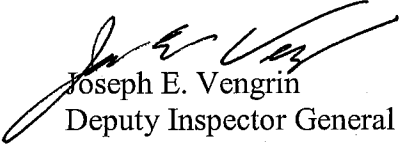


DEC 10 2008

TO: Kerry Weems
Acting Administrator
Centers for Medicare & Medicaid Services

FROM:  Joseph E. Vengrin
Deputy Inspector General for Audit Services

SUBJECT: Review of New Mexico's Medicaid Administrative Costs for the Quarter Ended September 30, 2004 (A-06-07-00072)

Attached is an advance copy of our final report on New Mexico's Medicaid administrative costs for the quarter ended September 30, 2004. We will issue this report to the New Mexico Human Services Department (the State agency) within 5 business days.

The State agency contracts with the New Mexico Department of Health for assistance with administrative duties. The State agency reports all administrative costs and requests Federal reimbursement for a portion of the costs on the "Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program" (Form CMS-64). The Federal share of Medicaid administrative costs is typically 50 percent, but enhanced rates of 75 and 90 percent may be claimed for some costs.

For the quarter ended September 30, 2004, the State agency claimed \$16,345,859 (\$10,262,046 Federal share) in Medicaid administrative costs. In addition, the State agency made an \$8,507,815 (\$6,380,862 Federal share) adjustment to claim Temporary Assistance for Needy Families (TANF) program transition costs from seven prior quarters at an enhanced Federal funding rate.

Our objective was to determine whether Medicaid administrative costs that the State agency claimed for the quarter ended September 30, 2004, were reasonable, allocable, and allowable for reimbursement under the Medicaid program.

The State agency claimed \$1,471,133 (\$1,069,901 Federal share) of unallowable Medicaid administrative costs, consisting of:

- \$1,097,436 (\$883,052 Federal share) for costs claimed due to errors in compiling the Form CMS-64 and

- \$373,697 (\$186,849 Federal share) resulting from errors in the random moment timestudy base that was used to allocate eligibility fieldworker costs.

The State agency also claimed \$509,210 at unallowable enhanced Federal funding rates (75 and 90 percent). Although these costs were eligible for Federal reimbursement at the standard 50-percent rate, they did not meet enhanced-rate guidelines; therefore, the State agency improperly received \$128,204 in enhanced funding.

We could not determine what portion of \$772,296 (\$386,148 Federal share) was allowable. The State agency claimed 100 percent of the costs for medical assistance workers and TANF program employees to Medicaid even though their work also benefited other programs. In addition, we could not determine the allowability of \$8,507,815 (\$6,380,862 Federal share) for an adjustment that the State agency made to claim TANF transition costs at an enhanced Federal funding rate. These costs included salaries and benefits that were (1) allocated based on a flawed random moment timestudy and (2) charged 100 percent to Medicaid even though the employees' efforts also benefited other programs.

We recommend that the State agency:

- refund \$1,198,105 to CMS for unallowable administrative costs (\$1,069,901) and improper reimbursement related to enhanced Federal funding (\$128,204);
- work with CMS to identify the allowable portion of the \$772,296 (\$386,148 Federal share) in costs for medical assistance workers and TANF program employees and develop an allocation methodology for these employees;
- work with CMS to identify the allowable portion of the \$8,507,815 (\$6,380,862 Federal share) adjustment made to claim TANF transition costs at an enhanced Federal funding rate;
- establish review procedures to ensure that administrative costs are correctly compiled, assigned, and claimed; and
- ensure that supervisors responsible for documenting random moment timestudy results sample only the appropriate eligibility fieldworkers.

In written comments on our draft report, the State agency agreed with most of our findings and recommendations. The State agency said that it would refund to CMS \$1,176,577 of the \$1,198,105 in unallowable Medicaid administrative costs and enhanced Federal funding rate costs. The State agency disagreed with findings totaling \$21,528 in the "Miscellaneous Overcharges" section of the report.

After reviewing the State agency's comments and the documentation that it provided, we maintain that our findings and recommendations are valid and that the State agency should refund the entire \$1,198,105 to CMS.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact George M. Reeb, Assistant Inspector General for the Centers for Medicare & Medicaid Audits, at (410) 786-7104 or through e-mail at George.Reeb@oig.hhs.gov or Gordon L. Sato, Regional Inspector General for Audit Services, Region VI, at (214) 767-8414 or through e-mail at Gordon.Sato@oig.hhs.gov. Please refer to report number A-06-07-00072.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services
1100 Commerce, Room 632
Dallas, TX 75242

DEC 17 2008

Report Number: A-06-07-00072

Ms. L. Elaine Olah
Director, Chief Financial Officer
Administrative Services Division
New Mexico Human Services Department
729 St. Michaels Drive
Santa Fe, New Mexico 87504

Dear Ms. Olah:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of New Mexico's Medicaid Administrative Costs for the Quarter Ended September 30, 2004." 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.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Warren Lundy, Audit Manager, at (405) 605-6188 or through e-mail at Warren.Lundy@oig.hhs.gov. Please refer to report number A-06-07-00072 in all correspondence.

