

Audit Report

Genesee Intermediate School District
Medicaid School Based Services Program

July 1, 2009 – June 30, 2010



Office of Audit
August 2012



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
400 S. PINE; LANSING, MI 48933

OLGA DAZZO
DIRECTOR

August 6, 2012

Ms. Deb Marshall
Student Data Management Supervisor
Genesee Intermediate School District
2413 W. Maple Avenue
Flint, Michigan 48507-3493

Dear Ms. Marshall,

Enclosed is our final report for the Michigan Department of Community Health (MDCH) Medicaid School Based Services Program audit of the Genesee Intermediate School District for the period July 1, 2009 – June 30, 2010.

The final report contains the following: Description of Agency; Background; Funding Methodology; Purpose and Objectives; Scope and Methodology; Conclusions, Findings and Recommendations; and Corrective Action Plans. The Corrective Action Plans include the agency's response to the Preliminary Analysis.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

Scott Werner, Manager
Special Audits Section
Office of Audit

Enclosure

cc: Pam Myers, Director, Office of Audit
John Lambert, Auditor, Office of Audit
Cindy Linn, Manager, Medicaid Program Policy Division
Kevin Bauer, Specialist, Medicaid Program Policy Division
Steve Ireland, Manager, Rate Review Section

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DESCRIPTION OF AGENCY

The Genesee Intermediate School District, one of 57 intermediate school districts (ISD) in Michigan, was established in 1962. ISDs are regional service agencies that offer support services to school personnel that are best delivered regionally. The Genesee Intermediate School District is a publicly funded school district regulated by the state and federal government.

The Genesee Intermediate School District administrative offices are located in Flint, Michigan, serving the 21 local educational agencies (LEAs) and 10 public school academies in Genesee, Lapeer, Shiawassee and surrounding counties. The Genesee Intermediate School District's Board of Education consists of five members. Under current rules, board members are elected to overlapping terms of six years each. Board members are chosen by the twenty-one LEAs within Genesee County.

BACKGROUND

Effective July 1, 2008, the Center for Medicare & Medicaid Services (CMS) made changes to the Medicaid School Based Services (SBS) Program. Under the new SBS Program, the Michigan Department of Community Health (MDCH) provides SBS reimbursement to school districts that provide Medicaid covered health and health-related services. There are two components of the SBS program that include:

- Direct Medical Services (includes specialized transportation, personal care services, and targeted case management services)
- Medicaid Administrative Outreach (AOP)

Those beneficiaries who are served by the SBS program are individuals with physical and/or behavioral disabilities, ages 0-21, who meet the eligibility requirements of the Federal Individuals with Disabilities Education Act (IDEA) Statute and the Michigan Board of Education Administrative Rule for Special Education. Medicaid covers some medical services included in an Individualized Education Program (IEP) or Individualized Family Service Plan (IFSP) for Medicaid eligible students including:

- Medically necessary services included in a Medicaid covered category
- Services that are included in the Medicaid State Plan

For an enrolled school district to receive reimbursement, the services provided must meet all Federal and State Medicaid regulations and provisions, including those for provider qualifications, comparability of services, and the amount, duration, and scope of services.

FUNDING METHODOLOGY

The AOP and Direct Medical Services program are companion programs. The AOP provides reimbursement for administrative activities required to identify, manage, refer and develop programs for children at risk of academic failure due to an underlying health issue, including mental health. The Direct Medical Services program reimburses schools for the cost of providing direct medical services to the special education Medicaid student population.

AOP

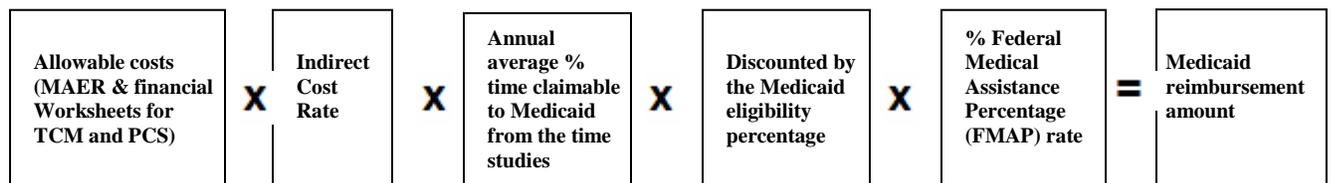
Each of the LEAs report staff salaries and related costs directly to a hired contractor, the Public Consulting Group (PCG). PCG combines the costs, applies various allocation percentages and submits the AOP claim directly to MDCH for review, processing and payment each fiscal quarter. Claim development is based on a “pool” of costs, primarily salaries, incurred by the school districts for individuals that engage in Medicaid-type activities on a regular basis. The percentage of effort actually spent on Medicaid-type activities is identified by a Random Moment Time Study (RMTS) that is also conducted by PCG. Reallocation of administrative activities found in the RMTS and certain other allocation percentages are applied to the Medicaid activities where appropriate. For most activities, the final amount claimed for Medicaid reimbursement is equal to:



Direct Medical Services

SBS providers are required to submit Direct Medical Services claims for all Medicaid covered allowable services. These claims do not generate a payment, but are required by CMS in order to monitor the services provided, the eligibility of the recipient, and provide an audit trail. These claims are submitted and processed through the Community Health Automated Medicaid Processing System (CHAMPS); however, payment is suppressed in the system for SBS procedures.

