

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ALABAMA CLAIMED MILLIONS IN
UNALLOWABLE SCHOOL-BASED
MEDICAID ADMINISTRATIVE COSTS**

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Inspector General**

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Office of Inspector General

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EXECUTIVE SUMMARY

Alabama claimed more than \$75 million (Federal financial participation) in unallowable school-based Medicaid administrative costs for a 3-year period.

WHY WE DID THIS REVIEW

In prior reviews of school-based and community-based administrative costs that States allocated to Medicaid using random moment sampling (RMS), we identified significant overpayments. As part of our Medicaid risk assessment, we noted that the Alabama Medicaid Agency (State agency) did not have an approved public assistance cost allocation plan (CAP). However, for Federal fiscal years (FFYs) 2010 through 2012, the State agency claimed school-based administrative costs, which are public assistance costs, totaling almost \$150.5 million (almost \$75.3 million Federal financial participation (FFP)). We conducted this audit because of the significant amount that the State agency claimed, the State agency's lack of an approved CAP, and our prior findings related to costs that States allocated to Medicaid using RMS.

OBJECTIVE

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

BACKGROUND

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

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

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

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

On its quarterly Medicaid expenditure reports for FFYs 2010 through 2012, the State agency claimed \$150,487,055 (\$75,274,946 FFP) for school-based administrative costs allocated to Medicaid using RMS.

WHAT WE FOUND

The State agency claimed school-based Medicaid administrative costs that were not in accordance with Federal requirements. It claimed these costs without submitting to DCA for review its CAP and certain amendments describing its RMS methodologies and, consequently, without having an approved CAP. Instead, the State agency claimed costs based on various versions of its implementation guides and plans that were being considered by and negotiated with CMS. In addition, the State agency used statistically invalid RMS in allocating costs to Medicaid, and it did not maintain adequate support to validate its sample results and related extrapolations. As a result, the \$150,487,055 (\$75,274,946 FFP) the State agency claimed in school-based Medicaid administrative costs for FFYs 2010 through 2012 was unallowable.

WHAT WE RECOMMEND

We recommend that the State agency:

- refund \$75,274,946 to the Federal Government;
- submit to DCA for review and approval its CAP and amendments describing its procedures for identifying, measuring, and allocating costs to Medicaid;
- ensure that its CAP addresses the statistical validity issues that we identified;
- implement policies and procedures to ensure that its RMS complies with Federal requirements for statistical validity;
- maintain adequate support, including all information necessary to reproduce and verify its sample results, for school-based administrative costs allocated to Medicaid; and
- review school-based Medicaid administrative costs claimed after our audit period and refund unallowable amounts.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency disagreed with our findings and generally disagreed with our recommendations. The State agency maintained that it had submitted for DCA approval “a number of CAP amendments” describing its cost allocation methodologies, that it used statistically valid RMS, and that its documentation provided more than adequate information to assess the statistical validity of its random moment time studies and claims for FFP.

OUR RESPONSE

We disagree with the State agency’s comments, and the State agency did not provide any additional documentation that warranted changing our findings. Therefore, our recommendations remain unchanged.

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INTRODUCTION

WHY WE DID THIS REVIEW

In prior reviews of school-based and community-based administrative costs that States allocated to Medicaid using random moment sampling (RMS), we identified significant overpayments.¹ As part of our Medicaid risk assessment, we noted that the Alabama Medicaid Agency (State agency) did not have an approved public assistance cost allocation plan (CAP). However, for Federal fiscal years (FFYs) 2010 through 2012, the State agency claimed school-based administrative costs, which are public assistance costs, totaling almost \$150.5 million (almost \$75.3 million Federal financial participation (FFP)). We conducted this audit because of the significant amount that the State agency claimed, the State agency's lack of an approved CAP, and our prior findings related to costs that States allocated to Medicaid using RMS.

OBJECTIVE

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

BACKGROUND

Medicaid Program

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

States can claim 50-percent FFP for the cost of certain Medicaid administrative activities that are necessary for the proper and efficient administration of the State plan (Social Security Act (the Act) § 1903(a)(7)). However, a State must claim FFP for administrative costs associated with a program only in accordance with its CAP approved by the cognizant Federal agency, the U.S. Department of Health and Human Services (HHS), Division of Cost Allocation (DCA).² If costs

¹ We conducted eight audits in four States. These audits resulted in more than \$24 million in questioned costs and \$78 million in costs that we set aside for CMS determination of allowable cost. Appendix A contains a list of related Office of Inspector General reports.