Sincerely,

Gordon L. Sato
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, Illinois 60601

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF NEW MEXICO'S
MEDICAID ADMINISTRATIVE
COSTS FOR THE QUARTER ENDED
SEPTEMBER 24, 2004**



Daniel R. Levinson
Inspector General

December 2008
A-06-07-00072

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

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THIS REPORT IS AVAILABLE TO THE PUBLIC

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Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

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

Pursuant to Title XIX of the Social Security 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.

The New Mexico Human Services Department (the State agency) is responsible for overseeing New Mexico's Medicaid program. The State agency contracts with the New Mexico Department of Health for assistance with administrative duties. The State agency reports all administrative costs and requests Federal reimbursement for a portion of the costs on the "Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program" (Form CMS-64). The Federal share of Medicaid administrative costs is typically 50 percent, but enhanced rates of 75 and 90 percent may be claimed for some costs.

For the quarter ended September 30, 2004, the State agency claimed \$16,345,859 (\$10,262,046 Federal share) in Medicaid administrative costs. In addition, the State agency made an \$8,507,815 (\$6,380,862 Federal share) adjustment to claim Temporary Assistance for Needy Families (TANF) program transition costs from seven prior quarters at an enhanced Federal funding rate.

OBJECTIVE

Our objective was to determine whether Medicaid administrative costs that the State agency claimed for the quarter ended September 30, 2004, were reasonable, allocable, and allowable for reimbursement under the Medicaid program.

SUMMARY OF FINDINGS

For the quarter ended September 30, 2004, the State agency claimed \$1,471,133 (\$1,069,901 Federal share) of unallowable Medicaid administrative costs, consisting of:

- \$1,097,436 (\$883,052 Federal share) for costs claimed due to errors in compiling the Form CMS-64 and
- \$373,697 (\$186,849 Federal share) resulting from errors in the random moment timestudy base that was used to allocate eligibility fieldworker costs.

The State agency also claimed \$509,210 at unallowable enhanced Federal funding rates (75 and 90 percent). Although these costs were eligible for Federal reimbursement at the standard

50-percent rate, they did not meet enhanced-rate guidelines; therefore, the State agency improperly received \$128,204 in enhanced funding.

We could not determine what portion of \$772,296 (\$386,148 Federal share) was allowable. The State agency claimed 100 percent of the costs for medical assistance workers and TANF program employees to Medicaid even though their work also benefited other programs.

The following table summarizes the Medicaid administrative costs that we reviewed.

**Administrative Costs Reviewed
for the Quarter Ended September 30, 2004**

	Total Costs Claimed	Federal Share
Costs claimed	\$16,345,859	\$10,262,046
Unallowable costs	(1,471,133)	(1,069,901)
Unallowable enhanced funding	Not applicable	(128,204)
Undetermined costs	(772,296)	(386,148)
Total allowable	\$14,102,430	\$8,677,793

In addition, we could not determine the allowability of \$8,507,815 (\$6,380,862 Federal share) for an adjustment that the State agency made to claim TANF transition costs at an enhanced Federal funding rate. These costs included salaries and benefits that were (1) allocated based on a flawed random moment timestudy and (2) charged 100 percent to Medicaid even though the employees' efforts also benefited other programs.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$1,198,105 to CMS for unallowable administrative costs (\$1,069,901) and improper reimbursement related to enhanced Federal funding (\$128,204);
- work with CMS to identify the allowable portion of the \$772,296 (\$386,148 Federal share) in costs for medical assistance workers and TANF program employees and develop an allocation methodology for these employees;
- work with CMS to identify the allowable portion of the \$8,507,815 (\$6,380,862 Federal share) adjustment made to claim TANF transition costs at an enhanced Federal funding rate;
- establish review procedures to ensure that administrative costs are correctly compiled, assigned, and claimed; and
- ensure that supervisors responsible for documenting random moment timestudy results sample only the appropriate eligibility fieldworkers.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency agreed with most of our findings and recommendations. The State agency said that it would refund to CMS \$1,176,577 of the \$1,198,105 in unallowable administrative costs and enhanced Federal funding rate costs. The State agency disagreed with findings totaling \$21,528 in the “Miscellaneous Overcharges” section of the report. The State agency’s comments are included in their entirety as the Appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the State agency’s comments and the documentation that it provided, we maintain that our findings and recommendations are valid and that the State agency should refund the entire \$1,198,105 to CMS.

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INTRODUCTION

BACKGROUND

Pursuant to Title XIX of the Social Security 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.

The New Mexico Human Services Department (the State agency) is responsible for overseeing New Mexico's Medicaid program. The State agency contracts with the New Mexico Department of Health for assistance with administrative duties. The State agency reports all administrative costs and requests Federal reimbursement on the "Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program" (Form CMS-64). The Federal share of Medicaid administrative costs is typically 50 percent, but enhanced rates of 75 and 90 percent may be claimed for some costs.

