliation process. According to the State Plan Amendment, Attachment 4.19-B, section H, the cost reconciliation process must be completed within 24 months of the end of the reporting period covered by the State agency's annual SHS cost report. The State agency, in its comments, did not provide support that cost reports for the two school districts exist; in the absence of those cost reports, the State agency would be unable to reopen them for reconciliation. Therefore, we maintain that this finding and the associated questioned costs remain valid.

With respect to the State agency's comments on our finding that it made interim claims and claimed cost reconciliation payments in incorrect quarters, nothing in the State agency's comments caused us to change this finding or the associated questioned costs. We analyzed both the payment data from the COFRS and the claim data from the MMIS in developing this finding. Moreover, we understand that the State agency included costs on the CMS-64 based on the paid date shown in COFRS, which is the date the State agency incurred the expenditure. However, the State agency used funds provided by the participating school districts to supply the non-Federal share of the cost reconciliation payments. Therefore, when reporting expenditures for Federal reimbursement, the State agency was required to apply the FMAP rate in effect at the time the school district recorded the expenditure (i.e., at the time the service was provided). We maintain that our finding that the State agency claimed costs using an incorrect FMAP rate remains valid.

Nothing in the State agency's comments regarding our other findings caused us to change our findings or the associated questioned costs that we convey in our first recommendation. While we note the information the State agency provided regarding its strengthened policies and procedures and its enhanced training, and credit the State agency accordingly, we also note that our audit period encompassed costs claimed for SHS provided during the period July 1, 2008, through June 30, 2009. For half of the findings in this report, the State agency's comments provided no information to support its disagreement other than descriptions of additional training, policy guidance, and program reviews. These measures, which enhance the State agency's agreement with our second recommendation, are commendable but do not invalidate our findings (other than the adjusted findings mentioned above) or the questioned costs that form the basis of our first recommendation.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Medicaid Program and Health-related Services to Children	1
Colorado Medicaid School Health Services Program	2
OBJECTIVE, SCOPE, AND METHODOLOGY	3
Objective.....	3
Scope	3
Methodology.....	4
FINDINGS AND RECOMMENDATIONS	5
INACCURACIES IDENTIFIED FOR TWO AUDITED SCHOOL DISTRICTS	7
Incorrectly Calculated Individualized Education Plan Student Utilization Ratio	7
Unqualified Health Care Professionals.....	8
Claimed Costs That Should Have Been Offset by Other Federal Revenue Sources But Were Not.....	9
Inaccurate Transportation Costs	9
Inaccurately Coded Random Moment Time Study Responses.....	10
INACCURACIES IDENTIFIED FOR OTHER SCHOOL DISTRICTS	10
Inaccurately Coded Random Moment Time Study Responses.....	10
School Districts Not Participating in Annual Cost Reconciliation.....	11
INACCURACIES IDENTIFIED FOR THE STATE AGENCY	11
State Agency Recovery Act Questioned Costs Associated with Other Findings	11
Interim Claims and Cost Reconciliation Payments Claimed in Incorrect Quarters.....	12
SCHOOL HEALTH SERVICES CLAIMING PROCESS NOT ADEQUATELY MONITORED	12
EFFECT OF UNALLOWABLE CLAIMS PAID	12
RECOMMENDATIONS	13
AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE	13
Incorrectly Calculated Individualized Education Plan Student Utilization Ratio for the Two Audited School Districts	14
Unqualified Health Care Professionals in the Two Audited School Districts.....	14

Claimed Costs in the Two Audited School Districts That Should Have Been Offset by Other Federal Revenue Sources But Were Not	15
Inaccurate Transportation Costs in the Two Audited School Districts	15
Inaccurately Coded Random Moment Time Study Responses in the Two Audited School Districts and for Other Participating Colorado School Districts	16
Other Colorado School Districts Not Participating in Annual Cost Reconciliation....	18
Interim Claims and Cost Reconciliation Payments Claimed by the State Agency in Incorrect Quarters	18

OTHER MATTER	19
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APPENDIX

AUDITEE COMMENTS

INTRODUCTION

BACKGROUND

Medicaid Program and Health-related Services to Children

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

Congress amended section 1903(c) of the Act in 1988 to allow Medicaid coverage of health-related services provided to children under the Individuals with Disabilities Education Act. The school health program permits children to receive health-related services through each child's individualized education plan (IEP), generally without having to leave school.

The American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, provides, among other initiatives, fiscal relief to States to protect and maintain State Medicaid programs in a period of economic downturn. For the recession adjustment period (October 1, 2008, through December 31, 2010), the Recovery Act provided an estimated \$87 billion in additional Medicaid funding based on temporary increases in States' Federal medical assistance percentage (FMAP). The Federal Government pays its share of a State's medical assistance expenditures under Medicaid based on the FMAP, which varies depending on that State's relative per capita income.

Medicaid allows the use of funds from units of government within the State to fund a portion of the State's share of Medicaid expenditures. Pursuant to section 1903(w)(6)(A) of the Act and 42 CFR § 433.51(b), States may use funds that have been certified by units of government within the State as representing Medicaid expenditures for the State share. These funds are referred to as certified public expenditures (CPE).

According to CMS's *Medicaid and School Health: A Technical Assistance Guide* (the technical guide), issued in August 1997, school health-related services included in a child's IEP may be covered if all relevant statutory and regulatory requirements are met. In addition, the technical guide provides that a State may cover services included in a child's IEP as long as (1) the services are listed in section 1905(a) of the Act and are medically necessary; (2) all other relevant Federal and State regulations are followed; and (3) the services are included in the State plan or are available under the Early and Periodic Screening, Diagnosis, and Treatment Medicaid benefit. Covered direct medical services may include, but are not limited to, physical therapy, occupational therapy, speech pathology/therapy, psychological counseling, nursing, and specialized transportation services.

Colorado Medicaid School Health Services Program

The Department of Health Care Policy and Financing (State agency) administers the Medicaid program in Colorado, including the School Health Services (SHS) program. In June 2007, the State agency contracted with Public Consulting Group, Inc. (the Contractor), to manage portions of the SHS program.

To ascertain and allocate the portion of time and activities that is related to the provision of Medicaid services, Colorado developed a methodology that is approved by CMS. Random moment sampling, which makes use of random moment time studies (RMTS), is an approved allocation methodology and must reflect all of the time and activities (whether allocable or allowable under Medicaid) performed by employees participating in the SHS program.

Random Moment Time Study Data Collection and Reporting

The school districts submitted to the Contractor a list of all school district employees in the SHS program (participants). The Contractor consolidated these personnel listings and statistically selected participants from a statewide pool to include in the RMTS. The Contractor used a Web-based RMTS system to assign, distribute, and submit the statistically selected date and time (the random moment) to the selected participants. Each of the selected participants responded to a series of questions identifying and explaining the activity he or she was performing at the random moment. The Contractor then coded the random moment according to the responses provided.

The Contractor analyzed the results of the RMTS responses on a statewide basis and determined, and reported to the State agency, the percentages of time that school districts' staffs spent on allowable SHS activities. For each State fiscal year (SFY), the Contractor applied the applicable statewide percentage to personnel costs associated with the provision of SHS. In addition to the statewide percentage, the calculation to determine the annual actual costs submitted for Federal reimbursement in each school district's annual cost report also applied each school district's:

- IEP Student Utilization Ratio¹ to the personnel costs and other direct medical costs;
- Specialized Transportation Ratio² to transportation costs; and
- indirect cost rate to the personnel costs, other direct medical costs, and transportation costs.

¹ This ratio compares the number of Medicaid students with IEPs to the total number of students with IEPs.

² Each school district applies the Specialized Transportation Ratio to its transportation costs. The Specialized Transportation Ratio compares Medicaid IEP transportation trips to total IEP transportation trips. If a particular school district does not separately identify certain transportation costs, it also applies a Transportation Ratio which compares IEP students receiving transportation to the school district's total student population receiving transportation.