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

under a public assistance program are not claimed in accordance with the approved CAP, or if the State fails to promptly submit an amendment to its CAP when required, the costs improperly claimed will be disallowed (45 CFR § 95.519 and 45 CFR § 95.509(a)).

Medicaid Coverage of School-Based Administrative Costs

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

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

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

³ Section 1903(c) of the Act.

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

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

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

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

Alabama Medicaid Agency

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

Although the State agency is responsible for the proper and efficient administration of the Medicaid State plan, it used a contractor to support the implementation and operation of its MAC program. For FFYs 2010 through 2012, the contractor administered the MAC program, conducted RMS using random moment time studies (RMTS), and calculated Medicaid administrative costs.

The State agency claimed school-based Medicaid administrative costs according to procedures for identifying, measuring, and allocating costs as outlined in various versions of its implementation guides and plans being considered by and negotiated with CMS. Effective May 1, 2013, CMS conditionally approved the claiming plan entitled *Alabama School Based Medicaid Claiming Program*, which added RMS, subject to numerous conditions. The first condition was that the State agency submit to DCA an amendment to its CAP referencing the approved methodology. However, at the conclusion of our fieldwork on September 25, 2014, the State agency still had not submitted to DCA for review and approval its CAP and certain amendments.

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

On its quarterly Medicaid expenditure reports for FFYs 2010 through 2012, the State agency claimed \$150,487,055 (\$75,274,946 FFP) for school-based administrative costs allocated to Medicaid using RMS.

⁸ The State agency delegated responsibility for its school-based Medicaid Administrative Claiming (MAC) program to one local education agency, which hired a contractor to conduct the RMS and to prepare claim calculations.

HOW WE CONDUCTED THIS REVIEW

We limited our review to the \$150,487,055 (\$75,274,946 FFP) in school-based administrative costs allocated to Medicaid using quarterly RMS and claimed by the State agency on its Medicaid expenditure reports for FFYs 2010 through 2012. We reviewed the State agency's procedures for using RMS and obtaining DCA approval.

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

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

FINDINGS

The State agency claimed school-based Medicaid administrative costs that were not in accordance with Federal requirements. It claimed these costs without submitting to DCA for review its CAP and certain amendments describing its RMS methodologies and, consequently, without having an approved CAP. Instead, the State agency claimed costs based on various versions of its implementation guides and plans being considered by and negotiated with CMS. In addition, the State agency used statistically invalid RMS in allocating costs to Medicaid, and it did not maintain adequate support to validate its sample results and related extrapolations. As a result, the \$150,487,055 (\$75,274,946 FFP) the State agency claimed in school-based Medicaid administrative costs for FFYs 2010 through 2012 was unallowable.

COST ALLOCATION PLAN AND CERTAIN AMENDMENTS NEITHER SUBMITTED NOR APPROVED

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

Contrary to Federal requirements, the State agency claimed \$150,487,055 (\$75,274,946 FFP) in school-based Medicaid administrative costs without submitting to DCA for review its CAP and certain amendments describing its RMS methodologies and, consequently, without having an approved CAP. Instead, the State agency claimed these costs according to procedures outlined in

various versions of its implementation guides and plans that it had submitted to CMS for consideration and negotiation.⁹ Despite significant changes over the years to its procedures used to identify, measure, and allocate school-based Medicaid administrative costs, the State agency ignored CMS's request to submit for DCA review and approval its CAP and certain amendments referencing its RMS methodologies.¹⁰ Furthermore, although the State agency worked with CMS on implementing its MAC program for over a decade (from 2002 through 2012), it did not receive CMS conditional approval of the MAC program until after the end of our audit period.¹¹ This CMS approval was contingent upon, among other things, submission of the amended CAP to DCA and DCA's approval of the CAP.