Administrative costs for Medicaid are to be allocated in accordance with a public assistance cost allocation plan. Federal regulations (45 CFR, subpart E, § 95.507(a)(2)) require that cost allocation plans conform to the accounting principles and standards in Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." The circular states that (1) costs are allocable to a particular cost objective if the goods or services involved are chargeable or assignable to the cost objective in accordance with the relative benefits received, (2) only allocable costs are allowable, and (3) costs must be reasonable and necessary for proper administration of the program.¹

The State agency initially claimed \$28,226,614 (\$19,873,232 Federal share) in administrative costs for the quarter ended September 30, 2004. In September 2005, however, the State agency amended the original claim by reducing the claimed costs to \$16,345,859 (\$10,262,046 Federal share). During this quarter, the State agency also made an \$8,507,815 (\$6,380,862 Federal share) adjustment to claim Temporary Assistance for Needy Families (TANF) program transition costs from seven prior quarters at an enhanced Federal funding rate.

The State agency assigned two categories of administrative costs to the Medicaid program: direct costs and indirect costs. Direct costs are expenditures that can be identified specifically with a particular final cost objective. Indirect costs are expenditures that benefit more than one cost objective but are not readily assignable to individual cost objectives.

The State agency's cost allocation plan describes the methods that the State agency uses to equitably allocate indirect administrative costs to individual programs. The State agency allocated indirect costs using several approaches, including a random moment timestudy, number of employees, employee time and effort, training hours, and number of processed claims.

¹A cost objective is a function, organization subdivision, contract, grant, or activity for which costs are incurred.

The State agency used a random moment timestudy to allocate the costs of employees responsible for determining whether individuals were eligible for various programs (eligibility fieldworkers), including Medicaid. The State agency sent a survey to division supervisors at various times during the quarter and asked them to record the programs on which their employees were working at a specific time. The State agency allocated the employees' costs based on the percentage of responses for each program. In addition, State agency personnel made adjustments to reallocate certain costs at the end of the quarter.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Medicaid administrative costs that the State agency claimed for the quarter ended September 30, 2004, were reasonable, allocable, and allowable for reimbursement under the Medicaid program.

Scope

For the quarter ended September 30, 2004, the State agency claimed administrative costs totaling \$16,345,859 (\$10,262,046 Federal share). Of the \$16,345,859 claimed, \$8,124,036 (\$6,151,133 Federal share) was direct costs and \$8,221,823 (\$4,110,913 Federal share) was indirect costs.

During this quarter, the State agency also made an adjustment of \$8,507,815 (\$6,380,862 Federal share) to claim TANF transition costs from seven preceding quarters (October 1, 2002, through June 30, 2004) at a 75-percent Federal funding rate rather than the 50-percent rate it had already claimed for these costs.

Because our objectives did not require an understanding or assessment of the State agency's overall internal control structures, we did not perform such a review. We limited our review of internal controls to obtaining an understanding of New Mexico's Medicaid administrative costs and determining whether the costs were reasonable, allocable, and allowable for reimbursement under the Medicaid program.

We performed our fieldwork at the State agency's office in Santa Fe, New Mexico.

Methodology

To accomplish our objective, we:

- reviewed the mathematical calculations supporting the data that the State agency submitted to CMS in support of its Form CMS-64 for the quarter ended September 30, 2004;
- reviewed the cost allocation plan in effect during the quarter;
- obtained an understanding of the State agency's cost categories, claims processing, and budget policies by interviewing personnel involved with allocating costs, processing claims, and budgeting;

- reviewed employee human resource files for job descriptions and salary data;
- interviewed staff in various State agency divisions;
- reviewed administrative cost invoices;
- reviewed allocation methodologies that the State agency employed to assign costs to Medicaid; and
- reviewed cost adjustment documentation affecting the seven previous quarters and discussed the adjustment with CMS.

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

For the quarter ended September 30, 2004, the State agency claimed \$1,471,133 (\$1,069,901 Federal share) of unallowable Medicaid administrative costs, consisting of:

- \$1,097,436 (\$883,052 Federal share) for costs claimed due to errors in compiling the Form CMS-64 and
- \$373,697 (\$186,849 Federal share) resulting from errors in the random moment timestudy base that was used to allocate eligibility fieldworker costs.

The State agency also claimed \$509,210 at unallowable enhanced Federal funding rates (75 and 90 percent). Although these costs were eligible for Federal reimbursement at the standard 50-percent rate, they did not meet enhanced-rate guidelines; therefore, the State agency improperly received \$128,204 in enhanced funding.

We could not determine what portion of \$772,296 (\$386,148 Federal share) claimed was allowable. The State agency claimed 100 percent of the costs for medical assistance workers and TANF program employees to Medicaid even though their work also benefited other programs.

Table 1 on the next page summarizes the Medicaid administrative costs that we reviewed.

**Table 1: Administrative Costs Reviewed
for the Quarter Ended September 30, 2004**

	Total Costs Claimed	Federal Share
Costs claimed	\$16,345,859	\$10,262,046
Unallowable costs	(1,471,133)	(1,069,901)
Unallowable enhanced funding	Not applicable ²	(128,204)
Undetermined costs	(772,296)	(386,148)
Total allowable	\$14,102,430	\$8,677,793

In addition, we could not determine the allowability of the \$8,507,815 (\$6,380,862 Federal share) adjustment that the State agency made to claim TANF transition costs at an enhanced Federal funding rate. These costs included salaries and benefits that were (1) allocated based on a flawed random moment timestudy and (2) charged 100 percent to Medicaid even though the employees also worked on other programs.