Claims and Payments for School Health Services

On an ongoing basis, participating school districts in Colorado submitted claims to the State agency for SHS provided to students. The school districts received interim payments from the State agency for these services. The State agency claimed Federal reimbursement for these interim payments on a quarterly basis, but it reconciled these payments to actual costs annually. That is, after determining annual actual costs for each participating school district, the State agency reconciled the total interim payments for the State fiscal year for the participating school district to the annual actual costs. If the school district had received an overpayment from the State agency, it remitted the difference to the State agency. If on the other hand the participating school district had been underpaid by the State agency, it received a cost reconciliation payment from the State agency.

The standard Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64 report), reports actual Medicaid expenditures for each quarter and is used by CMS to reimburse States for the Federal share of Medicaid expenditures. The amounts reported on the CMS-64 report and its attachments must be actual expenditures with supporting documentation.

The State agency claimed \$21,901,743 (\$13,238,518 Federal share) for costs associated with SHS provided by 77 participating school districts for the period July 1, 2008, through June 30, 2009. Of this, the Weld County School District #6 (Greeley school district) claimed \$1,284,045 (\$767,651 Federal share) and the Adams Arapahoe School District #28J (Aurora school district) claimed \$1,612,864 (\$991,543 Federal share); we focused on these two school districts in this review, with particular attention to that portion of SHS that dealt with direct medical service costs including specialized transportation costs.³

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the direct medical service costs including specialized transportation costs that the State agency claimed for SHS provided during the period July 1, 2008, through June 30, 2009, were reasonable, allowable, and adequately supported pursuant to applicable Federal and State requirements.

Scope

We reviewed costs claimed for SHS provided during the period July 1, 2008, through June 30, 2009. During this audit period, the State agency claimed \$21,901,743 (\$13,238,518 Federal share) for costs associated with SHS provided by 77 participating school districts in Colorado. We performed an indepth review of the SHS expenditures filed on behalf of the Greeley and Aurora school districts. We selected these two school districts based on the amounts that the State agency claimed on their behalf for SHS during the period July 1, 2008,

³ These Federal share amounts include reimbursements from the Recovery Act's temporary increase in FMAP.

through June 30, 2009, and the results of the annual cost reconciliations. The State agency claimed \$2,896,909 (\$1,759,194 Federal share) for costs associated with SHS for these two school districts.

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

We did not perform a detailed review of direct medical service costs including specialized transportation costs at the remaining 75 participating school districts in Colorado. However, because the State agency used statewide RMTS percentages to calculate SHS costs for all Colorado school districts, we reviewed the RMTS responses from all of the participating school districts. Any errors in the statewide RMTS percentages affected the SHS costs for every participating school district. Therefore, we applied the revised statewide RMTS percentages to the costs for all 77 participating school districts.

Although we reviewed the accuracy of the RMTS responses to the extent necessary to review the costs claimed for SHS, we did not validate the responses provided by participants regarding their activities at the specified random moment.

In general, we do not express an opinion on the total and Federal share amounts claimed on the CMS-64 reports for the other 75 participating Colorado school districts except, as discussed below, for the effect of the revised RMTS percentages on their SHS costs.

We conducted fieldwork at the State agency in Denver, Colorado, and at the Greeley and Aurora school districts, from August 2010 to March 2011.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal and State requirements;
- reviewed the State agency's policies and procedures concerning SHS, which included the State agency's monitoring and oversight procedures;
- interviewed State agency employees to understand how they administered the Medicaid SHS program statewide;
- reconciled the State agency's quarterly CMS-64 reports to the interim claims and annual cost reconciliations and to the State agency's accounting records;
- reconciled the annual actual costs for the Greeley and Aurora school districts to accounting records;

- interviewed Contractor employees to understand how they administered the SHS program and how the statewide RMTS percentages were calculated;
- interviewed Greeley and Aurora school district employees to understand how they administered the SHS program;
- compared Greeley and Aurora school districts' personnel costs to payroll records to identify any personnel costs that were paid by other Federal programs;
- compared Greeley and Aurora school districts' direct medical costs, transportation costs, indirect cost rates, IEP ratios, and transportation ratios reported on their annual cost reports to applicable supporting documentation;
- reviewed the registrations, certifications, and licenses for SHS participants at the Greeley and Aurora school districts;
- reviewed 9,000 RMTS responses completed by employees of all 77 participating school districts in Colorado to determine whether the activities performed were allowable Medicaid SHS activities;
- recalculated the Greeley and Aurora school districts' annual cost reports using the corrected expenditures, corrected IEP ratios, and the corrected statewide RMTS percentages to determine the amounts that should have been claimed;
- recalculated the other participating Colorado school districts' annual cost reports using the audited statewide RMTS percentages to determine the amounts that should have been claimed;
- used the State agency's formulas for calculating actual annual costs and determined the effect by comparing the original annual cost reports to the updated annual cost reports using audited costs and RMTS responses; and
- shared the results of this review, including the details of our recommended adjustments, with State agency officials on September 1, 2011.

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 objective.

FINDINGS AND RECOMMENDATIONS

Not all of the costs that the State agency claimed for SHS during the period July 1, 2008, through June 30, 2009, were reasonable, allowable, and adequately supported pursuant to applicable Federal regulations and State requirements. Specifically, of the \$1,759,194 (Federal share) that

the State agency claimed in costs for the Greeley and Aurora school districts for this period, \$247,736 (Federal share) was unallowable for Federal reimbursement due to a variety of errors.

In addition, errors identified during our review of the audited (Greeley and Aurora) school districts impacted not only these school districts, but also other Colorado school districts and the State agency. As a result of these errors, these other Colorado school districts received a total of \$467,153 (Federal share) in unallowable Medicaid payments for the period July 1, 2008, through June 30, 2009. Specifically:

- Errors in the RMTS allocation methodology affected the calculation of the statewide RMTS percentages. As a result, other participating Colorado school districts received unallowable Federal reimbursement totaling \$428,608.
- Two other school districts submitted interim claims for Federal reimbursement but did not submit annual actual costs for reconciliation. As a result, these two school districts received unallowable Federal reimbursement totaling \$38,545.

As an additional result of these errors, the State agency received a total of \$156,357 (Federal share) in unallowable Medicaid payments for the period July 1, 2008, through June 30, 2009. Specifically:

- For the errors impacting the two audited school districts and all other Colorado school districts, the State agency received reimbursements under the Recovery Act at the temporarily enhanced FMAP rate. The State agency retained this additional funding because it used a CPE funding mechanism and received unallowable Federal reimbursement totaling \$146,625.
- The State agency did not apply the FMAP rate in effect at the time interim payments were made to the provider. In addition, the cost reconciliation payments were not claimed in the quarter in which the service was provided. As a result, the State agency received unallowable Federal reimbursement totaling \$9,732.

Table 1 on the following page provides an itemization of the costs that we are questioning.

Table 1: Itemization of Questioned Costs

Condition	Greeley Questioned Costs	Aurora Questioned Costs	All Other School District Questioned Costs	State Agency Questioned Costs	Total Questioned Costs
IEP Student Utilization Ratio	\$143,755	\$489		\$28,246	\$172,490
Unqualified health care professionals	24,679			4,829	29,508
Claimed costs that should have been offset by other Federal revenue sources but were not	12,263			2,400	14,663
Inaccurate transportation costs					
Bus driver salaries and benefits	699			137	836
Fuel and maintenance		9,740		2,236	11,976
Inaccurately coded RMTS responses	25,968	30,143	\$428,608	100,467	585,186
School districts not participating in annual cost reconciliation			38,545	8,310	46,855
Interim claims and cost reconciliation payments claimed in incorrect quarters				9,732	9,732
Total	\$207,364	\$40,372	\$467,153	\$156,357	\$871,246

These errors totaling \$871,246 (Federal share) in questioned costs occurred because the State agency did not have adequate policies and procedures to monitor the SHS program and to ensure that all costs claimed met Federal requirements.