The State agency attributed its lack of compliance with Federal requirements regarding submission of the CAP to staff turnover and a lack of knowledge of Federal requirements. However, at the conclusion of our fieldwork on September 25, 2014, the State agency still had not submitted to DCA for review and approval its CAP and certain amendments.

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

RANDOM MOMENT SAMPLING WAS STATISTICALLY INVALID

Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval, if required, by the cognizant agency. Such systems may include, but are not limited to, RMS, case counts, or other quantifiable measures of employee effort. Substitute systems that use sampling methods "must meet acceptable statistical sampling standards including: [t]he sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results ...; [t]he

⁹ These implementation guides and plans were working documents that identified proposed procedures for operating the State agency's MAC program. While they may have served as the basis for CMS review and negotiation, they were not a CAP or a plan amendment approved by the cognizant agency. "[W]here a State has claimed costs based on a proposed plan or plan amendment the State, if necessary, shall retroactively adjust its claims in accordance with the plan or amendment as subsequently approved by the Director, DCA" (45 CFR § 95.517(a)). Furthermore, "[i]f costs under a Public Assistance program are not claimed in accordance with the approved cost allocation plan (except as otherwise provided in § 95.517), or if the State failed to submit an amended cost allocation plan as required by § 95.509, the costs improperly claimed will be disallowed" (45 CFR § 95.519).

¹⁰ In 2002 CMS recommended that the State agency submit to DCA its CAPs, but the State agency opted not to do so. In December 2005, the State agency changed its MAC program to include an alternate method of sampling and time study participation by implementing RMTS, and in a letter dated January 3, 2006, it submitted to DCA a CAP amendment inclusive of the proposed revisions. DCA acknowledged receipt of this submission with a letter dated February 24, 2006; however, to date, no documentation supporting DCA approval of the State agency's CAP or any amendments has been provided by the State agency, CMS, or DCA. Thus, in both instances, the State agency implemented significant changes without obtaining DCA approval as required by 45 CFR § 95.517(a).

¹¹ In October 2011, the State agency further changed the MAC program to allow RMTS results to be used for both the MAC program and the Medicaid Direct Service Program. Effective May 1, 2013, CMS conditionally approved the State agency's claiming plan entitled *Alabama School Based Medicaid Claiming Program*, submitted in draft form on September 12, 2011, pursuant to the pending State Plan Amendment 12-003. Again, the State agency implemented significant changes without promptly submitting to DCA for review the CAP amendment as required by 45 CFR § 95.509(a) and without obtaining DCA approval as required by 45 CFR § 95.517(a).

entire time period involved must be covered by the sample; and [t]he results must be statistically valid and applied to the period being sampled” (2 CFR part 225, Appendix B, 8.h.(6)).

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

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

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

- **Duplicates on the Participant Lists:** According to State agency officials, each employee was uniquely identified by a participant identification number. However, our analysis of the RMTS data files found that, in every quarter, the participant list contained duplicate employees. For example, one school had 15 duplicate employees listed during the second quarter of 2011. Including an employee more than once will increase the chances of that employee’s being selected. Therefore, all employees did not have an equal chance of selection.
- **Limited Work Schedules:** Not all moments had a chance of selection because the sampling frame did not account for the entire work period. When selecting the RMTS sample, a standardized work schedule was used. However, the standardized work schedule was changed five times. The standardized work schedule was changed from 7:30 a.m. to 4 p.m. in the first quarter of our audit period to 8 a.m. to 4 p.m. in the next quarter, eliminating all available moments between 7:30 a.m. and 8 a.m. for that quarter. Thus, not all available moments had an equal chance of selection.
- **Improper Treatment of Invalid Responses:** Responses for moments that occurred when the employee was not scheduled to work, for moments selected for vacant positions, and for moments selected for occupied positions for which no response was received (nonresponses) were all treated as invalid¹² responses. While the first two types of response were properly treated as invalid, the nonresponses should have been kept in the sample and evaluated and coded as non-Medicaid moments.

¹² “Invalid” observations that occurred for a vacant position or for time not scheduled to work should be removed from the sample because sample results are applied to personnel costs, and sample moments for unpaid time distort the results. However, “nonresponses” that occurred because (1) the employee in the sampled position did not complete the form, (2) the activity could not be determined, or (3) the observation was otherwise unreliable should have been included in the sample and treated as non-Medicaid reimbursable to ensure proper allocation of costs.

