California State Auditor

BUREAU OF STATE AUDITS

# Department of Health Services:

## *Participation in the School-Based Medi-Cal Administrative Activities Program Has Increased, but School Districts Are Still Losing Millions Each Year in Federal Reimbursements*


August 2005
2004-125

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# CALIFORNIA STATE AUDITOR

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August 4, 2005 2004-125

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the Department of Health Services' (Health Services) administration of the school-based Medi-Cal Administrative Activities program (MAA).

This report concludes that MAA participation and reimbursements have increased significantly since fiscal year 1999–2000. Although school districts received $91 million from MAA for fiscal year 2002–03, we estimate they could have received an additional $57 million had all school districts participated and certain districts fully used MAA. However, Health Services does not believe it has the resources or a specific mandate to attempt to increase school districts' use of MAA and believes that assuming the role of increasing federally allowable MAA reimbursements will be in conflict with its responsibility to ensure the integrity of the expenditure of MAA funds. We do not believe that encouraging school districts to invoice for all federally allowable costs conflicts with Health Services' other responsibilities. Indeed, we believe Health Services has the responsibility, and already has a mechanism, to help school districts fully use MAA. Specifically, it could use its contracts with educational consortia to require them to conduct outreach activities designed to increase MAA participation and federally allowable reimbursements.

In addition, because it has not performed a sufficient number of on-site visits and has not collected basic program data, Health Services is limited in its ability to identify potential problems developing at the local level. Oversight would be simplified and the program would be more efficient if school districts were required to submit invoices through an educational consortium, rather than have the additional option of submitting invoices through a local governmental agency, and if school districts were required to use a vendor competitively selected by a consortium when such services are needed.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE
State Auditor

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# SUMMARY

*Audit Highlights . . .*

*Our review of the Department of Health Services' (Health Services) administration of the Medi-Cal Administrative Activities program (MAA) revealed the following:*

- ☑ *School districts' participation in, and reimbursements for, MAA have significantly increased since fiscal year 1999–2000.*
- ☑ *Despite receiving $91 million for fiscal year 2002–03, we estimate school districts could have received at least $57 million more had all school districts participated and certain districts fully used MAA.*
- ☑ *Health Services has not performed a sufficient number of local on-site visits.*
- ☑ *Simplifying the MAA structure would increase efficiency and simplify program oversight.*

## RESULTS IN BRIEF

According to a survey conducted by the University of California, Los Angeles, more than 1.1 million California children under the age of 19 did not have health insurance during all or part of 2003; 26 percent of those children were eligible for enrollment in the California Medical Assistance Program (Medi-Cal), the State's version of the federal Medicaid program. Because they have an incentive to help children obtain health insurance, school districts perform various outreach activities targeting children and families eligible for Medi-Cal. The State established the school-based Medi-Cal Administrative Activities program (MAA) to provide school districts with the means to obtain federal reimbursements for 50 percent of the costs they incur conducting Medi-Cal administrative activities, including outreach.

Only a limited number of school districts applied for MAA reimbursements for fiscal year 1999–2000. Since then, however, participation has significantly increased. A May 2005 estimate predicts the number of school districts applying for reimbursements for fiscal year 2004–05 will be triple that for fiscal year 1999–2000. A different measure of growth shows the statewide federal reimbursements increased from $15 million for fiscal year 1999–2000 to $91 million for fiscal year 2002–03, the latest year for which complete data were available at the time of our review.

We estimate that school districts could have received a total of at least $53 million more for fiscal year 2002–03 if all districts had participated and an additional $4 million if certain participating school districts had fully used MAA. According to our survey of 19 school districts that did not participate in MAA in fiscal year 2002–03, one of the major reasons for not participating was that the districts did not believe the program would be fiscally beneficial. However, the nonparticipating school districts generally indicated they already perform one or more of the activities eligible for reimbursement under MAA. Additionally, some of those school districts have not recently assessed whether the benefits of the program outweigh its costs. For example, one nonparticipant may have forfeited an estimated $313,000 for fiscal year 2002–03, based on the average MAA reimbursement received by similar-sized school

districts. In contrast, many of the school districts that recently conducted cost analyses have decided to participate in MAA. The two consistent reasons offered by school districts that have underused the program were the lack of an experienced MAA coordinator with sufficient time to focus on the program and a general resistance to and lack of support for recording time spent on reimbursable activities.

The Department of Health Services (Health Services) limits its role in MAA to support, processing, and oversight activities because it does not believe it has the resources or a specific mandate to increase the use of MAA by school districts. Further, Health Services believes that assuming the role of increasing federally allowable MAA reimbursements would conflict with its fiduciary responsibility as the single state agency responsible for ensuring the integrity of the expenditure of federal MAA funds. However, we do not believe that encouraging school districts to invoice for all federally allowable costs is in conflict with Health Services' responsibility to ensure the accuracy of MAA invoices. Indeed, as the administering state agency for MAA, Health Services has a responsibility to California to help school districts receive all the federal funds to which they are entitled. By amending its contracts with educational consortia (consortia)—11 local entities that assist in administering MAA throughout the State—Health Services could require the consortia to perform outreach activities that would increase MAA participation and federally allowable reimbursements. Although some consortia already do so to some extent, Health Services has not contractually obligated them to perform these activities and has not established ways to measure their performance.

As the state agency with the overall responsibility for administering Medi-Cal, Health Services is required to oversee MAA. Inadequate oversight may have caused school districts to receive less MAA funds than they were entitled and may have increased the risk of a federal disallowance. Because it has not performed a sufficient number of site visits and has not collected basic program data, Health Services is limited in its ability to identify potential problems at the local level. For instance, some consortia and local governmental agencies, which also help Health Services administer MAA at the local level, charge school districts fees that exceed their costs. Health Services has not established policies on the appropriate level of fees to be charged by consortia or local governmental agencies. Additionally, Health Services was unaware that the federal government

might be billed twice for the same services because some consortia and local governmental agencies changed their fee structure to allow school districts to claim costs for which the consortia and local governmental agencies were also requesting MAA reimbursements.

Simplifying the MAA structure would increase its efficiency and simplify program oversight. Currently, school districts can elect to submit invoices either through a consortium or a local governmental agency. Removing local governmental agencies, which are typically county health agencies, from the process would streamline MAA and make oversight simpler for Health Services. To further simplify the MAA structure, Health Services should require a school district that needs additional program assistance to use a vendor competitively selected by a consortium, rather than allowing such a school district to enter into a separate contract with a vendor. This would likely result in more uniform, possibly lower fees and more consistent service.

## RECOMMENDATIONS

To simplify and improve program oversight and to increase the efficient operation of MAA, Health Services should do the following:

- Reduce the number of entities it must oversee and establish clear regional accountability by eliminating the use of local governmental agencies in administering MAA.

- Require consortia to periodically identify and contact specific nonparticipating school districts that have a potential for high MAA reimbursements and periodically identify and contact participating school districts that appear to be underusing MAA to help ensure that they have a correct understanding of those costs that are federally reimbursable.

- Require school districts that use a private vendor to use one selected by the regional consortium through a competitive process.

If Health Services believes it does not have the authority to implement the above recommendations, it should seek statutory changes.

Regardless of how MAA is structured, Health Services should do the following to ensure that it is adequately monitoring the activities of the entities it contracts with to administer the program at the local level:

- Develop policies on the appropriate level of fees charged by local administering entities to school districts and the amount of excess earnings or reserves they are allowed to accumulate.

- Monitor local administering entities and take appropriate action when their performance is unsatisfactory.

- Improve its ability to monitor MAA by consistently performing site visits of the entities it contracts with to administer the program at the local level and by updating its current invoice and accounting processes so that it can more easily collect data on the participation and reimbursement of school districts.

## AGENCY COMMENTS

Health Services agrees with several of our recommendations. However, although Health Services stated it would continue to research the issue, it does not believe it has the express authority to implement policies on the appropriate level of fees charged to school districts. Health Services disagrees with our recommendation that it seek a change in the law to eliminate local governmental agencies from MAA. Finally, Health Services partially disagrees with our recommendation that it require school districts that choose to use the services of a private vendor to use one competitively selected by the consortia. Although it agrees with the merits of the recommendation, Health Services does not believe its authority can be extended to school districts' selection of vendors. ■

# INTRODUCTION

## BACKGROUND

The Department of Health Services (Health Services) administers the California Medical Assistance Program (Medi-Cal), the State's Medicaid program. Medicaid is a federal program funded and administered through a state and federal partnership to benefit low-income people who do not have health insurance, including low-income families with children and persons on Supplemental Security Income who are aged, blind, or disabled. Health Services has the overall responsibility for administering Medi-Cal. However, it relies on local governmental entities to perform some functions, such as making Medi-Cal eligibility determinations. Through the school-based Medi-Cal Administrative Activities program (MAA), school districts can obtain federal reimbursement for 50 percent of the cost of certain administrative activities related to Medi-Cal. An increasing number of school districts receive reimbursements through MAA.

The U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS), formerly named the Health Care Financing Administration, is the federal agency that provides regulatory oversight of Medi-Cal. The CMS offers guidance to states on the types of administrative activities that are reimbursable and the manner in which claims must be submitted and supported.

## SCHOOL-BASED MEDI-CAL ADMINISTRATIVE ACTIVITIES PROGRAM

Based on a survey conducted by the Center for Health Policy Research at the University of California, Los Angeles, the number of children under age 19 who were uninsured for all or part of 2003 in California exceeded 1.1 million, and 26 percent of those uninsured children were eligible for enrollment in Medi-Cal. Because schools generally are community-based entities that have established relationships with parents, they are uniquely positioned to provide outreach to the families of uninsured, Medi-Cal-eligible children. Further, schools have an incentive to help more children obtain health insurance because

absenteeism is associated with school failure. For this and other reasons, schools conduct various forms of health-related outreach activities.

Based on guidance from the CMS and direction from the Legislature, Health Services established MAA to allow school districts to be reimbursed for the costs of some of their health and outreach activities that they cannot otherwise claim under other Medi-Cal billing options. Among the activities reimbursable through MAA are referring students or their families for Medi-Cal eligibility determinations and providing health care information and referrals; others are listed in the text box.

**Reimbursable Medi-Cal Administrative Activities**

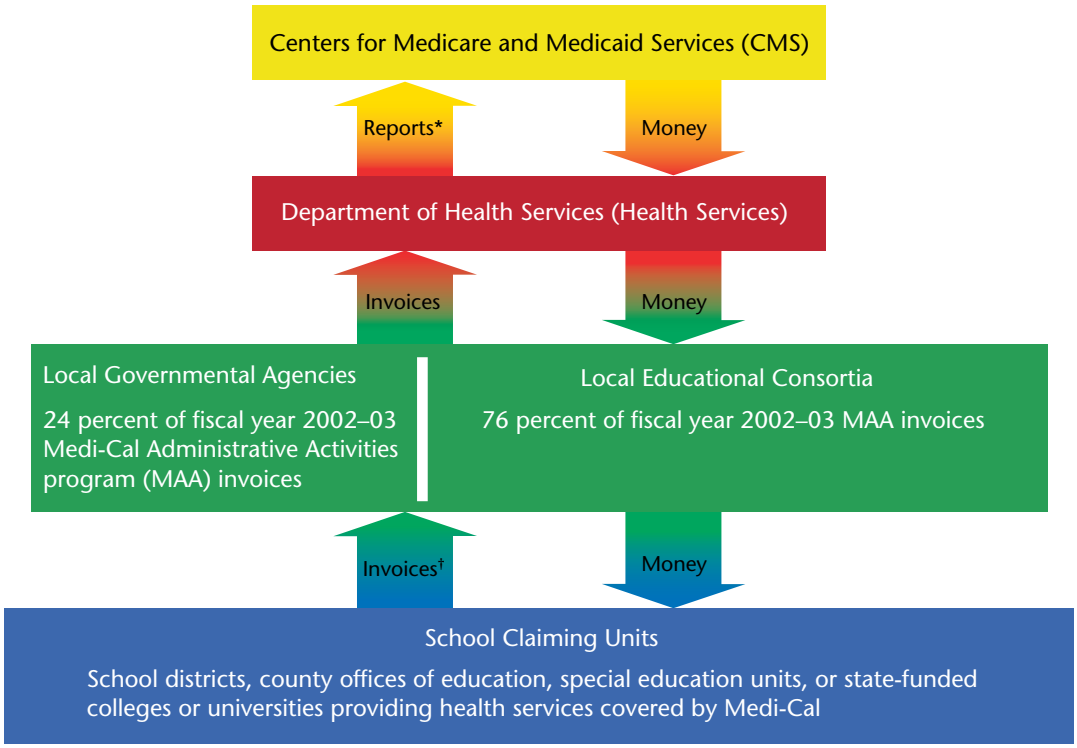
- Initial Medi-Cal outreach.
- Facilitating the Medi-Cal application.
- Ongoing referral, coordination, and monitoring of services covered by Medi-Cal.
- Transportation-related activities in support of services covered by Medi-Cal.
- Translation related to services covered by Medi-Cal.
- Program planning, policy development, and interagency coordination.
- Medi-Cal claims administration, coordination, and training.