INACCURACIES IDENTIFIED FOR TWO AUDITED SCHOOL DISTRICTS

Of the \$1,759,194 (Federal share) in costs associated with SHS claimed for the Greeley and Aurora school districts for the period July 1, 2008, through June 30, 2009, \$247,736 (Federal share) was unallowable for Federal reimbursement. Specifically, for the Greeley and Aurora school districts, the State agency: (1) used an inadequately supported, and therefore incorrectly calculated, IEP student utilization ratio, (2) claimed costs for unqualified health care professionals, (3) claimed costs that should have been offset by other Federal revenue sources but were not, (4) claimed inaccurate transportation costs, and (5) claimed costs based on inaccurately coded RMTS responses.

Incorrectly Calculated Individualized Education Plan Student Utilization Ratio

The IEP ratio is used in the calculation of allowable direct costs submitted for Federal reimbursement. Contrary to the provisions of Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (2 CFR pt. 225), Attachment A,

part (C)(1), which states that “[t]o be allowable under Federal awards, costs must meet the following general criteria: ... (j) Be adequately documented,” the Greeley and Aurora school districts did not document, and thus could not support, the data used to calculate the IEP ratio. Specifically, the Greeley school district did not correctly identify the total number of its Medicaid IEP students, and therefore did not properly calculate the costs it claimed for Federal reimbursement. In addition, the Aurora school district included one student twice in its count of the total number of Medicaid IEP students. Neither school district used complete and accurate records to support its calculations. Using the school districts’ records, we recalculated the correct numbers of Medicaid IEP students and determined that these two school districts received unallowable Federal reimbursement totaling \$144,244 (\$143,755 for the Greeley school district and \$489 for the Aurora school district).

Unqualified Health Care Professionals

The Colorado State Plan Amendment, Attachment 3.1-A, section 4b.(I)A, defines a qualified health care professional as “... an individual who is registered, certified or licensed by the Department of Regulatory Agencies as a health care professional and who acts within the profession’s scope of practice.” We reviewed the licenses for 133 individuals designated as health care professionals in the Greeley and Aurora school districts. Although the Aurora school district had documentation supporting that all 81 of its health care professionals were properly registered, certified, or licensed, the Greeley school district did not have the proper supporting documentation for 6 of the 52 individuals it had designated as health care professionals. The six individuals were associated with the following categories of health care professionals:

- **Audiologist:** The State Plan Amendment states that a qualified audiologist will possess “... a current Certificate of Clinical Competence (CCC), certification from the American Speech-Language-Hearing Association (ASHA) or licensure from the Colorado Department of Regulatory Agencies.” We determined that one audiologist in the Greeley school district did not possess the CCC or licensure from the Colorado Department of Regulatory Agencies.
- **Occupational Therapist:** The State Plan Amendment states that a qualified occupational therapist will be “... certified by the National Board for Certification in Occupational Therapy...” We determined that one occupational therapist in the Greeley school district was not certified by the National Board for Certification in Occupational Therapy.
- **Psychologist:** The State Plan Amendment states that a qualified psychologist will have an education at “Doctoral level.” We determined that three psychologists in the Greeley school district did not have their doctorates.
- **Speech Language Pathologist:** The State Plan Amendment states that a qualified speech language pathologist will possess “... a current Certificate of Clinical Competence (CCC) certification from the American Speech-Language-Hearing Association (ASHA).” We determined that one speech language pathologist in the Greeley school district did not possess the CCC.

The six individuals incorrectly classified as qualified health care professionals, did not have the proper registration, certification, or license for our entire audit period. Accordingly, the Greeley school district received unallowable Federal reimbursement totaling \$24,679 for these eight individuals.

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

According to 2 CFR pt. 225, Attachment A, part (C)(1)(j), costs must “[b]e adequately documented.” In addition, 2 CFR pt. 225, Attachment A, part (C)(3)(c), states in part that “[a]ny cost allocable to a particular Federal award or cost objective under the principles provided for in 2 CFR part 225 may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.”

The Greeley school district received unallowable Federal reimbursement totaling \$12,263 in personnel costs for employees whose salaries and benefits were partially funded by the U.S. Department of Education. The school district should have allocated these personnel costs appropriately between the various Federal programs that were funding those costs.

Inaccurate Transportation Costs

Contrary to 2 CFR pt. 225, Attachment A, part (C)(1)(j), which states that costs must “[b]e adequately documented,” the Greeley and Aurora school districts provided inaccurate transportation costs, which the Contractor then used when calculating the annual actual costs. These two school districts could not provide documentation to support all of the transportation expenditures reported to the Contractor. The combined effect of these errors, detailed in the following paragraphs, was that the Greeley and Aurora school districts received unallowable Federal reimbursement totaling \$10,439.

Bus Driver Salaries and Benefits

The Greeley school district did not document, and thus could not fully support, some of the bus driver salaries and benefits expenditures claimed. Specifically, the Greeley school district used reports provided by its transportation department to claim expenditures that exceeded the amounts supported by the school district’s accounting system. Using the adequately supported amounts, we recalculated these expenditures and determined that the Greeley school district received unallowable Federal reimbursement totaling \$699.

Fuel and Maintenance

The Aurora school district did not document, and thus could not fully support, some of the fuel and maintenance expenditures claimed. Specifically, the Aurora school district used reports provided by its transportation department to claim expenditures that exceeded the amounts supported by the school district’s vehicle tracking system. Using the adequately supported amounts, we recalculated these expenditures and determined that the Aurora school district received unallowable Federal reimbursement totaling \$9,740.

Inaccurately Coded Random Moment Time Study Responses

According to 2 CFR pt. 225, Attachment A, part (C)(1)(j), costs must “[b]e adequately documented.”

Because a statewide RMTS was calculated using responses from all participating Colorado school districts, errors in the RMTS allocation methodology affected the amounts claimed on the annual cost reports for all Colorado school districts. Therefore, we audited all RMTS responses completed by employees of all 77 participating school districts in Colorado and determined that the State agency’s central coding process overlooked some of the responses associated with one of the four questions within the RMTS process. Consequently, the RMTS responses were not properly coded and were not always adequately documented so as to support the activities performed. We used the audited responses to recalculate the claims for all districts.

Of the 9,000 RMTS responses that were completed by employees of all 77 participating school districts in Colorado and that we reviewed, 188 were inaccurately coded and were subsequently used in the statewide RMTS calculation. The most common error in these inaccurately coded responses involved random moments that were coded to “IEP Direct Medical Services,” a Medicaid reimbursable code, even though in each case the response indicated that the student receiving direct medical services did not have an IEP. For example, one of the four questions within the RMTS process asked, “[w]ere you working with a student during the sampled moment?” The respondent answered “[y]es, I was working with a student without an IEP.” The CMS-approved *RMTS Implementation Guide* requires that the IEP Direct Medical Services code “... be used to record time spent ... only if it is included as part of an IEP ... and documented in the IEP.” Therefore, this moment should have been coded to “Non-IEP Direct Medical Services,” because the student receiving direct medical services did not have an IEP.

