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DEPARTMENT OF HEALTH AND HUMAN SERVICES  
OFFICE OF DIRECTOR

ACTION REFERRAL

TO <i>Hess</i>	DATE <i>7-22-11</i>
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DIRECTOR'S USE ONLY	ACTION REQUESTED
1. LOG NUMBER <i>100045</i>	<input type="checkbox"/> Prepare reply for the Director's signature DATE DUE _____
2. DATE SIGNED BY DIRECTOR <i>Cleared 8/19/11, see attached e-mail response</i>	<input checked="" type="checkbox"/> Prepare reply for appropriate signature DATE DUE <i>8-12-11</i>
	<input type="checkbox"/> FOIA DATE DUE _____
	<input type="checkbox"/> Necessary Action

APPROVALS (Only when prepared for director's signature)	APPROVE	* DISAPPROVE (Note reason for disapproval and return to preparer.)	COMMENT
1.			
2.			
3.			
4.			

*State of South Carolina*



*Office of the State Auditor*

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA  
DEPUTY STATE AUDITOR

**RECEIVED**

JUL 22 2011

Department of Health & Human Services  
OFFICE OF THE DIRECTOR

(803) 253-4160  
FAX (803) 343-0723

July 21, 2011

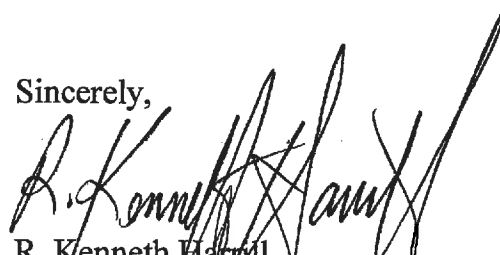
Mr. Roy Hess  
Interim Deputy Director of Finance and Administration  
Department of Health and Human Services  
Post Office Box 8206  
Columbia, South Carolina 29202-8206

Dear Mr. Hess:

Enclosed please find our Cost Allocation Plan for Medicaid Audit Services for FY 2011-12. Please confirm, in writing, by August 19, 2011 that this plan for cost allocation is acceptable to the Department of Health and Human Services.

Thank you for your usual cooperation.

Sincerely,



R. Kenneth Harrell  
Director of Administration

RKH  
Enclosure

**Office of the State Auditor**  
**Cost Allocation Plan**  
**For Medicaid Audit Services**  
**FY 2011-12**

Section 11-7-40 of the South Carolina Code of Laws provides the following:

*The State Auditor shall bill the South Carolina Department of Health and Human Services monthly for fifty percent of the costs incurred by the State Auditor in conducting the medical assistance audit. The amount billed by the State Auditor must include those appropriated salary adjustments and employer contributions allowable under the Medicaid program. The Department of Health and Human Services shall remit the amount billed to the credit of the general fund of the State.*

The monthly invoices submitted to the DHHS in FY 2011-12 will be computed based on the billable audit hours expended on Medicaid audits during the month and the cost per hour for providing Medicaid audit services in the previous fiscal year. DHHS will be billed for 50% of the cost.

The last monthly invoice for FY 2011-12 (June, 2012) will include an amount to adjust the total amount billed to DHHS for FY 2011-12 as follows:

All expenditures that can be readily identified with Medicaid audits are considered direct costs and will be allocated to Medicaid costs. These direct costs include expenditures such as: travel, attorney fees, and publications specific to Medicaid programs. (Direct costs allocated to the state agency audits program include expenditures such as: travel, contracts for state agency audits, and 10% of the Deputy State Auditor's salary and fringe benefits expended in the administration of state agency audit contracts and court audits).

Indirect costs charged to DHHS for the FY 2011-12 are proportional to the actual audit time expended on Medicaid audits in FY 2011-12. All expenditures, including personal services, are considered indirect except for those expenditures that are readily identifiable as either state agency audit, court audit or Medicaid audit expenses, e.g. travel, attorney fees, audit contracts. Personal services costs

are considered indirect costs since auditors are assigned to both Medicaid and state agency audits during the course of the fiscal year.

As provided by Section 11-7-40 of the South Carolina Code of Laws, DHHS will be billed for 50% of the costs.

In preparing these invoices, the Office of the State Auditor determined to the best of our knowledge that the following assumptions are valid and accurate:

- Management and administrative support, including word processing, costs the same for a Medicaid billable audit hour as for a state agency or court audits billable audit hour.
- All expenditures, including personal services, are considered indirect except for those expenditures that are readily identifiable as state agency audit, court audit or Medicaid audit expenses, e.g. travel, attorney fees, audit contracts. Personal services costs are considered indirect costs since auditors are assigned to both Medicaid and state audits during the course of the fiscal year.
- The staffing structure of the audit staff does not adversely affect the cost per hour of Medicaid audit services vs. state audit services or court audit services.
- The portion of the Deputy State Auditor's time that is spent in the process of letting contracts for state agency audit services and court audits is 10% of his total time and is a direct cost (10% of the salary and fringe benefits) to the state audits program.

**PREPARATION OF THE MONTHLY  
MEDICAID INVOICE FOR DHHS  
JULY 2011 - JUNE 2012**

The monthly invoice submitted to the Department of Health and Human Services for Medicaid audit services is computed as follows:

1. Determine the number of billable audit hours expended on Medicaid audits during the month.
2. Multiply the hours from item 1) above by the cost per hour of providing Medicaid audit services during the previous fiscal year.
3. Multiply the result of item 2) above by .5 to determine the amount of the total bill to DHHS for the month.

The June 2012 invoice will include an amount to adjust the total amount billed to DHHS for the fiscal year as follows:

1. From the Office of the State Auditor time system determine the percentage of the total billable audit hours that were expended in FY 2011-12 in providing Medicaid audit services to DHHS.
2. From the accounting records of the Office of the State Auditor determine the total of indirect cost expenditures in providing audit services. This total includes all personal services expenditures except for 10% of the salary and fringe benefits of the Deputy State Auditor (less than 10% of his time is spent on contracts for state agency audits and court audits).
3. Multiply the result of item 1) above by item 2) above to determine indirect costs of providing Medicaid audit services.
4. From the accounting records for the Office of the State Auditor determine the total of direct expenditures in providing Medicaid audit services.
5. Add the result of item 3) and item 4) above.

6. Multiply the result of item 5) above by 50%. This amount is the total amount due by DHHS for FY 2011-12.
7. Total the monthly bills, including the amount computed for the June, 2012 bill.
8. Subtract the result of item 7) from the result of item 6).
9. The result of item 8) is the adjustment added to the June, 2010 bill.

Log #45

**Elizabeth Hutto - SFY 2012 Cost Allocation Plan - Office of the State Auditor**

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**From:** Jeff Saxon  
**To:** Ken Harrill  
**Date:** 8/19/2011 3:00 PM  
**Subject:** SFY 2012 Cost Allocation Plan - Office of the State Auditor  
**CC:** Elizabeth Hutto; Janet Bell; Roy Hess

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Hello Ken:

I have completed my review of the SAO SFY 2012 Cost Allocation Plan for Medicaid Audit Services submitted via your July 21, 2011 letter and have found the plan to be acceptable.

Thanks and please let me know if you have any questions.

Jeff

Jeff Saxon  
Bureau Chief  
Bureau of Reimbursement Methodology & Policy  
SCDHHS  
Phone: 803.898.1040  
Fax: 803.255.8228