Unlike other Medi-Cal billing options, individual claims for each service provided to a student are not required under MAA. Rather, school claiming units—which include school districts, county offices of education, special education units, and state-funded colleges or universities providing services covered by Medi-Cal—determine the amount of time school staff spend performing MAA activities by having staff periodically conduct time surveys. The school claiming units use the results of these time surveys to determine the percentage of school costs they can claim under MAA.

As long as program choices do not result in the claiming of unallowable costs, the CMS gives each state discretion over how its MAA is organized. Figure 1 represents how California has chosen to structure its MAA. As the figure shows, school claiming units, often with the assistance of private vendors, prepare and submit claims to Health Services through local governmental agencies or educational consortia (consortia). Local governmental agencies are typically county health agencies, and consortia are educational entities that administer MAA within the 11 service regions of the California County Superintendents Educational Services Association. Health Services contracts with both types of entities to provide administrative assistance at the local level. Consortia and local governmental agencies retain portions of the claims they process to pay administrative expenses, Health Services' administrative fees, and in some cases, vendor fees.

## FIGURE 1

**School-Based Medi-Cal Administrative Activities Program Structure**




* Health Services submits a quarterly report to the CMS that includes MAA invoice information.

† Vendors frequently assist school districts in the preparation of invoices.

The original legislation authorizing MAA, enacted in 1994, allowed local governmental agencies to receive MAA reimbursements for the Medi-Cal programs in their respective areas but made no mention of consortia. These entities were not added to program statutes until 1998 and were not organized until 1999. Although school districts could claim reimbursements through local governmental agencies prior to the 1998 legislation, it was not until consortia were added to the program that a recognizable MAA at school districts began to take shape. Therefore, in our report, we offer various program statistics that date back to fiscal year 1999–2000.

School districts currently submit MAA invoices through 31 local intermediaries—11 consortia and 20 local governmental agencies. However, as Figure 2 on the following page shows, local governmental agencies operate within the same jurisdictions as the consortia that administer MAA at the regional level. These local governmental agencies contract directly with Health Services and

## FIGURE 2

### Boundaries of Educational Consortia and Local Governmental Agencies


Sources: Regional map from the Local Educational Consortium Committee and fiscal year 2002–03 participation data from local governmental agencies.

* The city of Pasadena is the only city that is a local governmental agency through which school districts submit MAA invoices.

do not operate under the oversight of their regional consortia. Therefore, as we discuss further in Chapter 3, Health Services must oversee the activities of the 31 consortia and local governmental agencies separately.

## SCOPE AND METHODOLOGY

The Joint Legislative Audit Committee (audit committee) asked the Bureau of State Audits to review Health Services' administration of MAA. Specifically, we were asked to review the effectiveness of Health Services' relationship with the CMS in developing the State's planning and guidance for the program. We were also asked to assess the guidelines provided by Health Services to consortia and local governmental agencies that administer MAA at the local level and evaluate the relationship between Health Services and these entities. Additionally, the audit committee asked us to determine the number of consortia and local governmental agencies contracting with Health Services to administer MAA and evaluate the process by which it selects these entities to contract with, how it establishes the payment rates under the terms of the contracts, and how it monitors and evaluates performance.

We were also asked to evaluate the effectiveness of a sample of consortia and local governmental agencies in administering MAA and in ensuring maximum participation by school districts. Further, we were requested to conduct a survey of school districts regarding their participation in the program. Finally, the audit committee asked that we identify the total amount of federal money provided to the State for MAA for the past three fiscal years.

To evaluate the effectiveness of Health Services' relationship with the CMS, we reviewed the development of the most recent California MAA manual. Although federal approval of the manual was delayed because of differences over a few key points, the delay did not prevent school districts from submitting reimbursement claims.

To understand Health Services' responsibilities regarding MAA administration, we reviewed applicable state and federal laws, regulations, and guidance. We also interviewed officials at Health Services to determine policies and procedures it implemented to ensure the effective administration of the program.

To determine the effectiveness of Health Services' administration and oversight, we reviewed guidance it provided to consortia, local governmental agencies, and school districts that participated in the program. We also reviewed guidance provided by the CMS and interviewed a representative of that federal agency to find any federal laws, rules, or regulations addressing the reasonableness of fees paid by school districts to consortia, local governmental agencies, and vendors. We found no such laws.

We also determined the rates Health Services charged consortia and local governmental agencies that contracted with it to administer the program at the local level and concluded that the methodology used to calculate the fees appeared reasonable and was appropriately applied.

We attempted to review the process Health Services used to select consortia and local governmental agencies but found that it did not have such a process. School districts can choose to submit a claim for reimbursement through either a consortium or local governmental agency. According to Health Services' chief of administrative claiming, it allows each region to select the entity that administers the consortium using whatever methodology the region desires. If a school district uses a local governmental agency, it must choose the one that resides in that school district's county.

We evaluated Health Services' efforts to monitor the program performance of consortia and local governmental agencies and their compliance with applicable requirements, and we assessed Health Services' efforts to ensure maximum participation by school districts. We also attempted to evaluate the process for addressing MAA complaints but were informed by a Health Services' official it has no formal process in place. However, this official and representatives from various consortia stated that they are working to develop a formal complaint process.

We identified the number of consortia and local governmental agencies that administer MAA at the local level and also determined the number of school districts that participated in MAA in fiscal years 1999–2000 through 2004–05 by obtaining

participation data from consortia. We verified the accuracy of these data by reconciling them with fiscal year 2002–03 data provided by Health Services and by performing some limited testing for other fiscal years. We also determined the total amount of MAA reimbursements for fiscal years 1999–2000 through 2002–03 by obtaining reimbursement data from consortia and local governmental agencies and by verifying the accuracy of the data in a manner similar to that used to verify the participation data. With the help of a statistical expert, we used fiscal year 2002–03 reimbursement data and enrollment data from a California Department of Education database to estimate how much reimbursement nonparticipating school districts could have received had they participated in MAA. We used fiscal year 2002–03 data because this was the most recent year for which complete data were available. MAA reimbursement claims for fiscal year 2003–04 were being submitted to Health Services during the completion of our fieldwork.

To evaluate the effectiveness of consortia and local governmental agencies in administering MAA and increasing school districts' participation in the program, we conducted site visits to five consortia and four local governmental agencies. We interviewed various program officials during our site visits and reviewed policies, procedures, and other pertinent documentation. Our sample included entities that administer MAA at school districts with both high and low ratios of MAA reimbursements to student enrollment. Additionally, our sample included various locations throughout the State.

Finally, to understand the school districts' perspective on MAA administration, the number of school districts that used private vendors, and the reasons they used private vendors for assistance in administering the program, we surveyed 28 school districts that participated in MAA in fiscal year 2002–03 (of which 27 responded), as well as 19 that were not participating in MAA at that time. The majority of participating school districts that responded believe Health Services, as well as the consortia and local governmental agencies, were effectively administering MAA. However, as we discuss in the report, more can be done to improve the efficiency of the program and increase federally allowable reimbursements. Our sample of participating school districts included those with varying levels of MAA reimbursements. Our sample of nonparticipating school districts generally focused on districts with relatively high student attendance figures that we believe could most benefit from participation in MAA.

Although school districts, county offices of education, special education units, and state-funded colleges and universities providing services covered by Medi-Cal can submit invoices under MAA, our audit focuses on the participation of school districts and county offices of education. The reason for this focus is that these two types of entities received approximately 99 percent of MAA reimbursements for fiscal year 2002–03. Throughout the report, we generally refer to both groups collectively as school districts, unless otherwise noted. ■

# CHAPTER 1

## *School Districts Need Stronger Encouragement to Apply for Federal Dollars for Medi-Cal Administrative Activities*

### CHAPTER SUMMARY

The number of school districts participating in the school-based Medi-Cal Administrative Activities program (MAA) has significantly increased in recent years. Educational consortia (consortia)—entities that, along with local governmental agencies, administer MAA at the local level—estimate that as of May 2005 nearly three times as many school districts will have submitted MAA invoices for fiscal year 2004–05 as submitted for fiscal year 1999–2000. Even more dramatic is the rise in federal reimbursements received by California school districts under MAA: $91 million for fiscal year 2002–03 compared with $15 million for fiscal year 1999–2000.

Despite this significant increase, we estimate school districts could have received at least $53 million more for fiscal year 2002–03 had all school districts participated in the program. Moreover, if certain participating school districts had used MAA more fully during that year, we estimate they could have received a combined total of another $4 million in federal reimbursements. Although school districts can no longer invoice for those lost federal dollars, some progress has been made in recent years in securing unrealized MAA revenue. However, much more could be done to increase the number of school districts participating in the program.

School districts that chose not to participate in the program cited various reasons for their decision. Our survey of 19 school districts not participating in MAA in fiscal year 2002–03 identified a belief that the program would not be fiscally beneficial as one of the primary factors in their decision not to participate. However, some of these school districts had not recently assessed the costs and benefits of MAA. As a result, these school districts had no sound basis for their decision not to participate in the program. Many of the districts that have done recent assessments now plan on participating in MAA. In addition, based on discussions with

consortia and local governmental agencies, a general resistance to and a lack of support for conducting surveys of time spent on reimbursable activities (time surveys) is a major stumbling block to school districts' invoicing for reimbursable activities to the extent they could have. In contrast, staff from the consortium and a county in one region told us the region successfully increased its MAA reimbursements because its school districts had support for conducting time surveys.

Given the amount of money school districts could be receiving and the likelihood that they would participate in the program once they understood its benefits, we would expect the Department of Health Services (Health Services) to implement procedures to help increase use of MAA. However, it believes its role in MAA is limited to processing contracts, claiming plans, and invoices; providing training; and conducting oversight activities. Health Services acknowledged that there is nothing statutorily that prohibits it from trying to increase MAA participation and federally allowable reimbursements, but it has elected not to do so because it believes it has neither a mandate nor enough resources.

Health Services could modify its contracts with consortia to require these entities to actively promote the program to school districts not currently participating. Although consortia voluntarily perform some outreach activities, their efforts could be improved. Additionally, because Health Services does not measure program participation and does not monitor local efforts to increase participation, it cannot assess their effectiveness.

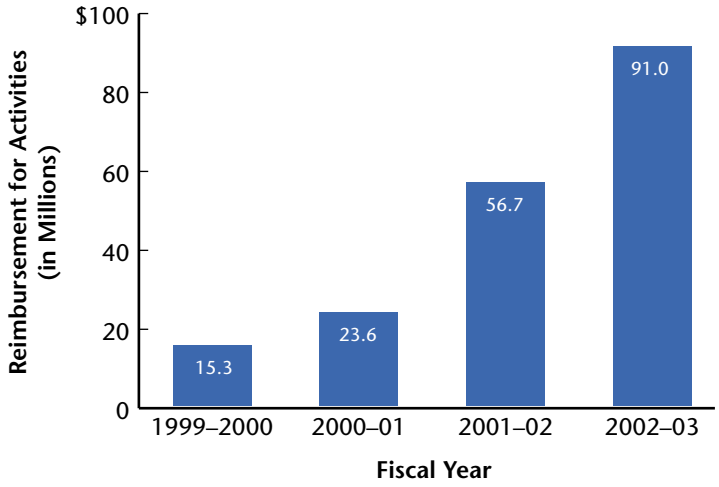
## PARTICIPATION IN MAA HAS INCREASED IN RECENT YEARS

***Consortia estimate that the number of school districts participating in MAA by the end of fiscal year 2004–05 will nearly triple from fiscal year 1999–2000.***

From fiscal years 1999–2000 through 2002–03, the number of school districts participating in MAA nearly doubled, and consortia estimated in May 2005 that from fiscal years 1999–2000 through 2004–05, the number of participating school districts will nearly triple. The increase in federal reimbursements is even more dramatic. As shown in Figure 3, the total amount of federal reimbursements received by California school districts under MAA is about six times higher for fiscal year 2002–03 than for fiscal year 1999–2000.