We reclassified the 188 RMTS coding errors and recalculated the annual cost reports for the participating school districts accordingly. Because of the RMTS coding errors, the Greeley and Aurora school Districts received unallowable Federal reimbursement totaling \$56,111 (\$25,968 for the Greeley school district and \$30,143 for the Aurora school district).⁴

INACCURACIES IDENTIFIED FOR OTHER SCHOOL DISTRICTS

Inaccurately Coded Random Moment Time Study Responses

As mentioned above, errors in the RMTS allocation methodology affected the amounts claimed on the annual cost reports for all participating Colorado school districts. We reclassified the 188 RMTS coding errors mentioned above and recalculated the annual costs reports for the other 75

⁴ We discuss findings associated with inaccurately coded RMTS responses for all other participating school districts in Colorado in the next section of this report.

participating Colorado school districts accordingly. Because of the RMTS coding errors, the other 75 participating Colorado school districts received unallowable Federal reimbursement totaling \$428,608.

School Districts Not Participating in Annual Cost Reconciliation

Contrary to the State Plan Amendment, Attachment 4.19-B, which states that “[e]ach provider will complete an annual cost report for all school health services delivered,” two school districts in Colorado submitted interim claims for Federal reimbursement but did not submit annual actual costs for reconciliation. As a result, these two school districts received unallowable Federal reimbursement totaling \$38,545 (\$38,160 for Prowers County School District #2 and \$385 for Bent County School District #2).

INACCURACIES IDENTIFIED FOR THE STATE AGENCY

State Agency Recovery Act Questioned Costs Associated With Other Findings

For the SHS program, the State agency used a CPE funding mechanism, through which each participating school district certified the State agency’s share of the Medicaid expenditures. In turn, the 77 participating school districts received Federal funding from the State agency equal to the approved FMAP rate. Prior to implementation of the Recovery Act, the FMAP rate was 50 percent, and the State agency distributed all of those funds to the participating school districts. The Recovery Act authorized the State agency to claim costs at the temporarily enhanced FMAP rate for the recession adjustment period.⁵ However, because the State agency used a CPE funding mechanism, CMS’s practices in effect at the time did not require that the difference between (1) the FMAP rate prior to implementation of the Recovery Act and (2) the temporarily enhanced FMAP rate be distributed to the participating school districts. The State agency retained the additional funding it received from the temporarily enhanced FMAP rate provided by the Recovery Act. Consequently, the State agency received unallowable Federal reimbursement totaling \$146,625 that was associated with the findings discussed earlier in this report and retained at the State agency level. Table 2 on the following page itemizes these findings and the corresponding amounts of Federal funds that were unallowably retained at the State agency level.

⁵ For this audit period, the temporarily enhanced FMAP rate varied between 58.78 percent and 61.59 percent.

Table 2: State Agency Recovery Act Questioned Costs Associated With Other Findings

IEP student utilization ratio	\$28,246
Unqualified health care professionals	4,829
Claimed costs that should have been offset by other Federal revenue sources but were not	2,400
Inaccurate transportation costs	
Bus driver salaries and benefits	137
Fuel and maintenance	2,236
Inaccurately coded RMTS responses	100,467
School districts not participating in annual cost reconciliation	8,310
Total	\$146,625

Interim Claims and Cost Reconciliation Payments Claimed in Incorrect Quarters

The CMS *State Medicaid Manual* states: “When reporting expenditures for Federal reimbursement, apply the FMAP rate in effect at the time the expenditure was recorded in your accounting system.” CMS central and regional office officials informed us that because Colorado’s SHS program used CPEs for funding purposes, interim payments should have been claimed on the CMS-64 report in the quarter in which the State agency made each interim payment to a particular school district. By contrast, cost reconciliation payments should have been claimed on the CMS-64 report in the quarter in which the service was provided. Contrary to these guidelines, the State agency did not apply the FMAP rate in effect at the time the State agency processed the interim payments. In addition, the cost reconciliation payments were not claimed in the quarter in which the service was provided, resulting in the State agency claiming costs using an incorrect FMAP rate. As a result of these errors, the State agency received unallowable Federal reimbursement totaling \$9,732.

SCHOOL HEALTH SERVICES CLAIMING PROCESS NOT ADEQUATELY MONITORED

The State agency did not have adequate policies and procedures to monitor the SHS program and to ensure that all costs claimed met Federal requirements. The State agency and the Contractor had quality review processes in place; however, these processes were insufficient to ensure that all costs claimed met Federal requirements.

EFFECT OF UNALLOWABLE CLAIMS PAID

Because the State agency did not correctly calculate and claim only allowable costs for the SHS program, the school districts and the State agency received unallowable Federal reimbursement totaling \$871,246 (Federal share) in questioned costs.

The two school districts we reviewed received a total of \$247,736 (Federal share) for unallowable costs. We recalculated the annual cost reports using the corrected expenditures, IEP

ratios, and statewide RMTS percentages. The Greeley school district was reimbursed \$207,364 (Federal share) and the Aurora school district was reimbursed \$40,372 (Federal share) for unallowable costs.

In addition, errors identified during our review of the audited (Greeley and Aurora) school districts impacted not only these school districts, but also other participating Colorado school districts and the State agency. As a result of these errors, other participating Colorado school districts received a total of \$467,153 (Federal share) and the State agency received a total of \$156,357 (Federal share) in unallowable Medicaid payments.

On the basis of the findings discussed in this report, we are questioning a total of \$871,246 (Federal share) in unallowable SHS expenditures.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$871,246 (\$207,364 for the Greeley school district, \$40,372 for the Aurora school district, \$467,153 for all other participating school districts, and \$156,357 for the State agency) to the Federal Government for unallowable SHS expenditures; and
- strengthen policies and procedures to ensure that SHS expenditures are reasonable and accurate, and are properly claimed and documented, by reviewing RMTS responses, direct medical costs, other costs, health care professionals' qualifications, and all calculations used in the annual cost reconciliation for a sample of school districts each year.

AUDITEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State agency disagreed with our first recommendation and agreed with our second recommendation. The State agency described the strengthened policies and procedures that it said it has developed and implemented. The State agency said that our review did not take those program improvements into account and added that it had already addressed many of the issues we had identified in our review.

A summary of the State agency's specific points of disagreement and our response follows. Except as noted below, nothing in the State agency's comments caused us to change our findings or the associated questioned costs that we convey in our first recommendation. While we note the information the State agency provided regarding its strengthened policies and procedures and its enhanced training, and credit the State agency accordingly, we also note that our audit period encompassed costs claimed for SHS provided during the period July 1, 2008, through June 30, 2009. For half of the findings in this report, the State agency's comments provided no information to support its disagreement other than descriptions of additional training, policy guidance, and program reviews. These measures, which enhance the State agency's agreement with our second recommendation, are commendable but do not invalidate our findings or the

questioned costs (other than the adjustments to findings related to the unqualified health care professionals and the RMTS responses) that form the basis of our first recommendation.

The State agency's comments appear in their entirety as the Appendix.

Incorrectly Calculated Individualized Education Plan Student Utilization Ratio for the Two Audited School Districts

Auditee Comments

The State agency disagreed with this finding and said that it began providing annual training to school districts, beginning in August 2008, that specifically addressed the requirement that all supporting documentation for student counts (i.e., the number of Medicaid IEP students) reported on the annual cost reports reconcile to school district records and be kept on file at the school district level for a minimum of 6 years. The State agency added that beginning in the autumn of 2010 it implemented a process for conducting program reviews and cost report audits.

Office of Inspector General Response

The State agency's comments regarding this finding provided no information to support its disagreement other than descriptions of additional training, policy guidance, and program reviews. Specifically, the State agency did not address our finding that both school districts did not use complete and accurate information to support the calculations. Accordingly, we maintain that this finding and the associated questioned costs remain valid.

Unqualified Health Care Professionals in the Two Audited School Districts

Auditee Comments

The State agency disagreed with this finding and said that after receiving our draft report it located and provided to us additional documentation on licensure and certification of three health care professionals. (The State agency subsequently clarified that it had provided documentation for only two health care professionals.) The State agency also said that it began providing annual training to school districts, beginning in August 2008, that specifically addressed the requirement for valid and current licensure for all school health service providers. The State agency added that beginning in the autumn of 2010 it implemented a process for conducting program reviews and cost report audits.