COST COMPILATION ERRORS

The State agency mistakenly claimed \$1,097,436 (\$883,052 Federal share), consisting of:

- \$843,361 (\$756,015 Federal share) that was claimed twice,
- \$210,001 (\$105,000 Federal share) that had allocation errors, and
- \$44,074 (\$22,037 Federal share) that was miscellaneous overcharges.

Footnotes in the Form CMS-64 summary stated: “Due to time con[s]traint, report was certified but inaccurate.” State agency officials responsible for compiling costs and creating the Form CMS-64 explained that available State agency staff was limited and did not receive cost data from appropriate State officials in time to verify the accuracy of the data.

Duplicated Costs

OMB Circular A-87, Attachment A, section C(3)(a), states that costs are allocable to a particular cost objective if the goods or services involved are chargeable or assignable to the cost objective in accordance with the relative benefits received.

The State agency claimed \$843,361 (\$756,015 Federal share) twice:

- \$803,922 (\$723,530 Federal share) for contracted services and
- \$39,439 (\$32,485 Federal share) for salaries and benefits of four employees.

State agency officials initially recorded the cost of the contracted services in an incorrect account. Although they recognized the error and paid for the services with funds from the correct account, they failed to remove the cost from the incorrect account. As a result, the cost of the contracted services was included on the Form CMS-64 twice.

²No amount is shown in the “Total Costs Claimed” column because the amount claimed was allowable.

For two of the four employees whose salary and benefit costs were claimed twice, the State agency claimed the employees as both private contractors and State employees on the Form CMS-64. For the third employee, who transferred from one department to another, State agency officials added the employee's salary and benefit costs to the new department but failed to remove the costs from the original department. The salary and benefit costs for the remaining employee were mistakenly included in an adjustment made to allocate the training unit's costs. As a result, this employee's salary and benefit costs were claimed twice.

Allocation Errors

OMB Circular A-87, Attachment A, section C(3)(a), states that costs are allocable to a particular cost objective if the goods or services involved are chargeable or assignable to that cost objective in accordance with the relative benefits received.

The State agency inappropriately claimed \$210,001 (\$105,000 Federal share) because of allocation errors. The costs consisted of:

- \$160,195 (\$80,097 Federal share) of indirect costs associated with family assistance analysts,
- \$42,286 (\$21,143 Federal share) for the accounts receivable unit, and
- \$7,520 (\$3,760 Federal share) for the training unit.

The State agency overstated the indirect cost base used to allocate indirect costs to the family assistance analysts by \$513,666. The base included amounts for which the State agency could not provide support. Because the indirect cost base was overstated, the cost ultimately allocated to the Medicaid program was also overstated.

The State agency allocated costs for the accounts receivable unit based on the percentage of claims processed during the quarter. The electronic spreadsheet used to compute the number of claims processed for each program contained formula errors that resulted in an incorrect summation of claims processed for the Medicaid program. As a result, the Medicaid allocation was based on 59,740 claims rather than the appropriate 3,691 claims. Because the spreadsheet was inaccurate, the State agency allocated 42.79 percent of the unit's costs to the Medicaid program rather than the appropriate 2.64 percent.

The State agency allocated costs for the training unit based on the number of hours that employees attended program-specific training. The Medicaid training hour total was overstated by 87 hours because the State agency included 247 hours of training that benefited other programs and excluded 160 hours of training that benefited the Medicaid program. In addition, the non-Medicaid training hour total was understated by 2,083 hours because the electronic spreadsheet used to compute the hours contained formula errors that incorrectly summed the hours. The State agency allocated 40.20 percent of the training unit costs to the Medicaid program when it should have allocated 24.96 percent.

Miscellaneous Overcharges

OMB Circular A-87, Attachment A, section C(3)(a), states that costs are allocable to a particular cost objective if the goods or services involved are chargeable or assignable to that cost objective in accordance with the relative benefits received. Additionally, OMB Circular A-87, Attachment A, section C(1)(j), states that costs must be adequately documented.

The State agency mistakenly claimed \$44,074 (\$22,037 Federal share), which consisted of:

- \$22,614 (\$11,307 Federal share) in costs that were not allocable to Medicaid because the costs were fully funded through a separate (non-Medicaid) Federal grant;
- \$20,442 (\$10,221 Federal share) in third-party liability costs of \$10,221 that it added to the administrative cost claim rather than subtracting, thus overstating the relative benefit to Medicaid; and
- \$1,018 (\$509 Federal share) for mail service expenses that were not supported by an invoice or other evidence that an expenditure had occurred.

RANDOM MOMENT TIMESTUDY ERRORS

OMB Circular A-87, Attachment B, section 8(h)(6), states that methods such as random moment sampling may be used to allocate salaries and wages to Federal awards and that the sampling universe must include all of the employees whose salaries and wages are allocated based on the sample results. Additionally, according to the State agency's cost allocation plan, only the cost of eligibility fieldworkers may be allocated to Medicaid using data gathered from the random moment timestudy.