## FIGURE 3

**Federal Reimbursement to School Districts for Medi-Cal Administrative Activities for Fiscal Years 1999–2000 Through 2002–03**

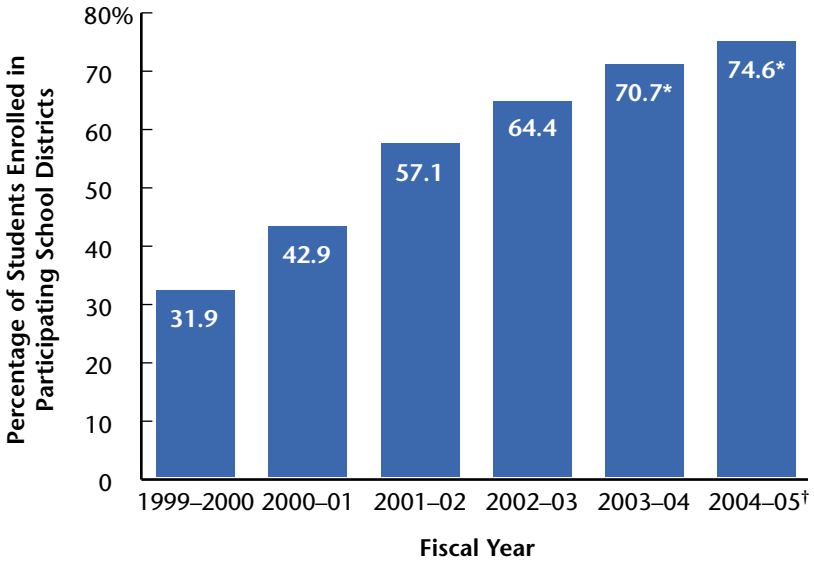



Source: Local Educational Consortium Committee and the Local Governmental Agency Committee.

For fiscal year 1999–2000, 18 percent of the school districts in California submitted MAA invoices. Participation increased to 34 percent for fiscal year 2002–03 and, as of May 2005, consortia estimate participation will reach 52 percent for fiscal year 2004–05. However, because larger school districts serve more children and therefore tend to receive higher federal reimbursements, it is important to account for the size of the participating districts when analyzing MAA participation. Figure 4 on the following page shows the percentage of total state enrollment of school districts that have participated or are expected to participate in MAA through a consortium or local governmental agency. For example, for fiscal year 1999–2000, the enrollment of participating school districts represented about 32 percent of total state enrollment. More than 64 percent of enrolled students were covered by MAA in fiscal year 2002–03, and as of May 2005, the percentage of total enrollment covered is estimated at nearly 75 percent for fiscal year 2004–05.

## FIGURE 4

**Percentage of Students Enrolled in School Districts Participating in the Medi-Cal Administrative Activities Program for Fiscal Years 1999–2000 Through 2004–05**




Source: Local Educational Consortium Committee provided data for the enrollment of participating school districts. Statewide enrollment data are from a California Department of Education database.

* The federal government allows states to submit invoices for the Medi-Cal Administrative Activities program (MAA) within a two-year time frame. Because at this time consortia do not know exactly which school districts will submit MAA invoices for these fiscal years, the data for these fiscal years are estimates based on information consortia had as of May 2005.

† The Local Educational Consortium Committee estimated the enrollment of participating school districts in fiscal year 2004–05 using fiscal year 2003–04 enrollment data because fiscal year 2004–05 data were not available when it compiled this information.

Consortia estimate that between fiscal years 2002–03 and 2004–05, the percentage increase in the number of school districts participating in MAA will exceed the percentage increase in the enrollment of participating school districts. This would suggest that the newly participating school districts would have a lower overall enrollment than the average enrollment of school districts statewide. These smaller school districts would tend to receive lower MAA reimbursements. Consequently, if nothing else in the program changes, California school districts collectively will not likely be able to continue to experience the same dramatic increases in federal reimbursements under MAA that occurred in previous fiscal years.

## SCHOOL DISTRICTS UNDERUSED MAA

Although participation in MAA increased, many school districts still did not apply for reimbursement as of fiscal year 2002–03, and certain participating school districts did not invoice for reimbursable activities to the extent they could have. We estimate that, as a result, school districts did not receive federal reimbursement for at least $57 million for fiscal year 2002–03. Among school districts we surveyed, one of the primary reasons given for deciding not to participate in MAA was their belief that the program would not be fiscally beneficial. However, several of the nonparticipating school districts we surveyed have not recently assessed the costs and benefits of the program, while many of the surveyed school districts that recently performed this kind of assessment have now decided to participate. Consortia and local governmental agencies offered two main reasons for certain participating school districts not fully using MAA: school districts lacked experienced MAA coordinators with the time needed to focus on the program, and the school districts generally resisted or lacked support for conducting time surveys. If such issues are addressed, school districts might be able to obtain additional MAA reimbursements beyond our $57 million estimate.

### School Districts Could Have Received an Estimated $57 Million More in MAA Funds for Fiscal Year 2002–03

*School districts could have received at least an estimated $53 million more for fiscal year 2002–03 had all school districts participated in MAA and an additional $4 million more if certain participating districts fully used the program.*

Although California school districts received a total of $91 million in federal MAA funds for fiscal year 2002–03, we estimate that they could have received at least $53 million more if all school districts had participated in the program and an additional $4 million more if certain participating school districts had fully used the program. Using statistics and reimbursement data for fiscal year 2002–03, the last year for which complete data were available, we prepared a conservative estimate of the average reimbursement for each of the enrollment categories shown in the Table on the following page. We then applied that average to the number of nonparticipants in each category to arrive at our estimate of $53 million. As discussed previously, the percentage of participating school districts has increased since fiscal year 2002–03. Therefore, although complete data are not yet available, some progress has been made in securing this unrealized MAA revenue for fiscal years 2003–04 and 2004–05. As a result, the estimates for school districts not participating in those years would likely be lower than the estimates we prepared using data for fiscal year 2002–03. Even so, school districts continue to miss out on a significant portion of the estimates shown in the Table. Further, because the federal government imposes a two-year time limit on MAA invoices, school districts can no longer invoice for the reimbursable activities that occurred in fiscal year 2002–03.

## TABLE

### Estimates of Federal Funds School Districts Could Have Received by Participating in MAA in Fiscal Year 2002–03 (Dollars in Thousands)

| Enrollment Category* | Number of School Districts Participating in MAA | Number of School Districts Not Participating in MAA | Estimated Average MAA Reimbursement for Fiscal Year 2002–03 | Estimated Total of Unrealized MAA Reimbursement for Fiscal Year 2002–03 |
|---|---|---|---|---|
| **Elementary School Districts** | | | | |
| 30,000–20,001 | 5 | 1 | $247 | $ 247 |
| 20,000–10,001 | 10 | 12 | 213† | 2,556 |
| 10,000–5,001 | 23 | 28 | 179 | 5,012 |
| 5,000–1,001 | 45 | 97 | 83 | 8,051 |
| 1,000–0 | 52 | 289 | 43 | 12,427 |
| **High School Districts** | | | | |
| 40,000–20,001 | 6 | 2 | 344 | 688 |
| 20,000–10,001 | 6 | 6 | 42 | 252 |
| 10,000–1,001 | 12 | 42 | 36† | 1,512 |
| 1,000–0 | 5 | 14 | 29 | 406 |
| **Unified School Districts** | | | | |
| Greater than 70,000 | 4 | 0 | NA | — |
| 70,000–45,001 | 7 | 2 | 627 | 1,254 |
| 45,000–30,001 | 14 | 4 | 313 | 1,252 |
| 30,000–20,001 | 18 | 9 | 216 | 1,944 |
| 20,000–10,001 | 28 | 23 | 182 | 4,186 |
| 10,000–5,001 | 27 | 33 | 159 | 5,247 |
| 5,000–1,001 | 43 | 67 | 78 | 5,226 |
| 1,000–0 | 12 | 36 | 15 | 540 |
| **County Offices of Education** | | | | |
| 12,000–2,001 | 9 | 0 | NA | — |
| 2,000–1,001 | 9 | 2 | 279 | 558 |
| 1,000–0 | 26 | 12 | 112 | 1,344 |
| **Totals** | **361** | **679** | | **$52,702** |

Source: Bureau of State Audits' analysis based on fiscal year 2002–03 reimbursement data provided by the Department of Health Services and statewide enrollment data obtained from a California Department of Education database.

Note: MAA = school-based Medi-Cal Administrative Activities program.

* This table does not include 16 special school districts because there were no participants of their type from which to make an estimate. The combined enrollment total for these school districts was approximately 6,000. Therefore, their MAA reimbursements, should they qualify for the program, would not significantly increase the total estimate presented in the table.

† Because of low sample size and significant variation in the data, our statistical analysis could not create a valid average for this category. Therefore, we used the midpoint of the surrounding enrollment categories' averages to estimate this category.

NA = Not applicable because all the school districts in this enrollment category participated in MAA.

The estimated averages in each category of the Table are conservative because, to achieve a particular level of confidence, we used statistical methods that adjusted each average to reflect the sample size and the degree of variation in reimbursements found in a particular enrollment category. In some cases, the variation in reimbursements was quite significant. For example, for fiscal year 2002–03, one elementary school district with an enrollment of about 16,600 received more than $2 million from MAA, while another elementary school district with an enrollment of about 14,500 received only $100,000. Although we acknowledge that many factors, such as the percentage of students eligible for Medi-Cal, could have caused this variation, our estimates created averages by enrollment category based on participating school districts that possess a broad range of these factors. Further, the statistical methods we used lowered each estimated average until we were confident that the true average was at least a particular amount. We chose to do this so we could be 95 percent sure that the true averages were at least the amounts shown in the Table. Even so, because they are averages, a particular school district could receive a reimbursement amount different from that shown for its enrollment category.

In deriving our estimate of $53 million, we also generally assumed that all school districts, including those with very small enrollment figures, would participate in MAA. As discussed later in this chapter, performing a cost-benefit analysis would enable school districts to assess the fiscal impact of participating in the program. Although probably not the same amounts that large school districts receive, the reimbursements that small school districts receive might be sufficient to justify participation in the program. Further, as discussed in more detail later in this chapter, our survey of nonparticipating school districts revealed that they are performing at least some of the tasks eligible for MAA reimbursement. Therefore, it seems reasonable that most school districts would be interested in obtaining reimbursements for costs they are already incurring.

***Some school districts that participated in MAA did not ensure that they received all allowable reimbursements.***

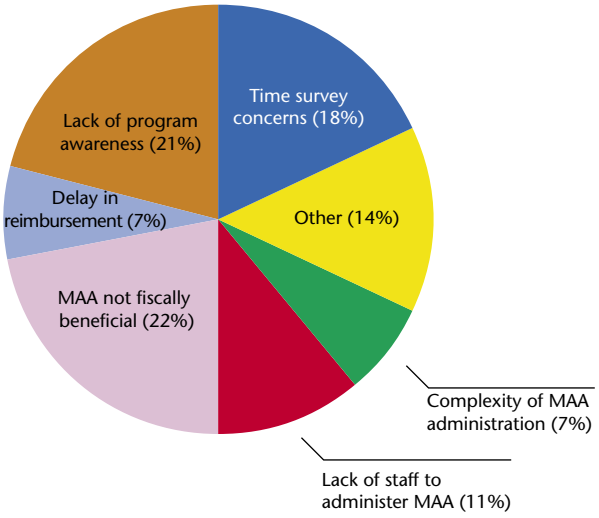
In addition, some school districts that participated in MAA did not ensure that they received all allowable reimbursements. Our analysis suggests and MAA coordinators confirmed that at least 27 of the 361 school districts that participated in MAA in fiscal year 2002–03 did not invoice for reimbursable activities to the extent they could have. We estimate that these school districts did not receive a combined total of $4 million in federal funds for the Medi-Cal administrative activities they were already performing.

### Reasons for Not Participating in the Program Varied

We sent a survey to 19 school districts that did not participate in MAA during fiscal year 2002–03 asking, among other things, their reasons for not participating. As Figure 5 shows, reasons cited most often by the school districts were the belief that the program would not be fiscally beneficial, lack of program awareness, and time survey concerns.

## FIGURE 5

**Reasons Cited by School Districts for Not Participating in the Medi-Cal Administrative Activities Program**




Source: Bureau of State Audits' survey of 19 school districts not participating in the Medi-Cal Administrative Activities program (MAA) during fiscal year 2002–03.

Note: Some school districts cited more than one reason for not participating in the program. The percentages shown reflect those multiple responses.

Although the school districts we surveyed expressed various reasons for their lack of participation, they could address most of their concerns with the help of vendors and consortia that offer services to school districts interested in seeking MAA reimbursements. For instance, the Los Angeles consortium trains school districts that need help understanding MAA. Often the vendors and consortia are the primary support structures for school districts in successfully administering their programs. In addition, some vendors offer Web-based claim entry services that simplify the administration of the program. Although a school district would have to pay a fee for any assistance it received, they would receive the majority of any MAA reimbursement.