Office of Inspector General Response

After reviewing the State agency's comments and the additional documentation it provided regarding two of the eight health care professionals whom we had identified as unqualified in our draft report, we accepted that documentation and adjusted this finding, the associated questioned costs, and the related recommendation accordingly. Although the State agency indicated that it disagreed with all of the questioned costs associated with this finding, it provided no additional

documentation or information regarding the other six unqualified health care professionals. We are therefore continuing to question the costs associated with those six individuals.

Claimed Costs in the Two Audited School Districts That Should Have Been Offset by Other Federal Revenue Sources But Were Not

Auditee Comments

The State agency disagreed with this finding and said that it began providing annual training to school districts, beginning in August 2008, that specifically addressed the requirement that all Federal awards be removed from cost reporting forms. The State agency added that beginning in the autumn of 2010 it implemented a process for conducting program reviews and cost report audits.

Office of Inspector General Response

The State agency's comments regarding this finding provided no information to support its disagreement other than descriptions of additional training, policy guidance, and program reviews. Accordingly, we maintain that this finding and the associated questioned costs remain valid.

Inaccurate Transportation Costs in the Two Audited School Districts

Auditee Comments

The State agency disagreed with both aspects of this finding: bus driver salaries and benefits and fuel and maintenance costs. The State agency said that it began providing annual training to school districts, beginning in August 2008, that specifically addressed the requirement that all supporting documentation for costs reported on the annual cost reports reconcile to school district financial systems and be kept on file at the school district level for a minimum of 6 years. The State agency added that beginning in the autumn of 2010 it implemented a process for conducting program reviews and cost report audits.

Office of Inspector General Response

The State agency's comments regarding this finding provided no information to support its disagreement other than descriptions of additional training, policy guidance, and program reviews. Accordingly, we maintain that this finding and the associated questioned costs remain valid.

Inaccurately Coded Random Moment Time Study Responses in the Two Audited School Districts and for Other Participating Colorado School Districts

Auditee Comments

The State agency disagreed with this finding and said that 116 out of the 206 RMTS responses that we had identified as inaccurately coded had in fact been coded in a manner consistent with CMS's guidance. Specifically:

- The State agency took note of our report's comment that the most common error (55 of the 116, according to the State agency) in these inaccurately coded responses involved random moments that were coded to "IEP Direct Medical Services," a Medicaid reimbursable code, even though in each case the response indicated that the student receiving direct medical services did not have an IEP. The State agency said that it was using an RMTS coding instructions approved by CMS and that random moments were coded accordingly. The State agency also said that there is no language in the RMTS coding instructions that states that a student must have an IEP or Individualized Family Service Plan in order for the random moment to be coded to "IEP Direct Medical Services."
- The State agency also said that for 27 of the 116 RMTS responses that we had identified as inaccurately coded, there was insufficient detail in the responses to justify our reclassification of them: "The coder made the best decision possible given the coder instructions and the information provided by the sampled provider."
- Further, the State agency said that 18 of the 116 RMTS responses were related to annual or triennial IEP reviews and, according to the RMTS coding instructions, should have been coded to non-allowable codes (i.e., non-Medicaid activities) rather than being reclassified (as we had done, during our fieldwork) to case management codes, which are allowable Medicaid codes.
- Finally, the State agency said that it disagreed with our reclassification of 16 other RMTS responses that did not fall into any of the three categories discussed above.

The State agency additionally commented, with respect to all of our findings related to RMTS responses, that CMS approved both the time study used during the 2008 – 2009 school year (our audit period) and subsequent changes that the State agency made to its own time study implementation guidelines to school districts. The State agency added that it believes that our findings "... have been resolved by the updated time study implementation guide, coding structure, and coding instructions.... The [State agency] believes that this process should ensure that coding errors do not take place for future time study periods."

Office of Inspector General Response

Although the State agency indicated that it disagreed with all of the questioned costs associated with this finding, it provided no additional documentation or information regarding 90 of the 206

RMTS responses that we had identified as inaccurately coded and for which we continue to question the associated costs. With respect to the 116 RMTS responses for which the State agency identified specific points of disagreement, we make the following points:

- For the 55 RMTS responses that were coded to “IEP Direct Medical Services, nothing in the State agency’s comments caused us to change this finding or the associated questioned costs. The State agency is incorrect in stating that CMS approved the RMTS coding manual as that document is internal to the State agency and CMS does not approve internal documents. Subsequent to its response, the State agency provided CMS’s comments on the State Plan Amendment as it related to the SHS program. We note that in its comments, CMS told the State agency that the “Direct Medical Services activity code must be sub-divided into two separate codes: IEP Related Direct Medical Services and Non-IEP Related Direct Medical Services.” The State agency responded that it would separate the two codes and in fact, the State agency’s internal RMTS coding instructions provide different codes for direct services covered as an IEP service and direct medical services not covered as an IEP service. These instructions indicate that direct medical services must differentiate services provided to a student with an IEP from those provided to a student without an IEP.
- For the 27 RMTS responses that, according to the State agency, had insufficient detail as to justify our reclassification, we note that because the responses were vaguely and ambiguously worded, the costs claimed on the basis of those responses were not adequately documented pursuant to 2 CFR pt. 225, Attachment A, part (C)(1)(j). Moreover, the documentation for these claimed costs did not conform to the guidelines contained in the CMS-approved *RMTS Implementation Guide*, which states that “documentation of sampled moments must be sufficient to provide answers to four questions needed for accurate coding.” An insufficient level of detail or clarity in an RMTS response is to be regarded, not as the basis to accept the costs claimed on the basis of that response, but as the basis to question those costs.
- For the 18 RMTS responses that were related to annual or triennial IEP reviews, we agree with the State agency’s comments and have adjusted the finding to show that 188 RMTS responses were inaccurately coded and were subsequently used in the statewide RMTS calculation. We also adjusted the questioned costs and the recommendation. Because we changed the RMTS codes from services which were allowable for Medicaid reimbursement back to the original coding in which the services were not allowable for Medicaid reimbursement—the course of action that the State agency requested in its comments—the questioned costs increased from those costs shown in the draft report. These increases appear in the two audited school districts, in other participating school districts, and the State agency.
- For the other 16 RMTS responses, the State agency provided no specific information that would allow us to re-evaluate our reclassifications or even to identify which particular responses it had in mind.

The State agency additionally commented on CMS approval of the time study and the subsequent changes that the State agency made to its time study implementation guidelines, and stated that the issues we identified have now been resolved and that coding errors should not take place in future time study periods. However, the fact that the State agency has modified its program, with CMS approval, and has instituted the policy and procedural changes discussed earlier, does not eliminate or lessen the fact of the findings, and their causes, that were in existence during our audit period and that we identified during our review.

In light of these points, we maintain that all of our findings related to the 188 inaccurately coded RMTS responses, as well as the associated questioned costs, remain valid.

Other Colorado School Districts Not Participating in Annual Cost Reconciliation

Auditee Comments

The State agency disagreed with this finding and said that the interim payments (by Prowers County School District #2 and Bent County School District #2) had been made in a timely manner and that it reserved the right to reopen the cost reports for reconciliation.

Office of Inspector General Response

Nothing in the State agency's comments caused us to change this finding or the associated questioned costs. Neither of these school districts completed or submitted an annual cost report, which includes a certification of funds statement certifying the provider's actual, incurred costs/expenditures. Moreover, the State agency did not complete the cost reconciliation process. According to the State Plan Amendment, Attachment 4.19-B, section H, the cost reconciliation process must be completed within 24 months of the end of the reporting period covered by the State agency's annual SHS cost report. The State agency, in its comments, did not provide support that cost reports for the two school districts exist; in the absence of those cost reports, the State agency would be unable to reopen them for reconciliation. Therefore, we maintain that this finding and the associated questioned costs remain valid.