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

SUPPORTING DOCUMENTATION WAS INADEQUATE

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

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

The State agency's contractor did not program the software used to generate the RMTS sample to store the information necessary to reproduce the sample. The electronic sampling function generated pseudorandom numbers.¹³ However, this function did not store the pseudorandom numbers or the information used to generate them when the sample moments were selected. Although the sampling frame was not stored, State agency officials said that it could be recreated.

State agency officials and the contractor maintained that the sample methodology was sound and had been certified. However, the certification only attested that the random number generator passed the assessment of randomness. Without the random numbers used to select the sample, there was no way to recreate the sample to ensure the sample was selected properly or to support that the resulting estimate was valid.

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

THE STATE AGENCY CLAIMED MILLIONS IN UNALLOWABLE COSTS

The State agency's CAP and certain amendments were neither submitted nor approved, its RMS was statistically invalid, and its supporting documentation was inadequate. As a result, the \$150,487,055 (\$75,274,946 FFP) the State agency claimed in school-based Medicaid administrative costs for FFYs 2010 through 2012 was unallowable.

¹³ Pseudorandom numbers are computer generated and are based on algorithms that use mathematical formulae or simply precalculated tables to produce sequences of numbers that appear random. Pseudorandom number generators can produce many numbers in a short time and can reproduce a given sequence of numbers at a later date if the starting point in the sequence is known.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$75,274,946 to the Federal Government;
- submit to DCA for review and approval its CAP and amendments describing its procedures for identifying, measuring, and allocating costs to Medicaid;
- ensure that its CAP addresses the statistical validity issues that we identified;
- implement policies and procedures to ensure that its RMS complies with Federal requirements for statistical validity;
- maintain adequate support, including all information necessary to reproduce and verify its sample results, for school-based administrative costs allocated to Medicaid; and
- review school-based Medicaid administrative costs claimed after our audit period and refund unallowable amounts.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State agency disagreed with our findings and generally disagreed with our recommendations. The State agency maintained that, over the life of the MAC program, it had submitted for DCA approval “a number of CAP amendments” describing its cost allocation methodologies, that it used statistically valid RMS, and that its documentation provided more than adequate information to assess the statistical validity of its RMTS and claims for FFP.

The State agency’s comments, redacted to exclude personally identifiable information, are included as Appendix D. We did not include its contractor’s comments or its independent statistical review because they were too voluminous.

We disagree with the State agency’s comments. The State agency did not provide any additional documentation that warranted changing the findings in this report; therefore, as explained below, our recommendations remain unchanged.

Refund \$75,274,946 to the Federal Government

State Agency Comments

The State agency did not concur with this recommendation on the basis of its responses to the remaining recommendations.

Office of Inspector General Response

Based on our responses (below) to the remaining recommendations, we continue to recommend that the State agency refund \$75,274,946 to the Federal Government.

Submit for Division of Cost Allocation Review and Approval Its Cost Allocation Plan and Amendments

State Agency Comments

The State agency disagreed with the underlying premise of this recommendation. It stated that, over the life of the MAC program, it had submitted for DCA approval “a number of CAP amendments” describing its cost allocation methodologies. As evidence, the State agency provided a letter from DCA, dated February 24, 2006, that acknowledged DCA’s receipt of a letter dated January 3, 2006, containing revisions that the State agency had proposed to its CAP. The State agency also stated that it resubmitted its full Public Assistance CAP to DCA on October 31, 2014.

Office of Inspector General Response

While DCA acknowledged receipt of the State agency’s CAP amendment on January 3, 2006, no documentation supporting DCA approval of the State agency’s CAP amendment has been provided by the State agency, CMS, or DCA. The State agency submitted to DCA its full Public Assistance CAP on October 31, 2014, after we completed our audit fieldwork. DCA officials informed us that DCA did not approve this CAP because the State agency was still working with CMS to address its concerns. The State agency subsequently submitted to DCA a revised CAP on February 25, 2016. On April 11, 2016, DCA officials informed us that DCA and CMS were still reviewing the revised document and that these two CAPs were the only formal documents it had received from the State agency.