The State agency did not accurately capture the random moment timestudy responses for the eligibility fieldworker allocation. The State agency mistakenly excluded three eligibility fieldworkers' responses that should have been included in the Medicaid response total. Additionally, the State agency included in the Medicaid response total 152 responses for 34 medical assistance workers who should not have been sampled because (1) their costs were already charged 100 percent to Medicaid and were not allocated based on the timestudy results and (2) they were not eligibility fieldworkers. Supervisors responsible for documenting the programs on which the eligibility fieldworkers were working at a specific time inappropriately sampled these employees and included their responses in the Medicaid response total. As a result of these errors, the State agency assigned the Medicaid program 149 more responses than it should have, for a total of 751 Medicaid responses. The State agency also inaccurately captured response totals for other programs.

We recalculated the random moment timestudy responses as shown in Table 2. We determined that the State agency should have used a response total in all categories of 2,542 responses. Correcting the response totals for each program resulted in a 3.59-percent decrease to the Medicaid allocation, from 27.27 to 23.68 percent. After accounting for all of these changes, our recalculation showed that the State agency overclaimed \$373,697 (\$186,849 Federal share) on its Form CMS-64.

Table 2: State Agency Random Moment Timestudy Allocation Results and Office of Inspector General Recalculation

Program	State Agency Allocation Results		Office of Inspector General Recalculation	
	Total Responses	Allocation Percentage	Total Responses	Allocation Percentage
Food Stamps	1,458	52.94	1,458	57.36
Medicaid	751	27.27	602	23.68
TANF	440	15.98	404	15.89
Other Federal	42	1.52	41	1.61
State funded	63	2.29	37	1.46
Total	2,754		2,542	

INCORRECT FEDERAL FUNDING RATES

The State agency claimed \$509,210 (\$382,809 Federal share) at enhanced Federal funding rates (75 and 90 percent) for costs that did not meet enhanced-rate guidelines and thus received \$128,204 of improper reimbursement. The total included:

- \$92,935 for improperly documented work activities,
- \$22,982 for employees who were not skilled professional medical personnel, and
- \$12,287 for special funding that had already been exhausted.

Improperly Documented Work Activities

Federal regulations (42 CFR § 432.50(c)) provide that personnel and staff costs incurred for staff time split among functions matched at different rates must be allocated based on either actual percentages of time spent carrying out duties and functions that qualify for the enhanced rate or another methodology approved by CMS. Pursuant to OMB Circular A-87, Attachment B, section 8(h):

- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5)
- (5) Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee . . . and (d) They must be signed by the employee.

The State agency’s cost allocation plan indicated that employees in certain administrative areas submit time-and-effort reports that identify the percentage of time and effort allocable to each program.

The State agency claimed enhanced Federal funding rates of 75 and 90 percent without properly documenting employee work activities. Timesheets that the employees signed showed only the number of hours worked daily and did not reflect the amount of time spent on various programs

eligible for enhanced Federal funding rates. Instead, the employees' supervisors estimated the amount of time that each employee spent on those programs. There was no evidence in the State agency's cost allocation plan that CMS approved such a methodology. Because the employees did not submit or sign timesheets that reflected after-the-fact distribution of activities for different programs, their salaries and benefits were eligible only for the 50-percent reimbursement rate.

The State agency claimed \$368,134 at enhanced Federal funding rates and received \$277,002 in Federal funding. The State agency should have claimed the costs at the 50-percent rate and received \$184,067. The State agency overstated the Federal share by the difference of \$92,935.

Enhanced Rate Applied to Ineligible Employees

Federal regulations (42 CFR § 432.2) define skilled medical personnel as:

. . . physicians, dentists, nurses, and other specialized personnel who have professional education and training in the field of medical care or appropriate medical practice and who are in the employer-employee relationship with the Medicaid agency. It does not include other nonmedical health professionals such as public administrators, medical analysts, lobbyists, senior managers or administrators of public assistance programs or the Medicaid program.

Federal regulations (42 CFR § 432.50(d)(1)) also state that a 75-percent enhanced Federal funding rate is available for skilled professional medical personnel and staff who directly support them if the following criteria, as applicable, are met:

(iii) The skilled professional medical personnel are in positions that have duties and responsibilities that require those professional medical knowledge and skills. [and] . . . (v) The directly supporting staff are secretarial, stenographic, and copying personnel and file and records clerks who provide clerical services that are directly necessary for the completion of the professional medical responsibilities and functions of the skilled professional medical staff. The skilled professional medical staff must directly supervise the supporting staff and the performance of the supporting staff's work.

The State agency claimed the 75-percent enhanced rate for ineligible employees. For example, the State agency claimed the enhanced rate for:

- a program manager whose duties and responsibilities were analytical in nature and did not require professional medical knowledge and skills,
- a staff manager who had participated in improving New Mexico's Medicaid transportation program, and
- an office clerk whose direct supervisor was not classified by the State agency as skilled professional medical staff.

A State agency official believed that the employees claimed as skilled professional medical personnel worked in positions that were eligible for the enhanced Federal funding rate.

The State agency claimed \$91,928 at the enhanced Federal funding rate and received \$68,946 in Federal funding for salaries and benefits. The State agency should have claimed the costs at the 50-percent rate and received \$45,964. The State agency overstated the Federal share by the difference of \$22,982.