Interim Claims and Cost Reconciliation Payments Claimed by the State Agency in Incorrect Quarters

Auditee Comments

With respect to our finding that the State agency made interim claims and claimed cost reconciliation payments in incorrect quarters, the State agency said that we based this finding on an examination of claims data and payment data in the State agency's Medicaid Management Information System (MMIS), instead of relying on the Colorado Financial Reporting System (COFRS), which is the State's accounting system. The State agency added that the costs reported on the CMS-64 were based on the paid date shown in COFRS, which is the date that the State actually incurred the expenditure.

With respect to our finding that the State agency did not apply the FMAP rate in effect at the time the State agency processed the interim payments, the State agency said that for reporting purposes, it divides the annual cost reconciliation payment into four quarters. The State agency added that it would be burdensome and costly to allocate the cost reconciliation in the quarter in which the service was provided.

Office of Inspector General Response

Nothing in the State agency's comments caused us to change this finding or the associated questioned costs. With respect to the State agency's comments on our finding that it made interim claims and claimed cost reconciliation payments in incorrect quarters, we analyzed both the payment data from the COFRS and the claim data from the MMIS in developing this finding. Moreover, we understand that the State agency included costs on the CMS-64 based on the paid date shown in COFRS, which is the date the State agency incurred the interim payment expenditure. However, the State agency used funds provided by the participating school districts to supply the non-Federal share of the cost reconciliation payments. Therefore, when reporting expenditures for Federal reimbursement associated with the cost reconciliation settlement, the State agency was required to apply the FMAP rate in effect at the time the school district recorded the expenditure (i.e., at the time the service was provided). The State agency's method of dividing the annual cost reconciliation payment into four quarters did not ensure that the cost reconciliation payments were recorded in the quarter in which the services were provided as required. We maintain that our finding that the State agency claimed costs using an incorrect FMAP rate remains valid.

OTHER MATTER

Interviews with Aurora and Greeley school district employees indicated a significant level of confusion and uncertainty regarding the cost category of "other direct costs." State agency guidance explains what costs may qualify as other direct costs, but it may not provide sufficiently detailed guidance as to how school districts should identify and claim those costs. As a result, other direct costs claimed by these two school districts may not have conformed to the requirements of the State Plan Amendment.

The State Plan Amendment, Attachment 4.19-B, states: "Other direct costs include costs directly related to the approved direct services personnel for the delivery of medical services, such as medically-related purchased services, supplies and materials."

During our audit period, the two audited school districts claimed \$158,670 (\$142,547 for the Aurora school district and \$16,123 for the Greeley school district) in other direct costs. These two school districts used different methodologies to identify and claim these costs:

- The Greeley school district used a methodology whereby it reduced certain designated other direct costs by 25 percent before claiming reimbursement for those costs. School district officials told us that they took this step in order to reduce the potential for overclaiming. We did no sampling or testing of these costs for the Greeley school district.

- The Aurora school district claimed other direct costs that may not have qualified as such pursuant to the State Plan Amendment. We judgmentally selected 10 line items and requested detailed supporting documentation from the Aurora school district. Of the 10 lines reviewed, 8 could not be directly tied to a direct medical service and may therefore not have qualified as other direct costs. The items claimed included cell phone charges, travel expenses, various office supplies, dues for a professional organization, conference attendance, copy paper, and printing. The two other line items may have been related to personal care services and included shampoo, swimming, crafts, and food.

Because our review focused on direct medical service costs including specialized transportation costs, we were not able to review other direct costs in detail. We are, however, providing this information as an Other Matter because it may be worthwhile for the State agency to study this matter at its own level and thereafter provide additional guidance and training associated with the identification and claiming of other direct costs.

APPENDIX

APPENDIX: AUDITEE COMMENTS


COLORADO DEPARTMENT OF HEALTH CARE POLICY & FINANCING

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John W. Hickenlooper, Governor • Susan E. Birch MBA, BSN, RN, Executive Director

December 5, 2011

Mr. Patrick J. Cogley
 Regional Inspector General for Audit Services
 Department of Health and Human Services
 Office of Inspector General
 Office of Audit Services
 Region VII
 601 E 12th St
 Kansas City, MO 64106

RE: Report Number A-07-11-04185

Dear Mr. Cogley:

Enclosed is the Department of Health Care Policy and Financing's (Department's) response to the *Review of Colorado Direct Medical and Specialized Transportation Costs for the Medicaid School Health Services Program for State Fiscal Year 2008-09* conducted by the Office of Inspector General (OIG). The audit report includes a recommendation that \$748,537 be refunded to the federal government. The Department disagrees with this recommendation and notes that federal matching funds were claimed for allowable Medicaid services under the approved State Plan.

The Department worked tirelessly and in good faith with the Centers for Medicare and Medicaid Services (CMS) between July 26, 2005, when State Plan Amendment (SPA) 05-006 was submitted for CMS review, and July 23, 2008, when the SPA was approved, to design a program that is compliant with federal regulations and includes a process for reconciling reimbursement to school district costs.

Since the approval of SPA 05-006 on July 23, 2008, the Department has developed and strengthened policies and procedures to ensure that expenditures are reasonable, accurate, properly claimed, and documented. The OIG's review does not capture the substantial improvements that have occurred in the past three years, and many of the identified issues have already been addressed by the Department through training sessions, instruction manuals, and program and financial reviews.

Sincerely,

Susan E. Birch, MBA, BSN, RN
 Executive Director

Enclosure



**Response to Review of Colorado Direct Medical Service and
Specialized Transportation Costs for the Medicaid School
Health Services Program for State Fiscal Year 2008-09**

Office of Inspector General Report Number A-07-11-04185

Department of Health Care Policy and Financing

Recommendation 1: Refund \$748,537 (\$205,721 for the Weld County School District #6, \$26,453 for the Adams Arapahoe School District #28J, \$381,254 for all other school districts, and \$135,109 for the State Agency) to the Federal Government for unallowable SHS expenditures.

Department Response: The Department of Health Care Policy and Financing (Department) disagrees. The Department notes that federal matching funds were claimed for allowable Medicaid services under the approved State Plan. Many of the issues identified by the Office of Inspector General (OIG) in its report have already been addressed by the Department and participating school districts through training sessions and materials, instruction manuals, and program reviews.

The Department received approval for the school health services (SHS) program State Plan Amendment (SPA) 05-006, which included a process for reconciling reimbursement to school district costs, on July 23, 2008. The Department, in conjunction with the Centers for Medicare and Medicaid Services (CMS), worked tirelessly and in good faith between July 26, 2005, when the original SPA was submitted for CMS review, and July 23, 2008, when it was approved, to design a SHS program that is compliant with federal regulations. Only after July 23, 2008 could the Department begin to implement the newly designed program. The OIG audit began in July 2010 and the time period for the review was Fiscal Year (FY) 2008-09 (July 1, 2008 through June 30, 2009). The year under review was the first year of the new SHS program.

Since the approval of the SHS program on July 23, 2008, the Department has developed policies and procedures to ensure that SHS expenditures are reasonable, accurate, properly claimed, and documented. These policies and procedures have been strengthened over the past three years. The Department holds annual trainings, quarterly stakeholder meetings, performs desk and on-site program and financial reviews of cost reports and Random Moment Time Study (RMTS) rosters, publishes a comprehensive program manual and quarterly newsletters, and provides additional web-ex or one-on-one training, as needed and requested by providers. The OIG's review does not capture these substantial improvements in processes and procedures that have occurred.

There are nine different issues identified in the OIG's report that cumulate into the amount calculated in Recommendation 1. The Department addresses each of the nine issues individually, below.

