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

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.*

REPORT NUMBER 2004-125, AUGUST 2005

Department of Health Services' response as of July 2006

The Joint Legislative Audit Committee (audit committee) asked the Bureau of State Audits to review the Department of Health Services' (Health Services) administration of the Medi-Cal Administrative Activities program (MAA). Specifically, we were asked to assess the guidelines provided by Health Services to local educational consortia (consortia) and local governmental agencies that administer MAA at the local level. Additionally, the audit committee asked us to evaluate the process by which Health Services selects consortia and local governmental agencies to contract with, how it establishes the payment rates under the terms of the contracts, and how it monitors and evaluates performance of these entities.

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. Furthermore, we were requested to conduct a survey of school districts regarding their participation in the program.

Finding #1: School districts underused MAA.

Although California school districts received $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 fully used the program. School districts we surveyed identified a belief that the program would not be fiscally beneficial as one of the primary factors in their decision not to participate in MAA. 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 assessment have now decided to participate. The main reasons offered by consortia and local governmental agencies as to why participating school districts did not fully use MAA were that they lacked an experienced MAA coordinator with sufficient time to focus on the program and generally resisted or lacked support for time surveying. If such issues are addressed, school districts may be able to obtain additional MAA reimbursements beyond our $57 million estimate.

Health Services and the consortia and local governmental agencies that help it administer the program have not done enough to help school districts participate in MAA. Health Services acknowledges that it does not try to increase MAA participation and federally allowable reimbursements, commenting that it 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 these local entities to mandate their performance of 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 a high MAA reimbursement and by identifying participating school districts that underuse MAA and helping ensure that they have a correct understanding of those costs that are federally reimbursable.

To help ensure comprehensive MAA participation by school districts and that all federally allowable costs are correctly charged to MAA, Health Services should require consortia to perform outreach activities designed to increase participation and hold them accountable by using appropriate measures of performance. In addition to the mass forms of outreach consortia currently perform, Health Services should require them 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. If Health Services believes it does not have a clear directive from the Legislature to increase participation and reimbursements, it should seek statutory changes.

Health Services' Action: Partial corrective action taken.

Health Services amended its MAA contracts to include the requirement that consortia perform targeted outreach activities each year to a minimum of 15 percent of all nonparticipating school districts within their region that have the highest daily attendance. Health Services uses a site review tool to measure contractual compliance and adherence to program directives.

Health Services' School-Based MAA Unit provides ongoing consultation and program expertise to consortia to ensure that they have a correct understanding of those costs that are federally reimbursable. The unit also develops and conducts annual mandatory training for time surveys. Additionally, the unit's MAA database of participating and nonparticipating school districts by region has established baseline references to measure outreach activities. Finally, an annual report of participation information and performance measures is being developed for additional program oversight.

Finding #2: 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.

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 onsite reviews of school districts. According to the chief of administrative claiming, Health Services has implemented new procedures as a result of its most recent MAA manual approved by 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 should ensure that the site visits of consortia, local governmental agencies, and school districts are conducted as required.

Health Services' Action: Corrective action taken.

The School-Based MAA Unit is now fully staffed. Oversight, monitoring, site visit and desk review protocols, and performance criteria are in place and exceed federal monitoring requirements. With the increased staff in the School-Based MAA Unit, regular mandatory site visits are occurring along with desk reviews of 50 time surveys and 100 invoices yearly for all of the consortia.

Finding #3: 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 could be made. For instance, because it uses a manual process, which has the potential for human error, Health Services cannot easily determine the total federal reimbursements California schools have received from MAA, identify participating school 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. It also does not require regular reporting from consortia and local governmental agencies on their program efforts (annual reports). 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 these entities consistently neglected their responsibilities.

Health Services should update its current invoicing and accounting processes so it can more easily collect data on the participation and reimbursement of school districts. Additionally, Health Services should 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, and other performance measures Health Services determines to be useful. Health Services should then annually compile the content of these reports into a single, integrated report that is publicly available. Finally, Health Services should develop written criteria for consortia, and local governmental agencies should they continue to be part of MAA, and take appropriate action when performance is unsatisfactory.