Therefore, we maintain that the State agency claimed \$150,487,055 (\$75,274,946 FFP) in school-based Medicaid administrative costs for FFYs 2010 through 2012 without promptly submitting to DCA for review its CAP and certain amendments describing its RMS methodologies and, consequently, without having an approved CAP.

Ensure That Its Cost Allocation Plan Addresses the Statistical Validity Issues Identified

State Agency Comments

The State agency disagreed with the statistical validity findings related to this recommendation. Specifically, the State agency commented that:

- the participant lists included a small number of duplicates as a result of school district reporting errors, but the State agency’s analysis (provided with its comments) demonstrated that the duplicates immaterially affected its quarterly claims;

- it adjusted the standard work schedule hours used for the RMTS during the audit period before the beginning of certain quarters to accommodate changes to the standard work day schedule for the majority of the school districts; and
- it treated nonresponses in accordance with its CAP amendment endorsed by CMS.

The State agency also commented that its documentation provided more than adequate information to assess the statistical validity of its RMTS and claims for FFP and that an independent statistical review confirmed the statistical validity of its sampling process and results.

Office of Inspector General Response

The State agency acknowledged that its participant list included duplicates and provided an independent statistical review of its RMS methodology.¹⁴ However, we disagree with the State agency comments that the participant lists included a small number of duplicates and that the duplicates immaterially affected its quarterly claims.

The State agency contended that the duplicates immaterially affected its quarterly claims on the basis of 251 duplicates for 5 quarters; however, we identified 2,273 potential duplicates for the same period.¹⁵ We maintain that the number of duplicates for the entire audit period remains unknown; therefore, we disagree with the State agency's contention that the participant lists included a small number of duplicates.

The State agency contended that the duplicates immaterially affected its quarterly claims on the basis of its independent statistical review. The independent reviewer used an estimator it described as follows:

The Horvitz–Thompson (H-T) estimator for the population total is like a weighted average of all sample values—the weights being inverses of the probabilities of inclusion. The H-T estimator provides a unified mathematical foundation for calculating unbiased population parameter estimates under different sampling designs and for calculating potential frame identified duplicates. Surprisingly enough, all that the H-T estimator requires to arrive at unbiased estimates of population parameters is that $\pi_j > 0$ [the probability of selecting the item is greater than zero] for all units of the population; that is to say, all units of the population should have some (*known*) probability of being selected into the sample [emphasis added].

¹⁴ The State agency cites the independent statistical review, which addressed only randomness and the effect of duplicates, as proof that the RMS methodology was statistically valid. However, the independent statistical review did not address limited work schedules or treatment of invalid responses.

¹⁵ We reviewed 273 potential duplicates from the participant lists at local school districts, and we confirmed that all were duplicates. Although we identified a total of 2,273 potential duplicates for 5 quarters, we did not verify that all potential duplicates identified were, in fact, duplicates. Therefore, the exact number of duplicates for the entire audit period remains unknown.

However, without knowing the exact number of duplicates in the sample frame, the probability of selection is also not known. Therefore, the H-T estimator cannot accurately determine the effect of the duplicates on the sample results. Accordingly, we maintain that the independent statistical review was flawed and thus insufficient to support the State agency's contention that duplicates immaterially affected its quarterly claims.

The State agency changes to the work schedules demonstrated that all time was not included in the sample frame. "The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results ...; [t]he entire time period involved must be covered by the sample; and [t]he results must be statistically valid and applied to the period being sampled" (2 CFR part 225, Appendix B, 8.h.(6)). We maintain that all time, not just the majority of the time, must be included in the sampling frame to ensure that all available moments have an equal chance of selection and that the sample is statistically valid.

We disagree with the State agency's contention that it treated nonresponses in accordance with its CAP amendment endorsed by CMS. The State agency did not receive CMS's conditional approval of this CAP amendment until May 1, 2013 (after our audit period). This CAP amendment did not treat nonresponses according to instructions in the CMS Guide and, to date, no documentation supporting DCA approval of this CAP amendment has been provided by the State agency, CMS, or DCA.