Issue 1: Incorrectly Calculated Individualized Education Plan Student Utilization Ratio

Amounts: Weld County School District #6 - \$143,755
 Adams Arapahoe School District #28J - \$489
 State - \$28,246
 Total - \$172,490

Department of Health Care Policy and Financing

Department Response: The Department disagrees and notes that the federal matching funds claimed were for Medicaid allowable services and that processes and procedures have been strengthened.

Training provided by the Department to school districts annually beginning in August 2008 specifically addressed the requirement that all supporting documentation for student counts reported on the annual cost report reconcile to district lists and be kept on file at the school district for a minimum of 6 years. Guidance regarding the requirements to maintain documentation used to complete the annual cost report is also available to school districts in the Department's SHS Program Manual.

In addition, the Department has implemented a process for conducting program reviews and cost report audits that will identify any issues related to inconsistencies with supporting documentation or missing supporting documentation. One of the specific areas of review is the documentation to support the Individualized Education Program (IEP) Student Utilization Ratio. Such program reviews began in Fall 2010.

Issue 2: Unqualified Health Care Professionals

Amounts: Weld County School District #6 - \$28,240
State - \$5,526
Total - \$33,766

Department Response: The Department disagrees. Documentation for three additional Speech Language Pathologists was located and sent to the OIG on October 26, 2011 after the draft report was received. Moreover, the federal matching funds claimed were for Medicaid allowable services and processes and procedures have been strengthened.

Training provided by the Department to school districts annually beginning in August 2008 specifically addressed the requirement of valid and current licensure for all school health service providers. Guidance regarding the requirements for qualified providers is also available to school districts in the Department's SHS Program Manual.

Additionally, the Department has implemented a process for conducting program reviews and cost report audits that will identify any issues related to inconsistencies with supporting documentation or missing supporting documentation. One of the specific areas of review is the licensure and qualification documentation for providers on the Random Moment Time Study (RMTS) roster. Such program reviews began in Fall 2010.

Department of Health Care Policy and Financing

Issue 3: Claimed Costs That Should Have Been Offset by Other Federal Revenue Sources but Were Not

Amounts: Weld County School District #6 - \$12,263
 State - \$2,400
 Total - \$14,663

Department Response: The Department disagrees and notes that the federal matching funds claimed were for Medicaid allowable services and that processes and procedures have been strengthened.

Training provided by the Department to school districts annually beginning in August 2008 specifically addressed the requirement that all federal awards be removed from cost reporting forms. Guidance regarding the federal award requirements is also available to school districts in the Department's SHS Program Manual.

Additionally, the Department has implemented a process for conducting program reviews and cost report audits that will identify any issues related to costs allocable to federal awards before the Department submits a request for reimbursement from the federal government. One area of specific review is financial records for a sample of salary and benefit expenses included on the cost report. Such program reviews began in Fall 2010.

Issue 4: Inaccurate Transportation Costs – Bus Driver Salaries and Benefits

Amounts: Weld County School District #6 - \$699
 State - \$137
 Total - \$836

Department Response: The Department disagrees and notes that the federal matching funds claimed were for Medicaid allowable services and that processes and procedures have been strengthened.

Training provided by the Department to school districts annually beginning in August 2008 specifically addressed the requirement that all supporting documentation for costs reported on the annual cost report reconcile to district financial systems and be kept on file at the school district for a minimum of 6 years. Guidance regarding the requirements to maintain documentation used to complete the annual cost report is also available to school districts in the Department's SHS Program Manual.

Additionally, the Department has implemented a process for conducting program reviews and cost report audits that will identify any issues related to inconsistencies with supporting documentation or missing supporting documentation. One area of specific review is financial records for a sample of salary and benefit expenses included on the cost report. Such program reviews began in Fall 2010.

Department of Health Care Policy and Financing

Issue 5: Inaccurate Transportation Costs – Fuel and Maintenance

Amounts: Adams Arapahoe School District #28J - \$9,740
 State - \$2,236
 Total - \$11,976

Department Response: The Department disagrees and notes that the federal matching funds claimed were for Medicaid allowable services and that processes and procedures have been strengthened.

Training provided by the Department to school districts annually beginning in August 2008 specifically addressed the requirement that all supporting documentation for costs reported on the annual cost report reconcile to district financial systems and be kept on file at the school district for a minimum of 6 years. Guidance regarding the requirements to maintain documentation used to complete the annual cost report is also available to school districts in the Department's SHS Program Manual.

Additionally, the Department has implemented a process for conducting program reviews and cost report audits that will identify any issues related to inconsistencies with supporting documentation or missing supporting documentation. One area of specific review is financial records for a sample of transportation expenses included on the cost report. Such program reviews began in Fall 2010.

Issue 6: Inaccurately Coded Random Moment Time Study Responses

Amounts: Greely - \$20,764
 Adams Arapahoe School District #28J - \$16,224
 Other Districts - \$342,709
 State - \$78,522
 Total - \$458,219

Department Response: The Department disagrees. The Department was utilizing a RMTS coding manual approved by CMS and moments were coded accordingly. Summarized responses are below for each category of coding issue identified by OIG.

Document Reference: Colorado School Health Services Program Random Moment Time Study Coder Instructions FY2008, dated May 18, 2008.

Issue A: Use of the answer to RMTS Question 4 to code direct service moments

On page 1 of the above referenced document, there is a list of steps that the coder should have followed in order to code RMTS moments accurately. The document states:

Department of Health Care Policy and Financing

“When coding there are a few key decision points that must be considered:

1. If the answer to Question 1 is ‘no,’ the coder will disregard the other questions.
2. If the answer to Question 1 is ‘Yes, I was working’ then the coder must determine which code applied based on Questions 2 and 3.
3. The answer to Question 4 should only be considered when deciding between Targeted Case Management and case management for the Non-Target Population.”

The coder instructions clearly state that the answer to Question 4 should only be used when deciding between coding for case management for the targeted or non-targeted population. However, as stated in the OIG’s report, the most common error identified in the 206 moments that were subsequently re-categorized by the OIG related to the use of Question 4 to code direct service moments. The response to Question 4 was used by the OIG to change the coding of direct service moments when the response indicated the student receiving direct medical services did not have an IEP.

There is no language in the coder instructions that states that a student must have an IEP or Individualized Family Service Plan (IFSP) in order to code the moment as 1210 (IEP Direct Medical Services). According to page 4 of the coder instructions, if the moment response refers to time spent administering/monitoring medication, it should be coded as 1210 “...only if it is included as part of an IEP or IFSP and documented in the IEP or IFSP.” There is no requirement of an IEP or IFSP for responses related to activities other than administering/monitoring medication.

Given that the response to Question 4 should not be used to code direct service moments and that there is no language in the coder instructions that requirement of an IEP or IFSP applies to non-medication administration/monitoring activities, the OIG’s findings related to this point are incorrect.

Total Moments Impacted: 55

Issue B: Insufficient Detail

There are a number of moments for which the original coding decision was changed by the OIG. However, there is insufficient detail included in the moment responses to justify the change in coding. For every coding decision, the coder utilized the coder instruction document referenced above. The coder made the best decision possible given the coder instructions and the information provided by the sampled provider.

Total Moments Impacted: 27

Department of Health Care Policy and Financing

Issue C: Annual/Triennial Review

Beginning on page 5 of the above referenced document is a description of what qualified as case management, whether for the targeted population or the non-targeted population. The description of activities that qualify as case management continues to page 7 of the document. Then, there is a list of activities that are not allowable as case management:

“SHS Program Targeted Case Management activities do not include:

Activities related to the development, implementation, annual review and triennial review of IEP documents that are the inherent responsibility of the Colorado Department of Education...”

There were a number of moments that were related to annual and/or triennial IEP reviews that were changed by the OIG to allowable case management codes. According to the coder instructions, those moments cannot be coded to case management. Instead, the moments were correctly originally coded to non-allowable codes.

