



Region IX

Division of Medicaid & Children's Health Operations

90 Seventh Street, Suite 5-300 (5W)

San Francisco, CA 94103-6706

JUN 26 2012

Toby Douglas  
Director, California Department of Health Care Programs  
P.O. Box 997413, MS 0000  
Sacramento, CA 95899-7413

Dear Mr. Douglas:

The Centers for Medicare & Medicaid Services (CMS) has completed its field work on a financial management review of school-based administrative expenditures. Based on this review, as well as examination of additional source documentation provided by the State for school-based administrative expenditures claimed on the December 31, 2011 Form CMS-64 by the State of California, CMS has determined that the State's claims do not comply with the Medi-Cal administrative claiming plan for school-based services approved by CMS in 2003. Therefore, we are deferring school-based administrative claims<sup>1</sup> until adequate documentation can be provided to show that the claims comply with Federal Medicaid administrative claiming requirements, as stipulated in the State's approved school-based administrative claiming plan. A separate report will be issued with the detailed findings related to the claiming units included in the above referenced financial management review.

We have determined that California's implementation of the currently approved school-based administrative claiming plan does not comply with requirements detailed in Office of Management and Budget (OMB) Circular A-87, including the time study used as a basis for developing invoices. OMB Circular A-87 contains cost principles for State, local, and Indian Tribal governments for the administration of federal grant awards, including Medicaid and Medicaid Administrative Activities. It requires that any costs claimed be limited to those that are reasonable and necessary for the proper and efficient administration of the Medi-Cal program. The State must implement a revised program that is in compliance with OMB Circular A-87 in order for Federal Financial Participation (FFP) to continue to be available for school-based Medicaid administrative activities.

Accordingly, DHCS must submit a revised time study methodology and statewide claiming plan for use in the State Fiscal Year beginning July 1, 2012, that fully complies with the OMB Circular A-87 cost allocation principles. Any invoices submitted for quarters after July 1, 2012, using the current methodology may be subject to deferral and/or disallowance.

The Medicaid administrative activities performed by schools on behalf of the Medicaid agency are important to the successful operation of the State's Medicaid program. We look

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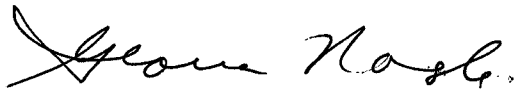
<sup>1</sup> DHCS was notified by a grant award document dated June 15, 2012, that CMS began deferring school based administrative claims. The deferrals included all amounts claimed on the December 31, 2011 Form CMS-64 with the exception of the invoice submitted for the Los Angeles Unified School District, which utilizes the recently approved random moment time study. The CMS Regional Office will continue to recommend the deferral of school based administrative claims in future quarters for all claiming units other than Los Angeles Unified School District and Santa Barbara County Education Office – Special Education until the specific documentation requested in the June 26, 2012 deferral letter to DHCS is provided.

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forward to working with your staff to provide any technical assistance they may require in developing a revised administrative claiming plan for CMS review and approval.

Thank you for your attention to this matter. If you would like to discuss further please contact me at 415-744-3568.

Sincerely,

A handwritten signature in cursive script that reads "Gloria Nagle".

Gloria Nagle, Ph.D., M.P.A.

Associate Regional Administrator

Division of Medicaid & Children's Health Operations