Health Services' Action: Partial corrective action taken.

Refinements to the invoice and accounting processes have been implemented. Invoice and claiming plan backlogs have been eliminated, and staff are meeting all deadlines. Additionally, Health Services has begun the MAA Automation project and has hired a consultant to develop a feasibility study scheduled to be completed by September 2006. The MAA Automation project will enable Health Services to analyze MAA data and develop management reports. Data collection and analysis and management reports focus on total federal MAA reimbursements, participating school district MAA reimbursements, and consortia performance measures, among other indicators. Additionally, Health Services and MAA coordinators have formed an "Annual Report Workgroup" to develop and finalize a yearly report that will be published on Health Services' Web site. The workgroup has developed interim management reports using existing data to identify trends within California and in comparison with other states.

Health Services' School-Based MAA Unit is actively assessing local MAA performance through site reviews and desk reviews to identify and correct unsatisfactory performance. The School-Based MAA Unit staff are correcting overpayments and repayments, returning incorrect invoices, and requiring improper invoice revisions to ensure program consistency and compliance. Health Services also continues to develop MAA policy and procedures letters to provide program guidance and directives to ensure proper and efficient implementation of the MAA program.

Finding #4: 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. Furthermore, representatives for three of the local governmental agencies we reviewed stated they do not perform an analysis 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. Health Services stated it has not developed policies governing consortium and local governmental agency fees because it was unaware of the overcharging issue.

Health Services should develop polices 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.

Health Services' Action: None.

Health Services' research found no federal authority to implement policies regarding the level of consortium fees or the amount of excess savings or resources the consortium can accumulate. Health Services believe that this issue should be handled at the local level to afford maximum flexibility to manage the program on local issues. We continue to believe it is critical that Health Services develop policies in this area. If Health Services believes it needs express authority to implement such policies, it should seek it.

Finding #5: Some 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.

We recommended that Health Services 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.

Health Services' Action: Corrective action taken.

Health Services is fully staffed and the local MAA programs are receiving ongoing technical assistance, training, and guidance in obtaining all appropriate reimbursements under the MAA program.

Finding #6: 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 federal 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.

We recommended that Health Services 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.

Health Services' Action: Corrective action taken.

Health Services released a policy and procedure letter in February 2006 that requires consortia or local governmental agencies participating in MAA to ensure, by monitoring invoices, that administrative fees they charge school districts are not reported by both the consortia or governmental agencies and the school districts. The policy and procedure letter further provides that the cost of activities included on the MAA invoice may only be claimed by one entity. Therefore, if the activities are claimed on the consortia or governmental agency invoice, they may not be claimed on other invoices, such as the school district or subcontractor invoices.

Finding #7: Simplifying the MAA structure would make the program more efficient and effective.

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. 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 once every three years. However, 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, 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.

We also recommended 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 consortia and local governmental agencies 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.

Finally, 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 subject 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 a vendor selected by consortia, but because not all consortia contract with vendors, many school districts do not have that option. Other school districts choose 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.

Health Services should 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. Additionally, we recommended that Health Services require school districts that choose 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.

Health Services' Action: None.

Health Services disagrees with our recommendation to eliminate the use of local governmental agencies from MAA. Specifically, Health Services continues to support the school districts' decision to claim through either their consortia or their local government. Health Services believes this local flexibility allows MAA program implementation to be based on local variances and results in the most efficient use of resources.

Health Services agrees with the merits of requiring 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. However, Health Services continues to support local flexibility to allow management of the MAA to be based on local variances resulting in the most efficient use of local resources. Nevertheless, we continue to believe that simplifying the MAA structure to make the program more efficient and effective is important, and thus, Health Services should implement the recommendations. Further, Health Services should seek a statutory change if it believes one is needed to implement the recommendation regarding vendor selection.