### School Districts Need to Adequately Assess the Fiscal Benefits of Participating in MAA

*The 13 school districts in our survey that indicated they have recently performed cost-benefit analyses of MAA have all either started participating or are considering participating in the near future.*

The 19 nonparticipating school districts we surveyed generally indicated they perform one or more of the types of administrative activities reimbursable under MAA, and 17 of the 19 expressed their belief that they would benefit from participating in the program. In fact, 13 of the surveyed school districts indicated that they have performed cost-benefit analyses since fiscal year 2002–03 and have either started participating or are considering participating in the near future. For example, the Ventura Unified School District (Ventura) had a student population of about 17,700 students during fiscal year 2002–03. The school district reported a limited understanding of MAA and has never participated in the program. With the help of a vendor, Ventura recently performed an assessment that revealed MAA would provide the school district with an estimated annual income of between $600,000 and $800,000. Ventura is now considering participating in MAA in the near future.

The Redlands Unified School District (Redlands) told us that, as a result of a cost-benefit analysis it performed recently, it will begin participating in MAA in fiscal year 2005–06. Before the assessment, Redlands erroneously believed it had to collect information on and bill student insurance before it could receive MAA reimbursements. However, unlike costs incurred by individuals or entities providing the actual medical service, where insurance information must be requested, school districts do not need to obtain insurance information to obtain reimbursement for the cost of activities covered by MAA. Redlands had an enrollment of approximately 20,300 students during fiscal year 2002–03; as previously shown in the Table, similar-sized school districts received average MAA reimbursements of $216,000 for fiscal year 2002–03.

Six of the school districts in our survey had not recently assessed the costs and benefits of participating in MAA; four were not participating in the program as of our survey and expressed no plans to do so. Without an assessment, these school districts lack critical information needed to help measure their potential reimbursements for the Medi-Cal administrative activities they provide. They reported a combined enrollment of about 88,800 students and represent some of the largest nonparticipating school districts in the State. Using the enrollment categories previously shown in the Table, we estimate these four school districts could have received reimbursements totaling $893,000 for fiscal year 2002–03 by participating in the program.

*One school district has not performed an assessment of the benefit of participating in MAA since at least fiscal year 1999–2000; similar-sized school districts received an average of $313,000 for fiscal year 2002–03.*

Two of the four school districts have more than 20,000 students each. One of the two, the Pomona Unified School District (Pomona), reported an enrollment of approximately 35,400 students during fiscal year 2002–03, making it the third-largest nonparticipating school district in the State at the time. Although Pomona is aware of MAA, it has not performed an assessment of the benefit of participating since at least fiscal year 1999–2000. In its survey response, the school district left many answers blank and claimed that it does not have enough information regarding MAA requirements. Although the exact amount of reimbursement Pomona could receive is uncertain, as previously shown in the Table, similar-sized school districts received an average of $313,000 for fiscal year 2002–03.

The second school district, the Oceanside Unified School District (Oceanside), had about 22,500 students in fiscal year 2002–03 and represented the 11th largest nonparticipating school district in the State at the time. Although Oceanside was concerned that MAA would not generate enough money to justify its participation, it had not assessed the costs and benefits of participating in the program since fiscal year 2000–01. Oceanside claims it is interested in all available revenue streams and believes MAA would generate revenue that the district is not now receiving. In fact, Oceanside knows of other participating school districts that are reimbursed large sums of money. Although Oceanside believes an assessment of the costs and benefits would be an important piece of information in its decision-making process, it has yet to perform the assessment and has not taken steps to implement MAA itself. As shown in the Table, similar-sized school districts received an average of $216,000 for fiscal year 2002–03.

### Resistance to and Lack of Support for Time Surveying Contribute to School Districts' Underuse of MAA

As previously mentioned, at least 27 school districts that participated in MAA underused the program. One main reason they reported is that they lacked the support necessary to overcome resistance to time surveying. According to the federal guide for claiming MAA reimbursement, the time survey is the primary mechanism for identifying reimbursable activities that school district employees perform. Using reimbursement data from fiscal year 2002–03 and enrollment numbers from a California Department of Education database, we determined which school districts appeared to be participating in MAA at

a significantly lower level compared with similar-sized school districts. With the help of the consortia and local governmental agencies that oversee these school districts, we confirmed that at least 27 did not invoice for all their reimbursable activities for fiscal year 2002–03. We estimate that these 27 school districts missed the opportunity to receive a combined total of $4 million.

Further, our survey results indicate that this problem is probably more widespread. We surveyed 28 school districts participating in MAA in fiscal year 2002–03, and only four of the 27 that responded believed they had been reimbursed for all allowable expenses under the program, which indicates a much larger amount than the $4 million we identified. However, all five consortia we visited said they had not performed analyses to identify school districts in their regions that received less in reimbursements than did similar-sized schools. Because they do not have a process to identify these school districts on a regular basis, consortia are limited in their ability to help school districts overcome the obstacles preventing them from receiving the MAA reimbursements to which they may be entitled.

***Of the 27 participating school districts that responded to our survey, only four believed they had been reimbursed for all allowable expenses.***

Some of the reasons offered by the consortia and local governmental agencies as to why school districts underused MAA were poor vendor service, resistance from teachers' unions, and reduced enthusiasm because of slow invoice payments by Health Services. However, reasons cited more consistently were that the school districts lacked an experienced MAA coordinator with sufficient time to focus on the program and had resistance to or lack of support for time surveying. Indeed, as we discuss in the next section, having such a coordinator and overcoming the resistance to time surveying were some of the very reasons that one region believes it has been particularly successful in increasing MAA reimbursements.

### Region 8's Practices May Provide Insight Into Increasing Federally Allowable Reimbursements

Region 8, which encompasses Kern, San Luis Obispo, Santa Barbara, and Ventura counties and is overseen by the Kern consortium, appears to have had some success in increasing MAA reimbursements for participating school districts by obtaining the services of a regionwide vendor, getting the support of school district administrators, and making sure each school district has a motivated MAA coordinator.

A total of 17 school districts statewide received $140 or more in MAA reimbursements per enrolled student and received at least $100,000 in total MAA reimbursements for fiscal year 2002–03.[1] Of the 17 school districts, 12 are in Region 8. We reviewed some of that region's invoices and interviewed representatives from the Kern consortium, which is administered by the Kern County superintendent of schools, to determine why a disproportionate number of high MAA claims came from that region. Although we did not perform sufficient audit work at Region 8, or any other consortium or local governmental agency, to know the extent of potential overcharges, if any, we compared Region 8's invoices with its supporting documentation, such as time surveys, and found no evidence that the invoices were significantly overstated. The following explanations given by Kern consortium representatives and other Kern County officials may provide some insight as to how other regions could increase MAA reimbursements:

- ***Coordinated efforts from high-level school district administrators.*** A Kern County official pointed out that to operate its community health programs, many of which are run by schools, Kern County has created a comprehensive network of health services. The official stated that this network has a team dedicated to searching for ways to increase funding for the county's health programs and disseminates this information throughout the network. Further, support from high-level leadership within the county, which includes high-level school district administrators, allows the network to overcome opposition to fulfilling the various funding source requirements, such as filling out time surveys.

- ***Coordinated and concerted efforts of a vendor.*** The Kern consortium contracted with a single vendor to provide regionwide MAA training and invoice preparation services. In addition to performing the required time survey training for the region, the vendor conducted annual MAA coordinator trainings and a financial training session for school district employees responsible for gathering financial information for MAA invoices. Kern consortium representatives also pointed to the vendor's extra efforts to ensure that all reimbursable activities were included in the invoices submitted by every school district. For instance, although it requires more documentation, the vendor made sure that the school districts included reimbursable supervisory and support costs. Consortium representatives

[1] For the purposes of our analysis, the 17 school districts included elementary, high school, and unified school districts. It did not include county offices of education.

further stated that rather than use the countywide average percentage of the population of Medi-Cal recipients—a figure that is easy to access—the vendor obtained school districts' exact Medi-Cal percentages for the invoices it prepared. The vendor explained that school districts' Medi-Cal percentages tend to be higher than the countywide average. To the extent that this is true, the vendor's extra effort would have increased MAA invoices for fiscal year 2002–03.[2]

- ***Motivated MAA coordinators.*** As another reason for the region's success, Kern consortium representatives pointed to the effort of school districts' MAA coordinators to make sure that employees fulfilled their commitment to completing time surveys.

Representatives of the Kern consortium also cited the following two reasons for their region's success, which may not be applicable to other regions in the State:

- ***High Medi-Cal percentages.*** Statistics provided by the Kern consortium indicate that a higher percentage of students in Region 8 school districts are enrolled in Medi-Cal than are students in most other regions. Because some administrative activities are only reimbursable for the portion of the student population enrolled in Medi-Cal, the higher the percentage is, the more administrative activities that are reimbursable under MAA.

- ***School-based community health programs.*** To take advantage of the accessibility and established administrative and physical infrastructure of schools, Kern County has chosen to have its schools administer many of its community health programs. Although this may reduce the amount of reimbursement other county entities could receive under nonschool-based Medi-Cal administrative activities programs, it does increase the amount of activities school districts can claim under MAA.

## NOT ENOUGH IS BEING DONE TO ENCOURAGE THE USE OF MAA

Health Services and the consortia and local governmental agencies that help it administer MAA have not done enough to help school districts participate in the program. Health Services acknowledges that it does not try to increase MAA participation and federally allowable reimbursements, commenting that it

[2] The most recent MAA manual approved by the federal Centers for Medicare and Medicaid Services in August 2004 requires all school districts to use district Medi-Cal percentages rather than having the option of using countywide averages.

has neither a mandate nor the resources to do so. However, it is the state entity in charge of Medi-Cal and could use its contracts with the local administering entities to direct them to perform outreach activities designed to increase the use of MAA. None of the local governmental agencies we visited perform any outreach activities. Conversely, consortia have already voluntarily assumed some responsibility for increasing program participation in their regions, even though Health Services does not contractually obligate them to do so. Consequently, Health Services has not established ways to measure and improve these outreach efforts. Consortia could improve their outreach to school districts by targeting nonparticipating school districts that have the potential for high MAA reimbursements and, as discussed earlier, by identifying participating school districts that underuse MAA and helping to ensure that they have a correct understanding of those costs that are federally reimbursable.[3]

### Health Services Does Not Consider Increasing MAA Participation and Federally Allowable Reimbursements as Its Role

Although Health Services has the overall responsibility for Medi-Cal, it does not believe it has the specific mandate to increase the number of school districts participating in MAA and the amounts they receive. (See the text box for its perceived roles.) As designated by state regulations, Health Services is the state agency responsible for administering Medi-Cal, and as such all MAA claims are submitted and paid through it. Also, the federal government requires the State to provide assurance that only allowable costs are being claimed. Consequently, Health Services must ensure that school districts are properly trained to submit accurate invoices and must conduct oversight activities, such as invoice reviews and site visits, to provide assurance that MAA claims comply with federal requirements. However, Health Services believes its responsibilities end there and do not extend to making sure that school districts receive all the federal funds entitled to them.

**Activities That Health Services Believes Make Up Its Role in MAA**

- Processing contracts, claiming plans, and invoices.
- Providing technical assistance and training.
- Providing oversight in the form of site visits and invoice reviews.

Although Health Services acknowledges that there is nothing statutorily that prohibits it from trying to increase MAA participation and federally allowable reimbursements, it

[3] This text focuses on consortia because, as discussed in Chapter 3, we are recommending the elimination of local governmental agencies from school-based MAA.

believes it does not have a mandate or the resources to do so. Health Services acknowledges that state law requires it to provide technical assistance to all participating consortia and local governmental agencies to "maximize federal financial participation" in MAA. However, Health Services interprets technical assistance to mean providing tools and training to accomplish the goals—in this case, claiming MAA reimbursement—as well as answering questions. Health Services does not interpret technical assistance, as specified in the law, to include any kind of outreach aimed at increasing school districts' use of the program.

*Health Services can use its contracts with consortia to require these entities to perform outreach activities designed to increase the use of MAA.*

We do not believe significant additional resources are necessary for Health Services to conduct outreach efforts because it already has a mechanism to perform activities designed to increase the use of MAA. It can use its contracts with consortia to require these entities to perform outreach activities. Indeed, consortia already perform some outreach voluntarily. However, because activities designed to increase MAA participation are not included in its contracts with consortia, Health Services does not currently have the ability to hold them accountable for their performance in this area. Further, as discussed in Chapter 2, Health Services does not attempt to measure participation in MAA and does not require regular reporting from consortia on their efforts to encourage participation; therefore, it presently cannot rate such efforts.

Finally, Health Services believes that assuming the role of increasing federally allowable MAA reimbursements will conflict with its fiduciary responsibility as the single state agency responsible for ensuring the integrity of the expenditure of federal MAA funds. However, we do not believe that encouraging school districts to invoice for all federally allowable costs is in conflict with Health Services' responsibility to ensure the accuracy of MAA invoices. Indeed, as the administering state agency for this program, Health Services has a responsibility to California to help school districts receive all the federal funds to which they are entitled.