Implement Policies and Procedures

State Agency Comments

The State agency commented that the RMS methodology that it used during the audit period complied with Federal requirements. It also commented that it is dedicated to ensuring that its RMS methodology complies with Federal requirements and that it has taken additional measures (such as quality checks before the finalization of the participant list to reduce the possibility of duplicates) to ensure the statistical validity of its RMTS.

Office of Inspector General Response

After our audit period, the State agency implemented changes to ensure the statistical validity of its RMS methodology and claim results. However, for reasons previously stated, we maintain that the State agency used statistically invalid RMS in allocating costs to Medicaid for our audit period.

Maintain Adequate Support

State Agency Comments

The State agency concurred in part with this recommendation and stated that it has continued to maintain adequate support to demonstrate the statistical validity of the RMS methodology and claim results. Although acknowledging that it took steps in October 2014 to prospectively retain seed numbers (i.e., the information used to generate the pseudorandom numbers) for

RMTS to provide for sample replication, it maintained that failure to retain seed numbers does not render a sample statistically invalid.

Office of Inspector General Response

The State agency took steps in October 2014 (after our audit period) to prospectively retain seed numbers for RMTS to provide for sample replication. However, costs must be adequately documented to be allowable, and documentation retained must support and include, among other things, the sample selection. For our audit period, the State agency did not store the pseudorandom numbers or the information used to generate them once the sample moments were selected. Without the random numbers used to select the sample, there is no way to recreate the sample to ensure that the sample was selected properly and to support the validity of the resulting estimate. Therefore, we maintain that retaining the seed numbers is inherently required in documenting the sample selection.

Review School-Based Medicaid Administrative Costs Claimed After Our Audit Period

State Agency Comments

The State agency concurred in part with this recommendation and stated that it had continued to review its school-based Medicaid administrative costs claimed for FFP and that it does not believe that there are any unallowable amounts claimed after the audit period.

Office of Inspector General Response

We contend that the sampling methodology used during our audit period was not approved by DCA, not statistically valid, and not adequately documented. Furthermore, we maintain that if the State agency used this same methodology in claiming FFP for school-based Medicaid administrative costs claimed after our audit period, FFP was also unallowable and should be refunded.

APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

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

APPENDIX B: AUDIT SCOPE AND METHODOLOGY

Scope

Our review covered \$150,487,055 (\$75,274,946 FFP) in school-based administrative costs allocated to Medicaid using quarterly RMS and claimed by the State agency on its quarterly Medicaid expenditure reports during FFYs 2010 through 2012.

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

We conducted our fieldwork at the State agency's office in Montgomery, Alabama, from September 2013 through September 2014.

Methodology

To accomplish our objective, we:

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

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

APPENDIX C: FEDERAL REQUIREMENTS

CODE OF FEDERAL REGULATIONS

Definition of a Cost Allocation Plan

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

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

Substitute Systems

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

Cost Allocation Plan Approval

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

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

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

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

Documentation Requirements

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

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

The CMS Guide states, “No completed responses should be deleted or ignored.... [A]ll non-responses should be coded to non-Medicaid time study codes” (page 41). It also states,

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

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

APPENDIX D: STATE AGENCY COMMENTS



ROBERT BENTLEY
Governor

Alabama Medicaid Agency

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STEPHANIE MCGEE AZAR
Commissioner

January 11, 2016

Lori S. Pilcher
Regional Inspector General for Audit Services
Office of Audit Services, Region IV
Office of Inspector General
U.S. Department of Health and Human Services
61 Forsyth Street, SW, Suite 3T41
Atlanta, GA 30303

Re: Draft Audit Report Number A-04-13-00094

Dear Ms. Pilcher:

The Alabama Medicaid Agency (Alabama Medicaid) welcomes the opportunity to comment on the recommendations contained in the draft report prepared by the Office of Inspector General (OIG) entitled "The Alabama Medicaid Agency Claimed Millions in Unallowable School-Based Medicaid Administrative Costs" (Draft Report). Alabama Medicaid has and continues to do exemplary work towards identifying and enrolling all eligible children in Medicaid. Alabama Medicaid's school-based Medicaid administrative claiming (MAC) program has greatly benefited the children of Alabama, as Congress intended.