Special Funding Exhausted

In accordance with 62 Federal Register 26545 through 26550 (May 14, 1997) and corresponding State Medicaid director letters, CMS explained its implementation of the appropriated special funding for individuals transitioning from the Aid to Families with Dependent Children program to the new TANF program.³ CMS set forth the methodology for States to claim costs incurred as a result of this transition at an enhanced Federal funding rate of 75 percent. Costs incurred after States exhausted the special funding were to be claimed at the usual 50-percent Federal funding rate.

The State agency claimed \$49,148 at the enhanced Federal funding rate even though the appropriated special funding had already been exhausted. The State agency received \$36,861 in Federal funding rather than the \$24,574 that it should have received. As a result, the State agency overstated the Federal share by \$12,287.

POTENTIALLY UNALLOWABLE COSTS

OMB Circular A-87, Attachment A, section C(3)(a), states that costs are allocable to a particular cost objective if the goods or services involved are chargeable or assignable to that cost objective in accordance with the relative benefits received.

The State agency charged Medicaid for 100 percent of the costs totaling \$772,296 (\$386,148 Federal share) for 34 medical assistance workers and 5 TANF program employees. These employees were included in the random moment timestudy universe even though their costs were not allocated based on the sample results. The random moment timestudy responses for these employees, however, indicated that they had been determining beneficiary eligibility for programs other than Medicaid, including Food Stamps and General Assistance. Some medical assistance workers told us that they had determined beneficiary eligibility for multiple programs, and some of their supervisors confirmed this.

The costs for medical assistance and TANF program workers were charged exclusively to the Medicaid program even though their work benefited other programs. Some portion of the costs for these employees was potentially allowable. However, determining the appropriate allocation of their costs was outside the scope of this audit. As a result, we express no opinion on the costs for these employees.

³The Personal Responsibility and Work Opportunity Act of 1996, P.L. No. 104-193, amended section 1931 of the Social Security Act by establishing a \$500 million fund for enhanced Federal matching of administrative expenditures attributed to the costs of determining Medicaid eligibility related to the TANF program.

POTENTIALLY UNALLOWABLE ADJUSTMENT FOR PRIOR QUARTERS

The State agency made an \$8,507,815 (\$6,380,862 Federal share) adjustment to claim TANF transition costs for seven preceding quarters at the 75-percent enhanced Federal funding rate. This adjustment consisted of (1) eligibility fieldworker salary and benefit costs allocated to the Medicaid program through the random moment timestudy and (2) medical assistance worker salary and benefit costs. These costs previously had been claimed at the 50-percent rate. By reclaiming the \$8,507,815 at the enhanced 75-percent rate, the State agency was able to claim an additional \$2,126,954 in Federal funding.

As explained in the “Random Moment Timestudy Errors” section, the sample for the quarter that we reviewed included responses for employees who should not have been sampled, resulting in an overstatement of Medicaid costs. A State agency official told us that the State agency had employed the same random moment timestudy design during the previous seven quarters. We reviewed summary documentation for the previous quarters and noted that the Medicaid allocation percentage resulting from the random moment timestudy was consistent.

Similarly, the random moment responses for medical assistance workers, whose salaries and benefits were claimed solely as Medicaid administrative costs, indicated that those medical assistance workers had determined beneficiary eligibility for programs other than Medicaid.

Recalculating the random moment timestudy for the previous seven quarters and determining the appropriate allocation for the medical assistance and TANF employees was outside the scope of our audit. As a result, we express no opinion on the \$8,507,815 (\$6,380,862 Federal share) adjustment.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$1,198,105 to CMS for unallowable administrative costs (\$1,069,901) and improper reimbursement related to enhanced Federal funding (\$128,204);
- work with CMS to identify the allowable portion of the \$772,296 (\$386,148 Federal share) in costs for medical assistance workers and TANF program employees and develop an allocation methodology for these employees;
- work with CMS to identify the allowable portion of the \$8,507,815 (\$6,380,862 Federal share) adjustment made to claim TANF transition costs at an enhanced Federal funding rate;
- establish review procedures to ensure that administrative costs are correctly compiled, assigned, and claimed; and
- ensure that supervisors responsible for documenting random moment timestudy results sample only the appropriate eligibility fieldworkers.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency agreed with most of our findings and recommendations. Regarding the unallowable administrative costs and enhanced Federal funding rates, the State agency said that it would refund to CMS \$1,176,577 of the \$1,198,105 total, a difference of \$21,528. The State agency disagreed with the “Miscellaneous Overcharges” section of the report, which included three findings totaling \$22,037. In support of its view, the State agency provided with its comments CMS correspondence indicating that third-party liability amounts should be reported as positive amounts (added) on the Form CMS-64.

The State agency agreed to work with CMS to resolve the potentially unallowable costs for (1) medical assistance workers and TANF program employees and (2) the adjustment made to claim TANF transition costs at an enhanced Federal funding rate. As part of its conclusion, the State agency said that it owed CMS \$49,427 for the Federal share of potentially unallowable costs for medical assistance workers and TANF program employees.

The State agency also said that it had implemented review procedures to ensure that administrative costs are correctly compiled, assigned, and claimed, as well as a new process to ensure that the random moment timestudy population is accurate.