Representatives of the federal Centers for Medicare and Medicaid Services (CMS) believe the responsibility of ensuring that school districts receive all the reimbursement they are entitled to lies with the school districts themselves and is not the responsibility of Health Services. Additionally, CMS representatives are concerned about the extent to which efforts by Health Services and consortia to increase MAA reimbursements may result in inappropriate costs being charged. They are less concerned about efforts to inform

school districts about MAA so that they can make educated decisions about participating in the program. Although we agree that school districts are ultimately responsible for their invoices and decisions to participate in MAA, we believe Health Services and consortia should assume the responsibility of helping school districts make informed decisions about participation in MAA and about what costs are federally allowable. Further, we believe any concerns that such activities could result in school districts charging unallowable costs could be mitigated with sufficient controls at Health Services and the consortia.

### Efforts by Consortia to Increase the Number of MAA Participants Could Be Improved

Consortia we evaluated provide limited outreach to school districts not participating in MAA, but they could improve their efforts by targeting large school districts with high MAA reimbursement potential. Without consistent outreach targeting individual school districts, the goal of increasing participation and federally allowable reimbursements will not be reached.

*Consortia we visited generally provide some form of basic outreach but could improve their efforts by targeting school districts with the potential for high MAA reimbursements.*

We visited five of the 11 consortia and found that they generally provide some form of basic outreach, such as mass mailings and regionwide instructional meetings. Although this outreach may have contributed to the increase in MAA participation in recent years, the five consortia have made limited efforts to identify and target school districts that could benefit financially by participating in the program. The consortia, through the Local Educational Consortium Committee, which serves in an advisory capacity to Health Services, sent information letters to school districts in January 2000 describing MAA and the consortia's role. However, our visit to the San Bernardino consortium revealed that it has not performed any outreach since the January 2000 letter. After we discussed this matter with the coordinator of the San Bernardino consortium, he stated that he would send another letter to all nonparticipating school districts soon.

Overall, although consortia have no formal responsibility for conducting MAA outreach, some have voluntarily taken on the role of providing outreach to school districts. However, to be most effective, consortia should identify the school districts within their regions that are most likely to benefit from participating in MAA. For example, school districts that have large student enrollments and receive significant federal dollars for other programs designed to assist low-income families, such

as the national school lunch program, potentially have a high percentage of students eligible for Medi-Cal. For example, in fiscal year 2004–05, the region the San Bernardino consortium administers included approximately 809,000 students enrolled in more than 75 school districts within the four counties of Riverside, San Bernardino, Inyo, and Mono. Since fiscal year 1999–2000, the percentage of school districts within the region that participate in MAA has increased from about 4 percent to about 65 percent, but school districts with significant potential to receive MAA reimbursement still do not participate.

Two school districts that did not participate in MAA as of fiscal year 2002–03 are Redlands, with approximately 20,300 enrolled students, and the Perris Elementary School District (Perris), with more than 4,900 enrolled students in fiscal year 2002–03. As previously shown in the Table on page 18, school districts similar in size to Redlands received an estimated average of $216,000 in MAA reimbursements for fiscal year 2002–03, and those similar in size to Perris received an estimated average of $83,000. Further, Redlands acknowledged in its response to our survey that it was already performing many of the tasks eligible for reimbursement. Although we did not survey Perris, we spoke to a district representative who expressed interest in the program and believes the school district is performing eligible activities. As previously discussed, the San Bernardino consortium coordinator acknowledged that no outreach to nonparticipating school districts has been done since a January 2000 letter was sent. Although as of early July 2005, neither of these school districts had a contract to participate in the program, both have indicated they will participate in the near future.

***We estimate that 17 large school districts governed by the Los Angeles consortium could have received at least $3.5 million in reimbursements for fiscal year 2002–03 had they participated in MAA.***

Similarly, 17 large school districts governed by the Los Angeles consortium did not participate in MAA during fiscal year 2002–03. Enrollment in these school districts varied between 10,000 and 35,500. Based on the amounts previously presented in the Table, we estimate that these school districts could have received at least $3.5 million in MAA reimbursements for fiscal year 2002–03. The Los Angeles consortium does not adequately provide targeted outreach to large school districts with high MAA reimbursement potential. Consortium records indicate that it planned on targeting four specific school districts that participated in another Medi-Cal reimbursement program. According to the consortium coordinator, it visited with two of them. However, the consortium temporarily suspended this effort because it believed proposed statewide program changes would permanently alter the role of consortia in MAA.

## RECOMMENDATIONS

To help ensure comprehensive MAA participation by school districts and that all federally allowable costs are correctly charged to the program, Health Services should do the following:

- Require consortia to perform outreach activities designed to increase MAA participation and hold them accountable by using appropriate measures of performance.[4]

- In addition to the mass forms of outreach they currently perform, require consortia to periodically identify and contact specific nonparticipating school districts that have potential for high MAA reimbursements and periodically identify and contact participating school districts that appear to be underusing MAA to help ensure that they have a correct understanding of those costs that are federally reimbursable.

If Health Services believes it does not have a clear directive from the Legislature to increase participation and reimbursements, it should seek statutory changes. ■

[4] This recommendation focuses on consortia because, as discussed in Chapter 3, we are recommending the elimination of local governmental agencies from school-based MAA.

# CHAPTER 2

## *The Department of Health Services Needs to Improve Its Oversight of the School-Based Medi-Cal Administrative Activities Program*

### CHAPTER SUMMARY

The Department of Health Services (Health Services) has not adequately monitored recipients of school-based Medi-Cal Administrative Activities program (MAA) funds by performing site visits of educational consortia (consortia) and local governmental agencies and by collecting data to evaluate statewide use of MAA. Consequently, Health Services has not identified potential problems developing at the local level. For instance, the fees that some consortia and local governmental agencies charge school districts are greater than their costs, and some school districts have not changed their vendor fees to a structure that would allow them to claim federal reimbursement for these costs. As a result, school districts do not receive all the MAA funds to which they are entitled. Also, some consortia and local governmental agencies have implemented plans that allow school districts to claim the fees of consortia and local governmental agencies on their invoices, but are doing so in a manner that may result in duplicate payments or unallowable costs. If this problem is not corrected, the federal government may disallow some of the costs.

### WITHOUT REGULAR SITE VISITS, HEALTH SERVICES CANNOT DETERMINE IF LOCAL ENTITIES COMPLIED WITH MAA REQUIREMENTS

Health Services did not adequately monitor the MAA activities of consortia, local governmental agencies, or school districts. Effective November 2002, the federal Centers for Medicare and Medicaid Services (CMS) required Health Services to perform on-site reviews of each consortium and local governmental agency at least once every four years. According to the CMS requirements, these reviews may be performed in one of two ways. Health Services can elect to review a representative sample of claiming units—the entities within a consortium or local

governmental agency, including school districts, that participate in MAA. Alternatively, the consortia and local governmental agencies can focus a portion of their annual single audit on MAA claiming every four years. However, based on our review, neither method was consistently employed.

*Health Services did not conduct any site visits in 2003 and only one in 2004.*

From October 2001 to February 2005, Health Services conducted site visits of only nine of 31 consortia and local governmental agencies, including some school districts. During that period, it did not conduct any site visits during 2003 and only one during 2004. Additionally, four of the five consortia—the Los Angeles consortium performed some reviews—and three of the four local governmental agencies we reviewed did not perform on-site reviews of school districts. According to a fiscal year 2005–06 budget request, Health Services was unable to conduct all the required site visits due to a lack of staffing. As a result of not conducting a sufficient number of site visits during 2003 and 2004, Health Services cannot ensure that consortia and local governmental agencies were properly administering MAA during that period.

According to its chief of administrative claiming, Health Services has implemented new procedures as a result of the most recent update of its MAA manual approved by the CMS in August 2004 and has received the authority to hire additional staff to help implement the new manual, including performing site visits. According to the manual, Health Services is required to conduct site visits at a minimum of three consortia and one local governmental agency each year. Health Services developed a proposed site visit calendar that actually exceeds the requirement by scheduling a visit for each consortium and local governmental agency on the list once every three years and has begun performing the site visits listed on the schedule. Further, the most recent MAA manual also requires consortia and local governmental agencies to conduct reviews of school districts every three years.

## HEALTH SERVICES' EXISTING PROCEDURES LIMIT ITS ABILITY TO EFFECTIVELY MEASURE MAA PERFORMANCE

Health Services has decreased the time it takes to pay an invoice, but its current invoice and accounting processes need to be updated so that it can more easily collect data to monitor MAA and to identify where additional improvements can be made. For instance, because it uses a manual process, which has the potential for human error, Health Services cannot easily determine the total of federal reimbursements California school districts have received from MAA, identify participating school

*Because it collects data using a manual process, Health Services cannot easily determine which school districts participate in MAA and how much reimbursement they receive.*

districts, or ascertain the amount each school district receives in MAA reimbursements. Without these basic statistics, it is difficult for Health Services to adequately monitor the success of the program, and its ability to use statistical methods to identify fraudulent or excessive claims is limited. Further, Health Services has not established a way to measure the performance of consortia and local governmental agencies and has not outlined the actions it would take if one of those entities consistently neglected its responsibilities.

Although Health Services does not currently track the time it takes to pay MAA invoices, consortia representatives said that in the early years of MAA, Health Services took a considerable amount of time to pay an invoice. According to our survey and interviews, this caused some school districts to lose interest in participating in MAA. Consortia representatives also told us that Health Services has now shortened the time it takes to pay invoices. Health Services explained that it could do so because it now has more staff and the MAA claiming process was streamlined.

Health Services has not yet created a process that allows it to receive invoice information in an electronic format that can then be stored and manipulated for the purposes of program oversight. Additionally, Health Services does not have a designated accounting code for invoices paid to school districts that participate in the program through local governmental agencies. Rather, these payments are recorded under an accounting code that includes other reimbursements to local governmental agencies for Medi-Cal administrative activities that are not related to school districts. When Health Services has to complete a quarterly federal report on MAA, an employee reviews claim schedules and manually designates and accounts for such payments. In addition to the potential for human error, this activity is an inefficient use of staff resources. If Health Services had separate unique accounting codes for MAA, it could use its accounting system to determine how much MAA was paid in a given quarter. Health Services agreed that such a change would be helpful and informed us in July 2005 that it has now created a separate accounting code for invoices submitted by school districts through local governmental agencies.

Another consequence of Health Services having to manually input data on invoices and payments is that it limits Health Services' ability to collect and use participation and reimbursement data on individual school districts. This in turn restricts Health Services' ability to monitor the success of

the program and to use statistical methods to identify school districts that are underusing MAA or possibly inappropriately inflating their MAA invoices. For instance, after considerable effort, we were able to convert Health Services' invoice-tracking spreadsheets into a data set that we used to identify the following: school districts that do not participate in this program, school districts that participate but at a level less than they could, and a region and vendor whose MAA claims were consistently higher than those of similar-sized school districts in other regions. Without this type of data collection and analysis, it is difficult for Health Services to efficiently monitor MAA statewide. Health Services agreed that automating the invoicing process would be helpful and had started the initial planning for this effort before the audit began.

Health Services also has not established ways to evaluate the performance of the consortia and local governmental agencies that it contracts with to administer MAA at the local level. Health Services does not collect basic program statistics, as discussed earlier. It also does not require regular reporting from consortia and local governmental agencies on their program efforts (annual reports). Even without updating its current processes, Health Services could use annual reports to evaluate the performance of consortia and local governmental agencies. In addition, an annual MAA report compiled by Health Services from the content of individual annual reports would give state decision makers valuable information on the success of the program and the performance of particular consortia and local governmental agencies.

**Possible Measures of Consortium Performance**

- Percentage of invoices submitted that include unallowable costs.
- Percentage of invoices submitted past Health Services' deadline.
- Growth of participation of school districts within a region.
- Frequency and nature of outreach efforts.
- The percentage of MAA reimbursements retained by the consortium to cover administrative expenses.

At least in the case of consortia, various entities within a region could administer a consortium. For instance, in the Kern consortium, which encompasses Kern, San Luis Obispo, Santa Barbara, and Ventura counties, the Kern County superintendent of schools was selected to administer the consortium for the region. If the Kern County superintendent of schools does not perform its consortium duties well, another entity within the region could be selected. However, by not establishing measures of consortium performance, Health Services has limited its ability to identify and document performance problems.