In its Draft Report, OIG identifies two principal issues regarding the MAC program that led OIG to preliminarily conclude that the entirety of the federal financial participation (FFP) claimed by Alabama Medicaid during the audit period was unallowable: (1) Alabama Medicaid claimed school-based Medicaid administrative costs without submitting its cost allocation plan (CAP) or amendments thereto for review and approval by the Division of Cost Allocation (DCA) within the United States Department of Health and Human Services; and (2) Alabama Medicaid used statistically invalid random moment sampling (RMS) in allocating costs to Medicaid and did not maintain adequate support to validate its sample results and related extrapolations. As a result of these preliminary findings, the Draft Report states that the entirety of the school-based administrative costs claimed by Alabama Medicaid for federal fiscal years (FFYs) 2010 through 2012, resulting in \$75,274,946 in FFP, were unallowable.

Alabama Medicaid respectfully disagrees with each of the findings outlined in the Draft Report, and addresses each of them below. Alabama Medicaid does not concur that any portion of the claims were unallowable or should be refunded to the Federal Government. As requested in your letter dated November 25, 2015, Alabama Medicaid is providing a statement of concurrence or nonconcurrence to each of the six recommendations contained in the Draft Report. In addition, with OIG's permission, Alabama Medicaid shared the Draft Report with [REDACTED]

Our Mission - to provide a system of financing health care for eligible Alabamians in accordance with established statutes and Executive Orders.

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

██████████, which helped facilitate technical aspects of the MAC program. A copy of ██████████ response to the Draft Report is attached as Exhibit A.

- **OIG Recommendation 1:** Refund \$75,274,946 to the Federal Government.

Alabama Medicaid Comment: Alabama Medicaid respectfully does not concur with OIG's recommendation. As described more fully below, Alabama Medicaid submitted the relevant CAP amendments for approval by DCA. Alabama Medicaid also used statistically valid RMS during the audit period.

- **OIG Recommendation 2:** Submit for DCA review and approval Alabama Medicaid's CAP and amendments describing Alabama Medicaid's procedures for identifying, measuring, and allocating costs to Medicaid.

Alabama Medicaid Comment: Alabama Medicaid respectfully disagrees with the underlying premise of this recommendation. Contrary to OIG's preliminary finding, Alabama Medicaid has submitted for DCA approval a number of CAP amendments describing Alabama Medicaid's cost-allocation methodologies for the MAC program over the life of that program. For example, prior to the audit period, Alabama Medicaid submitted a CAP amendment outlining the MAC program methodology. By letter dated January 3, 2006, Alabama Medicaid submitted a CAP amendment to DCA implementing RMS methodology for the MAC program. DCA's February 24, 2006 letter, a copy of which is attached as Exhibit B, acknowledged receipt of Alabama Medicaid's January 3, 2006 CAP amendment. In addition, Alabama Medicaid resubmitted its full Public Assistance Cost Allocation Plan to DCA on October 31, 2014.

- **OIG Recommendation 3:** Ensure that Alabama Medicaid's CAP addresses the statistical-validity issues OIG identified.

Alabama Medicaid Comment: OIG preliminarily found that several factors supposedly rendered Alabama Medicaid's RMS results statistically invalid: (1) duplicates on the participant list, (2) limited work schedules, (3) improper treatment of invalid responses, and (4) inadequate supporting documentation. Alabama Medicaid respectfully does not concur with any of these preliminary findings.

(1) Duplicates on the Participant List

Alabama Medicaid does not agree that any duplicates on the participant list invalidate the random moment time studies (RMTS) conducted. Alabama Medicaid recognizes that a small number of duplicates were identified on the participant list as a result of school district reporting errors. When this issue was identified, Alabama Medicaid provided OIG with an analysis of the identified duplicates, which illustrated: (1) the number of duplicates as a percentage of all eligible moments for each of the quarters in question and (2) the impact on the filed claims for each of those quarters. That analysis demonstrated that the impact to the quarterly claims was immaterial, as described more fully in ██████████ response to the Draft Report (at 4-6).