The State agency’s comments are included in their entirety as the Appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

Based on further discussion with the State agency official who signed the comments, we determined that the State agency disagreed only with the first two findings in the “Miscellaneous Overcharges” section: costs that were fully funded through a separate Federal grant and third-party liability costs. These two findings totaled \$21,528 (Federal share).

Regarding costs that were fully funded through a separate Federal grant, the State agency did not provide additional support for allocating the costs to the Medicaid program.

Regarding third-party liability costs, the State agency’s correspondence with CMS related to the fourth quarter of fiscal year 2007, not to our audit period, which ended September 30, 2004. Additionally, during the audit, the State agency provided us with CMS correspondence specifically stating that the State agency should offset (subtract) third-party liability costs from the Form CMS-64 for the audit period. The State agency did not offset these costs.

After reviewing the State agency’s comments and the documentation that it provided, we maintain that our findings and recommendations are valid and that the State agency should refund the entire \$1,198,105 to CMS.

APPENDIX



Bill Richardson, Governor
Pamela S. Hyde, J.D., Secretary

New Mexico Human Services Department

Administrative Services Division
PO Box 2348
Santa Fe, NM 87504-2348
L. Elaine Olah, Director
Phone: (505) 827-9408 Fax: (505) 827-7187

October 9, 2008

Gordon Sato
Regional Inspector General for Audit Services
Department of Health & Human Services
Office of Inspector General
1100 Commerce Room 632
Dallas, TX 75242

RE: OIG Audit of Medicaid Administrative Costs Quarter Ending Sept. 24, 2008

Dear Mr. Sato:

Thank you for the opportunity to provide comments on the U.S. Department of Health and Human Services, Office of Inspector General (OIG), draft report entitled "Review of New Mexico's Medicaid Administrative Costs for the Quarter Ended September 24, 2004". Below are the State's responses to the findings.

Recommendations:

Refund \$1,198,105 to CMS for unallowable administrative costs (\$1,069,901) and improper reimbursement related to enhanced Federal Funding (\$128,204);

Work with CMS to identify the allowable portion of the \$772,296 (\$386,148 Federal share) in costs for medical assistance workers and TANF program employees and develop a methodology for these employees;

Work with CMS to identify the allowable portion of the \$8,507,815 (\$6,380,862 Federal share) adjustment made to claim TANF transaction costs at an enhanced Federal funding rate;

Establish review procedures to ensure that administrative costs are correctly complied, assigned, and claimed;

Ensure that supervisors responsible for documenting random moment time study results sample only the appropriate eligibility fieldworkers.

Access • Quality • Accountability

ASD Response:**1. Unallowable costs and Unallowable Enhanced Funding.**

The State agency concurs with the finding to refund federal share of \$1,176,577 and will report a decreasing prior quarter adjustment on the September 2008 CMS-64. The State agency disagrees with the finding for miscellaneous charges, total computable \$44,074 (\$22,037 Federal Share). We are including correspondence from CMS to report these costs on the CMS-64.

2. Undetermined Costs.

The State agency will work with CMS during the next quarterly site visit in November 2008 to resolve this finding and will report a prior quarter adjustment on the CMS-64 if necessary.

3. Questioned allowable portion of the \$8,507,815 (\$6,380,862 fed share) adjustment made to claim TANF transition costs at an enhanced federal funding rate.

The State agency will work with CMS to resolve this finding during the next quarterly site visit in November 2008 and will report a prior quarter adjustment on the CMS-64 if necessary.

4. Since the Sept-04 audit, the following review procedures have been implemented to ensure administrative costs are correctly compiled, assigned, and claimed:

- a. Cost Allocation according to an approved Public Assistance Cost Allocation Plan that allocates costs to Medicaid administrative costs, with built in review processes to validate and verify these costs.
- b. Established budget controls and monitoring to control the expenditures.
- c. Project and Activity codes, within New Mexico's statewide financial system, assigned to Medicaid administrative expenditures, are retrieved and compiled into worksheets, that completes a level one review by the analyst & manager of the CMS reporting team.
- b. These costs in the reporting format, plus a variance analysis, are next reviewed by the grants analyst, manager and bureau chief.
- c. The Medicaid program representative(s) next review the report and variance analysis with the team from ASD's Grants Management.
- d. The final reviews, before submission and certification, are with ASD's Director and Deputy Director.

5. The agency concurs with the recommendation made by DHHS/OIG's audit team regarding our ability to ensure that supervisors responsible for documenting random moment time study results sample only the appropriate eligibility fieldworkers. With the implementation of the WINRMS application in July 2007 and the related review procedures, the agency has addressed this item. The agency reviews the population of fieldworkers included in WINRMS on a quarterly basis to ensure the population is accurate.

To conclude, the final amount to be reported as a decreasing prior quarter adjustment on CMS-64 is \$1,226,004 which is a combination of the \$1,176,577 (unallowable

costs/unallowable enhanced) plus the \$49,427 in the Federal share from the Undetermined Costs finding.

Feel free to contact Donna Sandoval at (505) 827-7057 with any questions related to this matter.