## SOME CONSORTIA AND LOCAL GOVERNMENTAL AGENCIES ARE CHARGING FEES IN EXCESS OF THEIR ADMINISTRATIVE COSTS

School districts are receiving a reduced share of MAA reimbursements because some consortia and local governmental agencies are charging fees that exceed their administrative costs. Further, representatives from three local governmental agencies we reviewed stated that they do not perform analyses that would allow them to identify whether the fees they assessed exceeded their costs. State law requires that Health Services contract with a consortium or local governmental agency to claim MAA reimbursement for a participating school district and allows that administering entity to collect a fee from the school district for such a service. We reviewed fees assessed by some of these entities, anticipating that the fees charged would be sufficient to cover the administrative costs incurred. However, we found that the fees charged by some consortia and local governmental agencies exceeded costs. This condition does not result in the State receiving additional MAA funds from the federal government. Rather, it results in the school districts receiving a smaller share of MAA reimbursements than they could have.

***Because it does not monitor the fees charged by consortia and local governmental agencies, Health Services was unaware that these entities were generating revenue in excess of program costs, resulting in school districts receiving a smaller share of MAA reimbursements.***

For example, the Kern consortium estimated that, as a result of fees charged to school districts, it will have accumulated a reserve of $890,000 by the end of fiscal year 2004–05 and, as of December 2004, the Los Angeles consortium had accumulated a reserve of $594,000. Similarly, the fees paid to the Riverside local governmental agency exceeded costs incurred by more than $267,000 for the period from fiscal years 2000–01 through 2002–03, and the San Bernardino consortium had accumulated a surplus of $129,500 for the period from fiscal years 2001–02 through 2003–04. The Kern and Los Angeles consortia maintain their reserve accounts exclusively for MAA, but Riverside and San Bernardino used their excess earnings for other county purposes. Both practices reduce the amount of funds distributed to school districts. Because it does not monitor the fees charged by consortia and local governmental agencies, Health Services was not aware of these practices. Consequently, it has not established policies limiting the amount consortia and local governmental agencies can charge school districts or determined whether it is appropriate to have excess earnings from the administrative activities of those entities.

According to a representative of the Kern consortium, it will use the reserve account to reimburse the federal government for any audit disallowance. However, based on our analysis of the

standard contract between the consortium and school districts, the school district is responsible for any potential disallowance from the federal government. We believe this contract provision is important because it holds school districts responsible for any federal disallowances resulting from their invoices and therefore reduces the likelihood that they will submit invoices that include unallowable costs. Although the Kern consortium representative acknowledged that school districts are likely to be ultimately responsible for any disallowed costs, he stated that school districts might not be financially capable of reimbursing the federal government promptly.

According to the Los Angeles consortium coordinator, the consortium revenue from administrative fees did not cover the consortium's costs to administer MAA until fiscal year 2003–04. The coordinator states that, in fact, the Los Angeles County Office of Education subsidized the cost of the consortium for the first five years and that in fiscal year 2003–04 it was finally possible to put money into a reserve account. The consortium adopted a policy of holding a large reserve for fiscal year 2005–06. According to the coordinator, the reserve would allow the consortium to invest in future MAA service offerings, cover budgeted MAA costs for one year in case of a federal disallowance, and pay for possible damages resulting from litigation filed by a school district participating in MAA. However, as previously discussed, the school districts are responsible for repaying any disallowed costs. Also, although it is admirable of the Los Angeles consortium to want to enhance services in the future, school districts should not be required to pay for potential improvements until the consortium has actually incurred the costs. Finally, although it is uncertain that Health Services would conclude that maintaining a reserve to pay for damages resulting from litigation is appropriate, it illustrates the importance of establishing policies on reserves.

***One consortium and one local governmental agency used the excess earnings they accumulated for purposes other than MAA.***

The San Bernardino consortium and the Riverside local governmental agency also accumulated excess earnings but used them for purposes other than MAA-related administration. For instance, the $129,500 in excess administrative fees the San Bernardino consortium charged from fiscal years 2001–02 to 2003–04 support activities or staff positions not related to MAA, according to its consortium coordinator. Similarly, according to documents provided by the Riverside local governmental agency, it accumulated a surplus of more than $267,000 for the three-year period beginning in fiscal year 2000–01 and used it for other public health programs.

The chief of administrative claiming stated that Health Services has not developed policies governing consortium and local governmental agency fees because it was unaware of the overcharging issue. The chief further stated that nothing prohibits a consortium or local governmental agency from accumulating excess earnings but that this runs counter to the ideals of MAA, which is designed to be a cost-recovery program. The chief of administrative claiming agreed that, although it may be difficult to monitor revenues and costs, Health Services might be able to issue a policy directive governing the fees charged by consortia and local governmental agencies.

## SCHOOL DISTRICTS ARE LOSING MONEY BECAUSE OF THE TERMS OF THEIR VENDOR CONTRACTS

School districts we reviewed lost an estimated $181,000 in federal MAA reimbursements for fiscal year 2003–04 because the fees they paid their vendors were based on the amount of MAA reimbursements they received. Although federal guidance has long prohibited requesting reimbursement for these types of fees, known as contingency fees, it was not until recently that Health Services issued guidance on this topic. In its 2004 MAA manual, Health Services indicates that claims for the costs of administering MAA may not include fees paid to vendors that are based on, or include, contingency fee arrangements. Although this guidance is helpful, it does not identify alternative fee arrangements that would allow federal reimbursement for vendor fees. Consequently, school districts may mistakenly believe vendor fees are not reimbursable under any circumstances.

***Six school districts we reviewed lost an estimated $181,000 in reimbursements for fiscal year 2003–04 because their vendor fees were based on the amount of reimbursements they received.***

We reviewed fiscal year 2003–04 vendor contracts for 55 school districts and identified 15 that paid contingency fees to vendors assisting with their MAA administration. We subsequently requested vendor invoice data for fiscal year 2003–04 from six of the 15 school districts—in some cases school districts only provided invoices for part of the year—to estimate the amount of vendor fees for which the districts could have claimed MAA reimbursement had the fees not been contingency based. For example, the San Jose Unified School District (San Jose) paid its vendor $58,000 for the first two quarters of fiscal year 2003–04. Because the fees were contingent on the amount of MAA reimbursements received, San Jose could not claim reimbursement for those costs. If it changed the method used to determine the fees, San Jose could have received an additional

$29,000 for those two quarters. A representative of the school district indicated that she was not aware of the ability to claim 50 percent reimbursement for vendor costs that are not contingency based. Similarly, Sacramento City Unified School District could have claimed an additional $105,000 for fiscal year 2003–04 simply by amending its MAA vendor contract. An official with the school district stated that it is in the process of renegotiating the basis of setting fees with its vendor. In total, the six school districts we examined were unable to request reimbursement for an estimated $181,000 in MAA costs they incurred in fiscal year 2003–04 because they did not change the terms of their vendor contracts.

## BECAUSE OF RECENT CHANGES IN BILLING PRACTICES, THE FEDERAL GOVERNMENT COULD BE BILLED TWICE FOR THE SAME SERVICES

Some consortia and local governmental agencies are changing their fee structures to allow school districts to claim their fees as a federally reimbursable MAA cost. However, because consortia and local governmental agencies also request federal reimbursement for their administrative costs, this practice could result in the federal government reimbursing both a consortium or local governmental agency and a school district for the same services. Health Services has not adequately monitored the activities of these entities and therefore was unaware of these changes at the local level. Consequently, Health Services has not created the policies necessary to prevent activities from being claimed twice. Although we did not identify any duplicate payments to the entities we reviewed, the potential for duplicate payments exists.

***Some consortia and local governmental agencies were unaware that if they allowed school districts to claim their fees, they would not be able to continue to receive federal reimbursement for their own MAA costs.***

Recently, some consortia and local governmental agencies have begun converting their contingency-based fees to flat fees so that, similar to the vendor fees discussed earlier, school districts can claim the fees as a reimbursable expense; federal guidance permits reimbursement of fees that are not based on contingency. As of June 2005, four of the 11 consortia had converted to claimable flat fees. Additionally, one of the four local governmental agencies we visited changed its fee structure. However, some of these consortia and local governmental agencies were unaware that if they allowed school districts to claim their fees, they would not be able to continue to receive federal reimbursement for their own MAA costs. Specifically, the potential exists that school districts request federal reimbursement for fees charged by the consortia and local

governmental agencies, while these entities continue their current practice of requesting federal reimbursement for their MAA costs, resulting in the federal government being billed twice for the same activities. Further, as previously discussed, some of the fees consortia and local governmental agencies charge school districts generate revenue exceeding their costs. The portion of the fee that generates a surplus does not relate to a specific reimbursable expense and cannot be claimed on a school district's invoice.

Although federal and state guidance clearly state that duplicate payments are not allowable, some consortia and local governmental agencies did not realize that allowing school districts to claim their fees would necessitate a modification of their practices. For example, at the time of our review, the San Bernardino consortium had submitted invoices to Health Services for the cost of administering the consortium during the first half of fiscal year 2003–04. In addition, the consortium coordinator explained that once the consortium collects its fee from the school districts in its region, which it will do when the federal government reimburses school districts for fiscal year 2003–04 invoices, the districts will be allowed to claim the consortium fee as a reimbursable expense on a subsequent invoice. However, these same costs have already been included on the request for federal reimbursement submitted to Health Services by the consortium. When we pointed this out to the coordinator, he said that he believed both the CMS and Health Services agreed that this was an allowable practice. A careful review of CMS's and Health Services' guidance shows that a school district cannot request federal reimbursement for costs already claimed by a consortium or local governmental agency. Doing so would result in the federal government paying for the same service twice.

We discussed this situation with Health Services' chief of administrative claiming. She explained that Health Services was not aware that consortia and local governmental agencies had changed their fee structures to allow school districts to claim the fees as a reimbursable expense, and it therefore has issued no guidance on the matter. The chief stated in June 2005 that Health Services is planning to distribute a policy letter soon to prevent any possible federal disallowance.

## RECOMMENDATIONS

To ensure that school districts receive as much of the federally allowable MAA funds as possible and to protect against federal disallowances, Health Services should do the following:

- Improve its ability to monitor MAA by ensuring that site visits of consortia, local governmental agencies, and school districts are conducted as required and by updating its current invoicing and accounting processes so it can more easily collect data on the participation and reimbursement of school districts.

- Require consortia, and local governmental agencies should they continue to be part of MAA, to prepare annual reports that include participation statistics, outreach efforts and results, fees and any resulting surpluses, and other performance measures Health Services determines to be useful. To provide state decision makers with valuable program information, Health Services should then annually compile the content of these reports into a single, integrated report that is publicly available.

- Develop written performance criteria for consortia, and local governmental agencies should they continue to be part of MAA, and take appropriate action when performance is unsatisfactory.

- Develop policies on the appropriate level of fees charged by consortia to school districts and the amount of excess earnings and reserves consortia should be allowed to accumulate. Health Services should do the same for local governmental agencies if such entities continue to be part of the program structure.

- Help school districts invoice for all reimbursable costs, including vendor fees, by issuing clear guidance on how to invoice for these costs and instructing consortia, and local governmental agencies should they continue to be part of MAA, to make sure school districts in their respective regions know how to take advantage of these revenue-enhancing opportunities.

- Follow through on its plans to develop a policy governing the claiming of consortium and local governmental agency fees and instruct these entities to carefully monitor school districts' invoices to make sure that any claiming of consortium or local governmental agency fees does not result in duplicate payments. ■

# CHAPTER 3

## *The Current Structure Does Not Ensure the Most Efficient Operation of the School-Based Medi-Cal Administrative Activities Program*

### CHAPTER SUMMARY

The school-based Medi-Cal Administrative Activities program (MAA) allows school districts participating in the program to receive federal reimbursement for the Medi-Cal administrative activities they perform. It is important that the program operate efficiently so that each school district receives the largest MAA reimbursement that is federally allowable. However, school districts now pay a significant portion of their MAA reimbursements to other entities. The current MAA structure needs to be streamlined to allow school districts to receive more of the funds to which they are entitled. Eliminating the role of local governmental agencies and requiring school districts to submit MAA invoices through educational consortia (consortia) would simplify oversight by the Department of Health Services (Health Services) and would allow Health Services to hold consortia accountable for program participation in their regions.

Furthermore, requiring school districts that need additional assistance to use vendors competitively selected by their consortia could lead to stronger oversight of the vendors and more consistent vendor fees and services. In addition, because consortia are in a better position to obtain volume discounts, selecting regionwide vendors may result in lower vendor fees for school districts.

### SCHOOL DISTRICTS PAID SIGNIFICANT PORTIONS OF THEIR MAA REIMBURSEMENTS TO OTHER ENTITIES

The school district contracts we reviewed revealed that they paid as much as 20 percent of their MAA reimbursements to private vendors and consortia for assistance in administering the program, thereby reducing the amount of funds available to the school districts. Some school districts paid excessive

administrative fees because they chose to retain their own vendors rather than using the services of the consortia or the consortia's vendors. Because a school district that enters into a private vendor contract typically is unaware of the rates that other school districts pay for the same service, it cannot assess whether it is getting a competitive rate.

