



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care Financing Administration  
6325 Security Boulevard  
Baltimore, MD 21207

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Dear State Medicaid Director:

As the result of a recent examination of claims for administrative match which included some inappropriately claimed activities, we believe it is important to reiterate our long-standing policy on allowable administrative costs. Moreover, because the situation prompting this examination included activities identified as administrative case management (ACM), as well as other administrative functions performed by State and local governments, we would like to amplify our policy with specific reference to such situations.

Section 1903(a) of the Social Security Act directs payment of Federal financial participation (FFP), at different matching rates, for amounts "found necessary by the Secretary for the proper and efficient administration of the State plan." The Secretary, rather than the State, is the final arbiter of which activities fall under this definition. We have consistently held that allowable claims under this authority must be directly related to the administration of the Medicaid program. Thus, activities directed toward services not included under the Medicaid program, although such services may be valuable to Medicaid beneficiaries, are not necessary for the administration of the Medicaid program, and therefore are not allowable administrative costs. In addition, with regard to any allowable administrative claim, payment may only be made for

the percentage of time spent which is actually attributable to Medicaid eligible individuals.

The Health Care Financing Administration (HCFA) has approved cost allocation plans from States which included the following types of administrative costs necessary for the proper and efficient administration of the State plan (Note: this list is not all-inclusive):

- Medicaid eligibility determinations;
- Medicaid outreach;
- Prior authorization for Medicaid services;
- Medicaid Management Information System development and operation;
- Early and Periodic Screening, Diagnostic and Treatment administration;
- Third Party Liability activities; and
- Utilization review.

In 1986, Congress recognized case management as a separate service eligible for matching at the Federal Medical Assistance Percentage (FMAP), when such services were provided to a targeted group of high risk individuals and the State submitted an amendment to its Medicaid State plan. As Medicaid agencies expanded their use of individual case management activities, both for targeted case management and for the general Medicaid population, they asked whether some of the case management activities which were not claimable as targeted case management were instead claimable as administrative costs. In Section 4302 of the State

Medicaid Manual (SMM), HCFA identifies the following case management activities which may be properly claimed as ACM (but not as targeted case management):

- Medicaid eligibility determinations and redeterminations;
- Medicaid intake processing;
- Medicaid preadmission screening for inpatient care;
- Prior authorization for Medicaid services;
- Utilization review; and
- Outreach activities to inform or persuade beneficiaries or potential beneficiaries to enter into care through the Medicaid system.

(NOTE: This group of services which States may identify as ACM was not intended to be all-inclusive.)

This SMM section did not authorize a new category for administrative claiming but only recognized that existing types of coverable administrative costs could be understood as falling under the general concept of case management. For example, the costs for time spent by a State employee who worked specifically on conducting a prior authorization review for a Medicaid service could be claimed as an administrative cost even though this activity may be referred to as ACM by the State. In our view, such services could have always been claimed as administrative costs because of their direct connection to the proper and efficient administration of the Medicaid State

plan. While some case management activities may fall within the scope of both administrative and targeted case management, a State may not claim the same costs both as targeted case management and ACM at the same time.

### Medicaid Policy

Given the results of our examination of claims for administrative match and based on recent inquiries from States and comments received from the publication of the Notice of Proposed Rulemaking (NPRM) on targeted case management, we believe that the general principles governing Medicaid reimbursement of administrative costs and particularly ACM, as set out in the SMM and in the NPRM on targeted case management, require additional amplification. By addressing the application of this policy in several particular situations we hope that States will better understand which costs may be identified and claimed as administrative costs under the Medicaid program.

As cited earlier, the overarching policy guiding such decisions is that the costs must be *“found necessary by the Secretary for the proper and efficient administration of the State plan.”* (Emphasis added.) HCFA exercise the Secretary’s authority to determine what is necessary and proper for the efficient administration of the State plan.

The following principles reflect determinations made by HCFA in applying this policy. States should follow these principles in evaluating the legitimacy of their claims for administrative match. An allowable administrative cost:

- must be directly related to Medicaid State plan or waiver services. Allowable administrative

costs do not include gaining access to or coordinating non-Medicaid services even if such services are health-related. Also, allowable administrative costs do not include gaining access to or coordinating social, educational, vocational, legal or other non-Medicaid services. The cost of gaining access to or coordinating non-Medicaid services may be claimable as targeted case management if applicable State plan requirements are met.

- cannot reflect the cost of providing a direct medical or remedial service, such as immunizations or psychological counseling.
- cannot be an integral part or extension of a direct medical or remedial service, such as patient follow-up, patient assessment, patient education, counseling (including pharmacy counseling), or other physician extender activities. Such services are properly paid for as part of the payment made for the medical or remedial service. Because Medicaid providers have agreed to accept service payment as payment in full, such providers may not claim an additional cost as administrative cost under the State plan.
- may not include funding for a portion of general public health initiatives that are made available to all persons, such as public health education campaigns, unless the campaign is explicitly directed at assisting Medicaid eligible individuals to access the Medicaid program.
- may not include the overhead costs of operating a provider facility, such as the supervision and training of providers.

- may not include the operating costs of an agency whose purpose is other than the administration of the Medicaid program, such as the operation of a probation department.

However, to the degree that a governmental agency directs some fraction of its efforts exclusively to Medicaid claimable administrative services, and can accurately identify that fraction, it may claim an appropriate portion of its operating costs to support that function if all other criteria for administrative claiming is satisfied (e.g., direct relationship to the State plan, health-related, etc.)

- must be included in a cost allocation plan that is approved by HCFA and supported by a system which has the capability to isolate the costs which are directly related to the support of the Medicaid program from all other costs incurred by the agency.
- must, if claimed at the enhanced matching rate for activities rendered by skilled professional medical personnel (SPMP), include only administrative activities performed by the SPMP which require the level of medical expertise of such SPMP in order to be performed effectively and meet all requirements of Federal regulations at 42 CFR 432.50(d).
- cannot be incurred with regard to any services provided to individuals who are "inmates of a public institution" as this exclusion is specified in regulations and interpreted by HCFA. This would include juveniles as well as adults detained temporarily in locked public facilities awaiting disposition. (Individuals whose disposition has already been determined, but who are housed temporarily in such facility until

placement to other than inmate status elsewhere is available, are not considered inmates.

Prior to implementation of State or local systems for claiming administrative costs, State should ensure that their methodologies for distinguishing administrative activities eligible for FFP conform to the guidelines outlined above and are included in the State's cost allocation plan submitted to and approved by the Director of the Division of Cost Allocation (after consultation with HCFA) in accordance to Federal regulations at 45 CFR, Subpart E. Many case management activities which are not allowable under these guidelines may be allowable as targeted case management services, through an approved amendment to the State plan. Guidelines for targeted case management may be found in the SMM, Section 4302.

Furthermore, States should ensure that State and local agency time coding systems used to determine Medicaid utilization are designed to distinguish allowable administrative costs from non-allowable expenses. These time coding systems must also be approved by HCFA prior to State and local implementation and must meet the simplicity of administration requirements of the Social Security Act.

We plan to issue an expanded list of policy interpretations to guide States' decision making regarding allowable costs for Medicaid administrative match for ACM and other functions performed by State or local governments in a SMM issuance. We also intend to incorporate these interpretations in regulations.

We hope States find this material helpful and would welcome your input on areas in which you believe further policy interpretation would be useful.

Sincerely yours,

/s/

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