Sincerely,



for L. Elaine Olah
Administrative Services Division Director

cc: Carolyn Ingram, Division Director, MAD
Donna Sandoval, Deputy Director, ASD
Allen Thompson, Bureau Chief, ASD Grants Management
Martin Ortega, Bureau Chief, Compliance and Financial Systems
Paula McGee, Healthcare Operations Manager, MAD



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Centers for Medicare & Medicaid Services
Division of Medicaid, Region VI

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January 15, 2008

Ms. Carolyn Ingram, Director
Medical Assistance Division
New Mexico Human Services Department
Post Office Box 2348
Santa Fe, New Mexico 87504-2348

Dear Ms. Ingram:

We completed our review of expenditures claimed on the New Mexico Quarterly Medicaid Statement of Expenditures (CMS-64) for Quarter IV, FY 2007 (July – September 2007). We also completed the review of the CMS-37 Medicaid Budget Report for Quarter II, FY 2008 (January – March 2008). The review was made for both the Medical Assistance Payments Program and Medicaid Administration.

CMS-64

As this was my first quarterly review for New Mexico and, in light of the fact that I have very little knowledge of the New Mexico Medicaid program, I am very appreciative of the patience and cooperation provided by all of the staff that helped us during the review process. I also appreciate the organization of the work papers and the obvious desire and efforts of the State to ensure correct reporting for Medicaid expenditures.

As indicated previously, we did request that the three remaining deferrals be released.

Revisions made on the current quarter expenditure report which will require corrections for prior quarters on the next expenditure report are summarized below:

- The federal share of drug rebate interest should be reported on line 5 of the CMS-64 summary sheet. The total computable amount was reported on line 3A of the summary sheet for previous quarters resulting in a refund for all drug rebate interest instead of just the federal share. To reclaim the state share of the drug rebate interest, the State should reduce the amount of drug rebate interest reported on the next report by the amount of State share interest previously refunded. **In December 2007 the CMS 64 was uncertified so that we could make this adjustment. We made this adjustment on the CMS 64 Summary sheet on December 18, 2007.**



- TPL and Assignment of Rights grant award billing offsets were previously reported as negative amounts on lines 7 A & B on the 64-10 Base form. These amounts should be reported as positive amounts in order to receive proper credit for billing offsets. During Bob's Cowan last visit, he worked with GMB personal to correct this TPL portion on the CMS 64 10Base.
- The total amount of Medicare Part B premiums was previously included on line 17B of the CMS-64.9 Base form in addition to the amount claimed at 100% for Qualifying Individuals on line 17C1. Since the amount claimed for qualifying individuals represents a portion of the total Medicare Part B premiums, this amount should be deducted from the total Part B premium amount and the difference claimed on line 17B. The CMS 64 was uncertified in December 2007 so that we could make this adjustment. With Bob's guidance we were able to make this correction on Part B on December 18, 2007.

Prior quarter adjustments for these as well as any other agreed upon adjustments should be included on the next CMS-64 expenditure report. These adjustments were included in the current September Quarter report.

The State may want to review their draw procedures as no draws were made for administration or SCHIP for QIV, FY 2007. The State also did not report any Medicare collections for TPL collections on form CMS-64.9A. The State may also want to identify any Civil Monetary Penalty cases where only the State share was received by the State, so as to ensure that the federal share has not been returned twice. GMB did a true-up for administration and SCHIP for QIV, FY2007 that was done on 12/18/07. This was submitted to Cash Management for draw procedures on the CMS PMS system. The true-up was approved and the SCHIP amounts were drawn on the PMS system in December 2007...

TPL was reported and corrected on the CMS - 64.9A report on 12/18/07

No payments to the fiscal agent were reported for QIV, FY 2007. It would be unusual for no payments to be made to the fiscal agent for the quarter. Also, since fiscal agent payments normally represent a significant portion of administration expenditures, we request that copies of the fiscal agent vouchers be provided as part of the administration work papers each quarter. ACS Fiscal Agent expenditures were reported on line 4A on the CMS64.10 report instead of LINE 4B. Copies of payment vouchers were sent to CMS (Bob) with John Castro on January 16, 2008. We will start reporting these expenditures on line 4B on the December quarter.

In addition to addressing these issues, we would also like to focus more on administration claims during the next quarterly review. We would be interested in learning generally how administration costs are compiled and allocated, and more specifically (may want to use as an example) what costs are included or allocated as Skilled Professional Medical Personnel (SPMP) and nurse aid training costs. Also how costs for equipment and other items costing over \$25,000 are capitalized and depreciated and what administration costs are incurred by other agencies. During Bob's next visit we will have examples of SPMP admin costs ready for his review.

We also understand that the State will explain and document their procedures for returning the federal share of uncashed or cancelled checks and procedures for returning the federal share for aging provider overpayments (accounts receivable). [Stale dated warrants are still being reviewed by HSD on how to precede with CMS requests](#)

CMS-37

The HCFA-37 report was reviewed for reasonableness of projected costs based on the State Plan, legislative mandates, and historical trends. We did not recommend any changes in the State's grant award estimates.

Again I wish to express our appreciation for the cooperation provided during our review and look forward to the next quarterly review, tentatively scheduled for the last week in February, 2008. If you have any questions, please call me at (214) 767-6485 or e-mail Robert.Cowan@cms.hhs.gov.

Sincerely,

/s/

Robert Cowan
Financial Operations Specialist

cc: Elaine Olah
Paula McGee