*Some school districts continue to retain the services of private vendors even though their regional consortium could provide similar services.*

Some school districts continue to retain the services of private vendors even though their regional consortium could provide similar services. For example, our review of contracts recorded by the 21 school districts in the Santa Cruz consortium's region in fiscal year 2003–04 revealed that four school districts contracted with their own vendors, even though the Santa Cruz consortium contracted with a regional vendor that all school districts were encouraged to use. Under the terms of its contracts with school districts, the consortium charges a 10 percent fee to school districts that use its vendor and a 7 percent fee to school districts that elect to use their own vendors. However, these four school districts indicated that they paid their vendors substantial fees in addition to the 7 percent consortium fee.

For example, two school districts—King City Joint Union Elementary and King City Union High—paid a 13 percent fee to their vendors on top of the 7 percent consortium fee. Consequently, these two school districts paid fees totaling 20 percent of their MAA reimbursements rather than the 10 percent the consortium would have charged, effectively doubling their costs. A representative of the two school districts told us she was unaware the Santa Cruz consortium charged school districts a fee in addition to any private vendor fees they might pay. The representative noted that the districts may evaluate the costs and benefits of continuing to use private vendors.

We identified a similar situation in the region the San Bernardino consortium administers. According to the coordinator, all but one school district contracting with the San Bernardino consortium uses private vendors rather than taking advantage of similar services that the consortium provides. The school districts in the San Bernardino consortium's region should reassess their need to contract with private vendors because this practice reduces the amount of MAA reimbursements available to the districts.

When we contacted two school districts in the San Bernardino region that contract with private vendors, each acknowledged it was paying more than necessary by paying both vendor fees and consortium fees. A representative of the Fontana Unified

School District stated that it paid $47,400 in administrative fees to the San Bernardino consortium for fiscal year 2002–03 and $29,900 to its vendor. The school district is now considering whether it will renew the vendor's contract for fiscal year 2005–06. Similarly, a representative of the Moreno Valley Unified School District stated that it paid $9,000 in administrative fees to the consortium and $14,000 to a vendor for fiscal year 2002–03. The school district's MAA coordinator said she could not understand why the district retained the vendor other than the fact that the district uses the vendor for other services. The fees that the San Bernardino consortium charges school districts do not depend on whether the districts use all available services. By allowing the consortium to provide all the services necessary to administer MAA, rather than contracting with a private vendor, school districts can receive a larger portion of their MAA reimbursements.

School districts typically need outside assistance when they initially decide to participate in the program because of its complexities and numerous requirements. Health Services' MAA manual allows school districts to enter into their own contracts with private vendors for this assistance. Vendors provide time survey training to district staff, prepare invoices, and develop MAA claiming plans, among other activities. Based on our review of contracts for 67 school districts for fiscal years 2002–03, 2003–04, and 2004–05, all MAA vendors generally provide the same basic services to school districts, but the fees school districts pay for those services can vary significantly. In some instances, the variances may be reasonable. For example, for fiscal year 2003–04, the San Juan Unified School District paid $137.50 for each time survey participant, while the Folsom Cordova Unified School District, located nearby, paid only $100. The vendor charged both school districts the same $100 fee for basic MAA services. However, the San Juan Unified School District was assessed an additional $37.50 for certain data collection services that the Folsom Cordova Unified School District did not need.

***Our review of contracts for 67 school districts indicated that all MAA vendors generally provide the same basic services to school districts, but the fees paid for these services can vary significantly.***

Conversely, their contracts indicated that two school districts in the San Bernardino region—Victor Valley Union High School District (Victor Valley) and Etiwanda School District—use the same vendor, but one school district paid a contingency fee of 8 percent and the other 12 percent of their respective total MAA reimbursements. According to the vendor, the fee charged to Victor Valley represents the same fee as the previous contract with the school district. The vendor also stated that the fee was held at 8 percent as a result of negotiations with

Victor Valley in which they sought to keep the fee at the same level. This situation illustrates the difficulty school districts have in determining what represents a reasonable vendor fee and in comparing their fee with what other school districts pay. As discussed later, centralizing vendor contracts under the consortia would help ensure that the school districts receive competitive rates and consistent delivery of services.

## SIMPLIFYING THE MAA STRUCTURE WOULD MAKE THE PROGRAM MORE EFFICIENT AND EFFECTIVE

Under the current structure of MAA, school districts can choose between two types of local entities through which they submit claims and can choose any vendor they want to provide invoice preparation services. This flexibility may have served MAA well during its early years of operation because it increased variation in the type of program models employed at the local level. Such variation often fosters innovation and learning about what works best. However, as MAA matures, simplifying its structure to improve oversight and increase federally allowable reimbursements would be beneficial. Experience from the last several years of program operation indicates that MAA would be more efficient and effective if Health Services required participating school districts to submit invoices through a consortium and to use a vendor selected through a regionwide competitive process.

### Eliminating Local Governmental Agencies From MAA Would Simplify Oversight and Give Consortia Clear Accountability for Outreach Activities

*Although school districts only submit 24 percent of their MAA invoices through local governmental agencies, these entities represent 65 percent of the site visits Health Services must perform.*

Under current state law, school districts have the option of submitting MAA invoices through their region's consortium or through a local governmental agency. Eliminating local governmental agencies would simplify Health Services' program oversight and allow it to hold consortia accountable for outreach activities designed to increase MAA participation.

As indicated by Figure 2 in the Introduction, school districts currently submit MAA invoices through 11 different consortia and 20 different local governmental agencies. To ensure that it adequately monitors the activities of these two sets of local administering entities, Health Services plans to conduct site visits of all 31 entities once every three years, as discussed in Chapter 2. Although local governmental agencies represent nearly 65 percent of the 31 site visits to be performed, school districts only submit about 24 percent of their MAA invoices through local governmental

agencies. Once Health Services implements the additional monitoring activities we recommend in Chapter 2, its efforts would be better spent on the 11 consortia that process 76 percent of participating school districts' MAA invoices. Using such an approach, it would likely be able to increase its oversight activities without requiring a significant increase in staff resources.

To increase program participation, we recommend in Chapter 1 that Health Services require consortia to perform outreach activities designed to increase MAA participation and that it hold consortia accountable using appropriate measures of performance. We did not include local governmental agencies in this recommendation because the jurisdictions of consortium and local governmental agency overlap. Efforts by both consortia and local governmental agencies to conduct outreach to the same school districts not participating in MAA would be a duplicative use of resources. In addition, if Health Services required simultaneous outreach efforts by consortia and local governmental agencies, it could confuse school districts and reduce the accountability of both entities for their outreach programs. Consortia are best suited to perform outreach to nonparticipating school districts because they are administered by educational units and thus may have a better understanding of school districts' needs than would local governmental agencies, which are typically county health agencies. Further, none of the four local governmental agencies we visited had performed any sort of MAA outreach to nonparticipating school districts in the past. In contrast, each of the five consortia we visited had performed at least some limited outreach.

***To require consortia to perform outreach to nonparticipating school districts and allow local governmental agencies to continue in their current role would be unfair.***

To require consortia to perform outreach to nonparticipating school districts and allow local governmental agencies to continue in their current role would be unfair. The new requirements placed on consortia would increase their costs both for the required outreach activities themselves and for the additional training and technical assistance school districts would likely need when they begin participating in MAA. Local governmental agencies would experience no such cost increases. A local governmental agency could then offer its services to school districts already participating in MAA at a fee lower than the consortium could, enticing more established school districts away from the consortium. This would undermine the ability of the consortium to bring new school districts into the program because it might lose the established school districts that could help spread out its costs. Although eliminating local governmental agencies might result in some school districts

paying higher fees, it would improve the program overall by simplifying oversight for Health Services and holding consortia accountable for outreach in their regions.

*Health Services should be able to mitigate the problem of reduced local competition by developing policies governing consortia fees and monitoring consortium performance.*

We discussed the elimination of local governmental agencies from MAA with three representatives of the 20 participating local governmental agencies; they agree that consortia might best perform outreach to nonparticipating school districts, but they are concerned that removing local governmental agencies from MAA would eliminate the local competition between consortia and local governmental agencies. Health Services should be able to mitigate that problem by developing policies governing consortia fees and monitoring consortia performance, as recommended in Chapter 2. If Health Services published consortia fees in an annual report, also recommended in Chapter 2, it could create competition among the consortia or at least decrease the likelihood that any one consortium would choose to significantly raise its rates above the others.

In addition to their concern about the elimination of local competition, the representatives explained the following:

- Many school districts choose to use a local governmental agency because it is geographically closer than the administrative office of the consortium. School districts more often have established relationships and feel more affiliation with entities within their own county. If the option of using a local governmental agency was taken away, some school districts might choose not to participate in MAA.

- Eliminating local governmental agencies would negate the hard work and effort these entities have put forth in developing the skills and resources to administer MAA.

- Other valuable programs administered by local governmental agencies would be hurt because some of the revenue generated by MAA is used to cover the costs of those programs.

Although we acknowledge that a dramatic change to any program can temporarily upset established relationships, we question whether school districts would choose to forgo receiving substantial amounts of federal funds rather than submit invoices through a consortium. In addition, the fact that local governmental agencies have developed the skills and resources necessary to administer this program, while consortia

that cover the same jurisdictions have presumably developed the same skills and resources, highlights the inefficiency of the current program. Also, the intent of the program is to reimburse school districts for costs incurred when conducting administrative activities related to the Medi-Cal program, not to enable counties to provide additional funding for other programs.

### Using a Limited Number of Competitively Selected Vendors in Each Region Could Improve Oversight and Reduce Fees

*Nearly all of the 27 participating school districts that responded to our survey used a private vendor for some sort of MAA assistance.*

If each school district that needs MAA assistance is required to use a vendor competitively selected by its consortium, instead of entering into an individual contract with a vendor of its own choosing, vendors could be subjected to stronger oversight and compelled to reduce their fees. Nearly all of the 27 participating school districts that responded to our survey used private vendors for some sort of MAA assistance. Some of these school districts used vendors selected by consortia, but because not all consortia contract with vendors, many school districts do not have that option. Other school districts chose to contract directly with private vendors for MAA assistance, even though their consortia also contracted with vendors. This makes oversight of vendors difficult and does not take advantage of the volume discounts consortia may be able to achieve.

To fulfill obligations placed on them by Health Services' MAA manual, consortia must oversee the activities of private vendors that assist school districts. Because it does not directly hold the contract, a consortium's ability to change the practices of a vendor contracted by a school district is limited. In addition, the sheer number of vendors in some regions makes it difficult for the consortium to oversee their activities. Vendor oversight could be improved and simplified if each region used a limited number of vendors that contract directly with the consortium.

At times, vendors directly solicit school districts to enter into contracts for MAA services. This can result in wide variations in price, service level, and guidance among school districts. A competitive vendor selection process at the consortium level would help make vendor fees and services more consistent and would potentially result in reduced vendor fees. The experience of state agencies shows that competition among vendors generally results in either better value or reduced prices. In addition, consortia might be able to obtain volume discounts from vendors by offering them the opportunity to serve a large number of school districts.

Depending on local circumstances, a consortium can select a single vendor that provides service to the entire region. As discussed in Chapter 1, Region 8, which is overseen by the Kern consortium, employs this model and, according to consortium representatives, it is one of the main reasons the region has been so successful in increasing school districts' MAA reimbursements. However, we acknowledge that some regions might be better served by competitively selecting multiple vendors to provide services, thus offering school districts a choice. Although this model might reduce the volume discounts that the consortium could achieve, it could encourage continued competition among the region's vendors to offer the best service.

Some regions may choose not to use vendors at all. According to its MAA coordinator, the Madera consortium has been preparing MAA invoices for the school districts in its region since the beginning of the program. Four other consortia have entered into an agreement to form a joint powers authority to prepare their own invoices for fiscal year 2004–05. Instead of using a private vendor, Stanislaus County, one of the agreement participants, will administer the joint powers authority and hire staff to prepare the MAA invoices for school districts in the four regions. Rather than make a profit on these services as a private vendor would, the joint powers authority will only cover its costs. To the extent that these consortia and school districts can prepare the invoices as effectively and efficiently as a private vendor, this effort allows school districts to receive more of the federal funds to which they are entitled.