Total Moments Impacted: 18

There are also 16 other moments that the Department disagrees with the coding change made by the OIG. Those moments do not fall into the three broad categories above. In total, there are 116 moments out of the 206 moments reclassified by OIG that the Department disagrees with the OIG in terms of coding in accordance with the coder instructions.

Additional Comments

The time study used during School Year 2008 – 09 (the time period under review) was approved by CMS on August 18, 2008.

Subsequently, in the summer of 2009, the Department chose to implement school-based Medicaid Administrative Claiming and updated the time study implementation guide and coding structure. The time study documentation was approved by CMS on June 23, 2010 (effective October 1, 2009). As a result of the changes to the coding structure of the time study, the coder instructions also changed. The Department believes that the issues identified by the OIG in its report have been resolved by the updated time study implementation guide, coding structure, and coder instructions. In accordance with the approved time study implementation guide:

“The State’s contractor randomly selects a 5% sample of coded responses which are submitted to HCPF each quarter for validation. The validation consists of reviewing the participant responses and the corresponding code assigned by the contractor to determine if the code was accurate. A representative of HCPF separately reviews the sub-sample of responses and coding to identify any disagreements with the coding staff. If a disagreement occurs HCPF and the

Department of Health Care Policy and Financing

coding staff discuss the discrepancies. After the discussion on coding, coding instructions would be modified to document those coding decisions so that they can be consistently applied in future quarters.”

The Department believes that this process ensures that the coding instructions are adhered to by the Department’s contractor. The Department also believes that this process should ensure that coding errors do not take place for future time study periods.

Issue 7: School Districts Not Participating in Annual Cost Reconciliation

Amounts: Prowers County School District #2 - \$38,160
 Bent County School District # 2 - \$385
 State - \$8,310
 Total - \$46,855

Department Response: The Department disagrees. These payments were for allowable services under the approved State Plan. Moreover, as interim payments were made in a timely fashion, the Department reserves the right to re-open the cost reports for these providers and perform the cost reconciliation.

Issue 8: Interim Claims and Costs Reconciliation Payments Claimed in Incorrect Quarters

Amounts: State - \$9,732
 Total - \$9,732

Department Response: The Department disagrees. As noted in the OIG’s audit findings, the CMS *State Medicaid Manual* states: “When reporting expenditures for Federal reimbursement, apply the FMAP rate in effect at the time the expenditure was recorded in your accounting system.” (Emphasis added.)

In this issue, the OIG asserts that two processes were incorrect. First, OIG asserts that the interim claims paid through the Medicaid Management Information System (MMIS) incorrectly drew \$7,859 in federal funds. OIG examined MMIS claims data and used the MMIS paid date to determine what Federal Medical Assistance Percentage (FMAP) should have been drawn. However, the Department’s reporting on the CMS-64 since it shifted to a cash basis on October 1, 2008 has been based upon the paid date in the Colorado Financial Reporting System (COFRS). COFRS is the state’s accounting system, not the MMIS. The MMIS paid date is programmed to equal the Tuesday following the MMIS financial cycle ending on Friday. The paid date in COFRS is the date that the state incurred the expenditure.

Secondly, the OIG asserts that \$1,873 in federal funds drawn was drawn incorrectly when the FY 2008-09 cost settlement payments were made. Cost settlement payments occur

Department of Health Care Policy and Financing

when actual costs are greater than interim payments. The Department cost settles for the previous fiscal year, approximately 9 months after the fiscal year ends. For purposes of calculating the FMAP match on the CMS-64, the Department divides the annual cost reconciliation payment into four quarters for reporting purposes. The OIG asserts that the Department should divide the cost reconciliation amounts across quarters based on claims volume to determine the enhanced match. The Department disagrees. Additionally, allocating the cost reconciliation as the OIG suggests would be administratively burdensome on the Department and would increase the Department's personnel costs.

Issue 9: Other Matter – Other Direct Costs

Amounts: None

Department Response: Agree. During the SPA approval process, the Department attempted to add a list of allowable other direct costs to the SPA in order to avoid any issues related to vague instruction. However, CMS asked the Department to remove any list of allowable items under other direct costs from the SPA and the Department complied. The Department is willing to discuss this further with CMS in order to establish clear instructions for school districts.

Recommendation 2: Strengthen policies and procedures to ensure that SHS expenditures are reasonable and accurate, and are properly claimed and documented, by reviewing RMTS response, direct medical costs, other costs, health care professionals' qualifications, and all calculations used in the annual cost reconciliation for a sample of school districts each year.

Department Response: Agree and implemented. Since the approval of the SHS program on July 23, 2008, the Department has developed policies and procedures to ensure that SHS expenditures are reasonable, accurate, properly claimed, and documented. These policies and procedures have been strengthened over the past three years. The Department holds annual trainings, quarterly stakeholder meetings, performs desk and on-site program and financial reviews of cost reports and RMTS rosters, publishes a comprehensive program manual and quarterly newsletters, and provides additional web-ex or one-on-one training, as needed and requested by providers.

As outlined in the SHS Program Manual, the Department conducts comprehensive reviews of the SHS program to ensure compliance with SHS rules and regulations and accurate reporting of financial costs and claims submissions.

These program reviews contain three components:

RMTS Reviews

Annual quality assurance reviews are performed on all RMTS rosters to ensure the cost pool lists (staff rosters) are complete and that each staff included in those rosters is in the appropriate staff cost pool.

Department of Health Care Policy and Financing

The Department also performs an annual targeted review of at least 50% of the RMTS staff cost pool lists. Districts selected for a targeted review must provide evidence of staff qualifications in the form of current certificates and licensures, as applicable, including effective dates and expiration dates.

Cost Report Reviews

Quality assurance reviews are performed on annual cost reports and quarterly financials submissions. These reviews ensure that submitted reports are complete, staff information is accurate, and reported costs are reasonable.

The Department also performs an annual targeted financial review on at least 50% of the cost reports submitted. Randomly selected entries on the cost report are reviewed and selected districts must provide financial documentation in support of those reported costs.

Financial documentation requested for the reviews includes, but is not limited to, the following:

- Original Receipts
- Remittance Statements
- Payroll Documentation
- Contracts

Sampled districts are required to provide documentation of actual costs (in dollars) for each selected entry. Policies regarding benefits, salary percentages, or other flat rates are not considered acceptable documentation. Documentation must come from district financial accounting or payroll systems.

MMIS Claims Reviews

Ongoing claims reviews are conducted on a quarterly basis to ensure appropriate billing practices. Areas of review include, but are not limited to, the following:

- Claimed/ Billed Rates
- Reimbursement Rates
- Dates of Service
- Coordination of Transportation Claims (with a direct medical or health-related Medicaid service by date of service)
- Procedure Codes and Modifiers

Onsite reviews are conducted for at least 25% of participating districts each year. For onsite reviews, a random sample of claims is selected from the MMIS claims database. Claims are selected by student-month, where one student-month consists of all claims for one student during one month of the fiscal year.

Sampled districts are required to provide internal records to support the selected claims including the following:

Department of Health Care Policy and Financing

- IEP/IFSP Effective on Date of Service (including Targeted Case Management care plan or health plan, if applicable)
- Attendance Record for the Date of Service
- Service Logs and/or Clinical Notes for the Date of Service
- Provider Qualifications

The Department believes that the program reviews now conducted annually address the recommendations provided by the OIG in this report. The Department will also continue to strengthen its policies and procedures, based on experience with the providers and with guidance from CMS, related to the review of documentation to support claims made for federal reimbursement. However, the Department feels that this audit report from the OIG undermines the progress that the Department and the providers have made since the approval of this program on July 23, 2008. The OIG's review does not capture the substantial improvements in processes and procedures that have occurred in the past three years.