(2) Limited Work Schedules

Alabama Medicaid disagrees with OIG's assertion that the standard work schedule utilized for the RMTS did not coincide with the sampled participant work schedules. As described more fully in [REDACTED] response to the Draft Report (at 7–8), standard work day hours used for the RMTS during the audit period were adjusted prior to the beginning of certain quarters to accommodate changes to the standard work day schedule for the majority of school districts. In other words, any adjustment in the time frame used reflected real-world changes in condition.

(3) Improper Treatment of Invalid Responses

Alabama Medicaid disagrees that non-responses were improperly treated as invalid. Among other things, Alabama Medicaid treated non-responses in accordance with its CAP amendment endorsed by the Centers for Medicare & Medicaid Services (CMS).

(4) Inadequate Supporting Documentation

Alabama Medicaid disagrees that it did not maintain adequate documentation to demonstrate the statistical validity of its sampling methodology and its resulting claims for FFP. Alabama Medicaid maintained and provided to OIG the sampling documentation described in CMS's *Medicaid School-Based Administrative Claiming Guide* (2003). This sampling documentation provided more than adequate information to assess the statistical validity of the RMTS and Alabama Medicaid's claims for FFP. Furthermore, as described in [REDACTED] response to the Draft Report (at 9–12), an independent statistical review and audit of the sampling documentation maintained confirmed the statistical validity of the sampling process and results.

- **OIG Recommendation 4:** Implement policies and procedures to ensure that the RMS methodology utilized by Alabama Medicaid complies with federal requirements for statistical validity.

Alabama Medicaid Comment: Alabama Medicaid remains dedicated to ensuring that its RMS methodology complies with federal requirements for statistical validity. As described above, the RMS methodology utilized during the audit period complied with federal requirements. In addition, as described in [REDACTED] response to the Draft Report (at 7), additional measures have been taken to further ensure statistical validity. For example, although the presence of duplicates on the participant did not affect the statistical validity of the RMTS, additional quality checks have been added prior to the finalization of the participant list and the selection of the time study sample to reduce the possibility of duplicates.

- **OIG Recommendation 5:** Maintain adequate support, including all information necessary to reproduce and verify Alabama Medicaid’s sample results, for school-based administrative costs allocated to Medicaid.

Alabama Medicaid Comment: Alabama Medicaid concurs in part with this recommendation. As noted above in our comment to **OIG Recommendation 3**, Alabama Medicaid has and will continue to maintain adequate support to demonstrate the statistical validity of the RMS methodology and claim results. While Alabama Medicaid took steps in October 2014 to prospectively retain seed numbers for RMTS to provide for sample replication, Alabama Medicaid has always maintained adequate information to demonstrate the statistical validity of the RMTS results. As described in detail in [REDACTED] response to the Draft Report (at 11–12), the failure to retain seed numbers does not render a sample statistically invalid.

- **OIG Recommendation 6:** Review school-based Medicaid administrative costs claimed after the audit period and refund unallowable amounts.

Alabama Medicaid Comment: Alabama Medicaid concurs in part with this recommendation. Alabama Medicaid has and will continue to review school-based Medicaid administrative costs claimed for FFP. At this time, Alabama Medicaid does not believe that there are any unallowable amounts in the school-based Medicaid administrative costs claimed after the audit period.

* * *

Thank you again for the opportunity to respond to the recommendations contained in the Draft Report. Please let us know if we can provide you with any further information.

Sincerely,

/Stephanie McGee Azar/

Stephanie McGee Azar
Commissioner



DEPARTMENT OF HEALTH & HUMAN SERVICES



Program Support Center
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Division of Cost Allocation

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February 24, 2006

Carol A. Herrmann-Steckel, MPH
Commissioner
Alabama Medicaid Agency
501 Dexter Avenue
P.O. Box 5624
Montgomery, Alabama 36103-5624



Ms. Herrmann-Steckel:

This acknowledges receipt of your proposed revisions to the Alabama Medicaid Agency Public Assistance Cost Allocation Plan which you submitted in compliance with 45 CFR 95, Subpart E by letter dated January 3, 2006.

We shall process your revisions as soon as possible and advise you either of our approval or those changes which are necessary as a condition for our approval. In the interim, should you have any questions, please contact me at (202)401-2808.

Sincerely,
[MANUAL SIGNATURE REDACTED]

Darryl Mayes
Director
Division of Cost Allocation