***Consortia representatives agreed that competitively selecting vendors at the regional level would improve vendor oversight and could possibly result in lower vendor fees.***

We asked a committee made up of consortia representatives if the program would benefit from having school districts use vendors competitively selected at the regional level. Committee members agreed that this would improve consortia's ability to oversee vendors and could possibly reduce the vendor fees school districts pay. However, they cautioned that such a recommendation should not impede school districts' or consortia's ability to prepare MAA invoices without the assistance of vendors and added that, in the vendor selection process, consortia should be allowed to consider factors other than price, including the level of program service vendors have demonstrated in the past.

## RECOMMENDATIONS

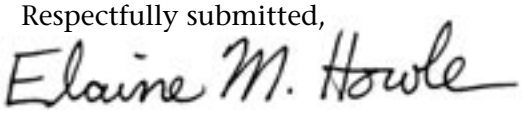
To simplify and improve program oversight, and to increase the efficiency of MAA operations, Health Services should do the following:

- Reduce the number of entities it must oversee and establish clear regional accountability by eliminating the use of local governmental agencies from MAA. Because current state law allows school districts to use either a consortium or a local governmental agency, Health Services will need to seek a change in the law.

- Require a school district that chooses to use the services of a private vendor, rather than developing the expertise internally, to use a vendor selected by the consortium through a competitive process. Depending on the varying circumstances within each region, a consortium may choose to use a single vendor or to offer school districts the choice from a limited number of vendors, all of which have been competitively selected. Health Services should seek a statutory change if it believes one is needed to implement this recommendation.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



ELAINE M. HOWLE
State Auditor

Date: August 4, 2005

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Agency's comments provided as text only.

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Elaine Howle*
State Auditor
Bureau of State Audits
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Dear Ms. Howle:

Enclosed is the California Department of Health Services' (CDHS or Department) response to the recommendations described in the Bureau of State Audits' (BSA) draft report entitled, "Participation in the School-Based Medi-Cal Administrative Activities (MAA) Program Has Increased, But School Districts Are Still Losing Millions Each Year in Federal Reimbursements." CDHS appreciates the opportunity to respond to the recommendations described in the draft report.

The CDHS is pleased that the BSA recognizes the achievements made by the Department in this program area. As discussed in the draft report, the CDHS successfully increased enrollment of students participating in MAA. More than 74 percent of the eligible students, up from 31.9 percent in 1999/2000, are now enrolled in school districts covered by MAA. Additionally, the CDHS processed payments of $91 million in 2002/2003, up from $15.3 million in 1999/2000. To further demonstrate our commitment, the CDHS processed and received approval for a Budget Change Proposal (BCP) to acquire additional staff to continue improving this important program. With these additional staff, the CDHS is committed to expanding its existing oversight of school districts. Lastly, the CDHS initiated a MAA Automation project in December 2004 to increase program efficiency and improve its oversight of the MAA program.

The CDHS is dedicated to continually improving the MAA program, including encouraging school districts to participate in the MAA program and providing expanded oversight of those participating school districts.

Should you have any questions, please contact Mr. Stan Rosenstein, Deputy Director, Medical Care Services, at (916) 440-7800.

Sincerely,

*(Signed by Thomas McCaffery for)*

Sandra Shewry
Director

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* California State Auditor's comments begin on page 57.

**DHS' Response to BSA's Audit Entitled,**
**"Participation in the School-Based Medi-Cal Administrative Activities Program Has Increased, But School Districts Are Still Losing Millions Each Year In Federal Reimbursements"**

**Chapter 1: School Districts Need to Be More Strongly Encouraged to Apply for Federal Dollars for Medi-Cal Administrative Activities**

**Recommendation 1**

1. To help ensure comprehensive MAA participation by school districts and that all federally allowable costs are correctly charged to MAA, Health Services should do the following:

   A. Require consortia to perform outreach activities designed to increase MAA participation and hold them accountable by using appropriate measures of performance.

   This is a two-part recommendation:

   A.1 Require consortia to perform outreach activities designed to increase MAA participation.

   - The DHS **agrees** with this recommendation. Consortia should be encouraged to perform activities that will continue to increase the levels of MAA participation in school districts. Consortia can potentially be reimbursed for efforts aimed at increasing participation under the MAA activity Program Planning and Policy Development (PP&PD). One of the goals of PP&PD is to develop strategies to assess or increase the capacity of school medical health programs.

     DHS can seek to require these specific PP&PD efforts as an extension of the responsibility of consortia for all local educational agencies within their respective service regions, and enforce the requirement through the contractual agreements.

   A.2 Hold consortia accountable by using appropriate measures of performance.

   - The DHS **agrees** with this recommendation. The consortia should be held accountable by using appropriate measures of performance. Those measures will require staff resources to develop, implement and monitor them. Those activities are within the scope of DHS' mandates, and can be accomplished in the near future.

B. In addition to the mass forms of outreach they currently perform, require consortia to periodically identify and contact specific nonparticipating school districts that have potential for high MAA reimbursement and periodically identify and contact participating school districts that appear to be underusing MAA to help ensure that they have a correct understanding of those costs that are federally reimbursable.

- The DHS **agrees** with this recommendation. DHS would expect the consortia to contact all school districts within their region to help ensure that they have a correct understanding of MAA costs, not only to target those school districts that aren't participating, or are underusing MAA. Specifically targeting school districts for additional assistance would be expected as the end result of PP&PD efforts.

**Recommendation 2**

2. If Health Services believes that it does not have a clear directive from the Legislature to increase participation and reimbursements, it should seek statutory changes.

- DHS **agrees** with this recommendation. DHS supports having clear legislative authority for any responsibility attributed to it. DHS believes it has flexibility under its responsibility for oversight of the MAA program to help increase participation by school districts. At the same time, DHS also believes, and the federal Centers for Medicare and Medicaid Services (CMS) agrees, that as the single state agency, it has the fiduciary responsibility to ensure the integrity of the federal claim. Along with any expansion efforts, DHS must also monitor and enforce program requirements that meet federal standards. DHS supports school districts obtaining all reimbursements under the MAA program that meet the program requirements.

**Chapter 2**: **The Department of Health Services Needs to Improve Its Oversight of the School-Based Medi-Cal Administrative Activities Program**

**Recommendation 3**

3. To ensure that school districts receive as much of the federally allowable MAA funds as possible and to protect against federal disallowances, Health Services should do the following:

A. Improve its ability to monitor the MAA program by ensuring that site visits of consortia, local governmental agencies, and school districts are conducted as required and by updating its current invoice and accounting processes so that it can more easily collect data on the participation and reimbursement of school districts.

- DHS **agrees** with this recommendation. As acknowledged in this audit report, DHS began the process of improving its monitoring process with the federal CMS approval of an updated MAA manual in August 2004, before this audit began. The DHS planned level of effort to monitor the MAA program exceeds stated federal requirements for the number of desk and site reviews and will be realized with the addition of newly approved staff positions to facilitate the process. Additionally, the MAA Automation project will build in business rules to update the invoice and accounting processes, allow data collection and analysis, as well as identify participation and reimbursement trends. DHS continues to review and develop opportunities to improve its ability to monitor the MAA program.

B. Require consortia and local governmental agencies, should they continue to be part of MAA, to prepare annual reports that include participation statistics, outreach efforts and results, fees and any resulting surpluses, and other performance measures Health Services determines to be useful. To provide state decision makers with valuable program information, Health Services should annually compile the content of these reports into a single, integrated report that is publicly available.

- DHS **agrees** with this recommendation. With the addition of newly approved staff positions, DHS will have resources to implement this recommendation.

C. Develop written performance criteria for consortia and local governmental agencies, should they continue to be a part of MAA, and take appropriate action when performance is unsatisfactory.

- DHS **agrees** with this recommendation. With the addition of newly approved staff positions, DHS will have resources to implement this recommendation.

D. Develop policies on the appropriate level of fees charged by consortia to school districts and the amount of excess earnings and reserves consortia should be allowed to accumulate. Health Services should do the same for local governmental agencies if such entities continue to be part of the program structure.

- DHS **disagrees** with this recommendation. DHS has no expressed authority to implement policies for the fees charged to school districts. DHS will continue to research the issue. We believe that this is an issue that is most appropriately handled at the local level rather than managed by the State.

E. Help school districts invoice for all reimbursable costs, including vendor fees, by issuing clear guidance on how to invoice for these costs and instructing consortia and local governmental agencies should they continue to be part of MAA, to make sure school districts in their respective regions know how to take advantage of these revenue-enhancing opportunities.

- DHS **agrees** with this recommendation. DHS will continue to provide guidance on the MAA program. The guidance is expected to help school districts claim more efficiently by including all allowable and reimbursable costs, while continuing to ensure unallowable costs are not claimed.

F. Follow through on its plans to develop a policy governing the claiming of consortium and local governmental agency fees and instruct these entities to carefully monitor school districts' invoices to make sure that any claiming of consortium or local governmental agency fees does not result in duplicate payments.

- DHS **agrees** with this recommendation, and will issue a policy letter to communicate this guidance.

**Chapter 3**: **The Current Structure Does Not Ensure the Most Efficient Operation of the School-Based Medi-Cal Administrative Activities Program**

**Recommendation 4**

4. To simplify and Improve program oversight, and to increase the efficient operation of MAA, Health Services should do the following:

A. Reduce the number of entities it must oversee and establish clear regional accountability by eliminating the use of local governmental agencies from MAA. Because current state law allows school districts to use either a consortium or a local governmental agency, Health Services will need to seek a change in the law.

- DHS **disagrees** with this recommendation. Although allowing school districts to only claim through the consortia would simplify the current program, MAA Automation will eliminate the program complications associated with this option. The school districts seem to prefer having an option of claiming through either their consortia or their local governmental agency, and DHS does not want to eliminate local flexibility.

B. Require school districts that choose to use the services of a private vendor rather than develop the expertise internally to use a vendor selected by the consortium after a competitive selection process. Depending on the varying circumstances within each region, the consortia may choose to use a single vendor or to offer school districts the choice from a limited number of vendors, all of which have been competitively selected. Health Services should seek a statutory change if it believes one is needed to implement this recommendation.

- DHS **partially agrees** with this recommendation. Although DHS agrees with the merits of the recommendation, DHS does not believe its authority can be extended to school districts' selections of vendors to support their operations. Limiting school districts to vendors competitively selected by the consortia takes advantage of economies of scale, ensures the local government doesn't pay more than necessary, and takes advantage of the consortia's program knowledge and expertise. However, DHS does not believe its role as the single state agency for Medi-Cal can dictate how a local entity selects vendors. DHS has the responsibility to ensure that payments are accurate and services are available and currently only bars providers from the Medi-Cal program in the event of fraudulent activity. If DHS became involved in the vendor selection process, it could incur potential General Fund liability in the event of lost Federal Financial Participation (FFP) due to vendor non-performance. Additionally, DHS does not believe it should sponsor legislation that limits a local entity's flexibility to implement their programs.

# COMMENTS

## *California State Auditor's Comments on the Response From the Department of Health Services*

To provide clarity and perspective, we are commenting on the response to our audit report from the Department of Health Services (Health Services). The numbers correspond with the numbers we have placed in Health Services' response.

- Although our report concludes that participation and reimbursements of the school-based Medi-Cal Administrative Activities program (MAA) have increased, it does not attribute this increase to any one entity's efforts.

- Health Services has allowed the fees charged by consortia and local governmental agencies to be an issue handled at the local level and, as stated on page 35 of our report, the result has been that school districts have received a reduced share of MAA reimbursements because some consortia and local governmental agencies have charged fees that exceed their administrative costs. Further, in some cases the excess earnings generated by these fees are being used for purposes other than MAA. Therefore, we believe it is critical that Health Services develop policies on the appropriate level of fees to be charged to school districts and the amount of excess earnings and reserves that should be allowed to accumulate. If Health Services believes it needs express authority to implement such policies, it should seek it.

- We agree with Health Services' statement that eliminating the option of using local governmental agencies will simplify the program. However, we disagree that MAA automation will eliminate the complications associated with allowing school districts to submit invoices through local governmental agencies. Specifically, Health Services will still have to perform site visits at 20 participating local governmental agencies, even though, as stated on page 44 of our report, only 24 percent of total MAA invoices are submitted through local governmental agencies. Further, as described on page 45, to require consortia to perform outreach to nonparticipating school districts—a recommendation with which Health Services agrees—and allow

local governmental agencies to continue in their current role would be unfair to consortia. These issues cannot be addressed simply through MAA automation.

- As stated in its response, Health Services agrees with the merits of our recommendation. Thus, we believe that, rather than cite its perceived lack of authority in dismissing our recommendation, it should seek a statutory change to implement it. Further, although Health Services expresses concern about becoming involved in the vendor selection process, our recommendation limits Health Services' role to requiring school districts that choose to use a vendor to use one selected by consortia through a competitive process. Therefore, we do not see how implementing our recommendation could cause Health Services to be held liable for the nonperformance of a particular vendor.

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press