SBS providers receive their funding from the interim monthly payments that are based on prior year actual costs and that are reconciled on an annual basis to the current year costs. Cost reporting and reconciliation are based on the school fiscal year which is July 1 through June 30 of each year. The final amount claimed for Medicaid reimbursement is equal to:



The cost settlement is accomplished by comparing the interim payments to the annual Medicaid allowable costs. Any over/under settlement payments are made. Specialized transportation costs are the costs associated with the special education buses used for the specific purpose of transporting special education students only. On an annual basis, the cost per trip is calculated by dividing the total reimbursable cost by the total ISD-reported special education one-way transportation trips. The Medicaid reimbursable amount is obtained by multiplying the number of “allowable” one-way trips paid by the Medicaid Invoice Processing system per ISD. An “allowable” one-way trip is provided to a Medicaid-eligible beneficiary and fulfills all of the following requirements:

- Documentation of ridership is on file;
- The need for the specialized transportation service is identified in the IEP or IFSP; and
- A Medicaid-covered service is provided on the same date of the trip

The cost settlement is accomplished by comparing the interim payments to the annual Medicaid allowable specialized transportation costs. Any over/under settlement payments are made. This settlement amount will be included with the Direct Medical Services cost settlement payment/recovery.

PURPOSE AND OBJECTIVES

The purpose of our audit was to review that School Based Service costs reported by the ISD and its LEAs were in compliance with Federal and State laws and regulations and that internal controls for the Direct Medical Services and the Administrative Outreach Program were effectively established and implemented. Our work is summarized by the following objectives:

- 1.) To assess whether the Genesee Intermediate School District and its LEAs effectively established and implemented internal controls over the development of School Based Service Medicaid claims.
- 2.) To assess whether the School Based Service costs reported by the Genesee Intermediate School District and its LEAs that were used to develop the Medicaid claim were reasonable, allocable and allowable under Federal and State laws and regulations.

SCOPE AND METHODOLOGY

Within the limitations described below, our audit included reviews of the claims development process and the costs claimed by Genesee Intermediate School District and its LEAs for the year ended June 30, 2010.

The scope of our review of the claims development process was limited to the parts of the process that were not monitored by others. The RMTS and the assignment of sampled moments to activities are monitored by PCG and were excluded from the scope of this audit. We also accepted the federally approved indirect cost rate without review; but verified that the approved rate was used in claim calculations and applied only to costs in the specified base. We did not

audit the procedures used to calculate the percentage of Medicaid eligible students in Genesee Intermediate Schools since these procedures apply to all ISDs and were reviewed and approved by CMS. School districts are subject to Federal single audit requirements and the independent auditors' report on internal controls was used to identify weaknesses that might affect our review; none were reported for Genesee Intermediate School District and its LEAs selected for testing.

The scope of our audit was generally limited to determining whether the costs reported by the Genesee Intermediate School District and its LEAs were reasonable, allocable and allowable under Federal and State laws and regulations and that proper internal controls were in place to develop Medicaid claims under the SBS program. This included reviewing payroll documentation at the Genesee Intermediate School District and its LEAs, as well as reviewing IEP/IFSP and all required supporting documentation for a sample of Direct Medical Services claims to ensure compliance with applicable Federal and State laws and regulations. Our audit included site visits to the Genesee Intermediate School District and to nine of twenty-one LEAs including Bendle Public Schools, Carman-Ainsworth Community Schools, Davison Community Schools, Fenton Area Public Schools, Flint Community Schools, Flushing Community Schools, Grand Blanc Community Schools, Linden Community Schools, and Swartz Creek Community Schools.

We verified that costs were directly related to individuals included in the RMTS, incurred during the sample period, did not contain duplicate costs, were not claimed as costs of other Federal projects and were otherwise allowable under the federal regulations in Office of Management and Budget (OMB) Circular A-87 (located at 2 CFR Part 225). Fieldwork was performed from January through April 2012.

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

INTERNAL CONTROLS

Objective: To assess whether the Genesee Intermediate School District and its LEAs effectively established and implemented internal controls over the development of School Based Service Medicaid claims.

Conclusion: The Genesee Intermediate School District and its LEAs were moderately effective in establishing and implementing internal controls over the development of School Based Service Medicaid claims. We did not identify any material weaknesses, but we did identify deficiencies in internal control over Validity of Direct Medical Claims (Finding 1)

Finding

1. Validity of Direct Medical Claims

The internal controls of Genesee ISD did not ensure compliance with the Medicaid Provider Manual regarding the validity of Direct Medical Services claims.

The Medicaid Provider Manual, School Based Services, Section 6.1.A states:

Claim documentation must be sufficient to identify the patient clearly, justify the diagnosis and treatment, and document the results accurately. Documentation must be adequate enough to demonstrate that the service was provided and that the service followed the "approved plan of treatment" (for school-based services, the service must be identified in the child's IEP/IFSP).

Our review of one hundred-fifty sampled claims disclosed:

- a. Nine claims were deemed invalid because the employees performing the service were not supervised by licensed professionals as required.
- b. Three claims were deemed invalid because the services were not included on the student's IEPs.
- c. One claim was deemed invalid because the student was reported absent on the day the service was provided.
- d. One claim was deemed invalid because the IEP was not complete and signed by the IEP team.

Noncompliance with the Medicaid Provider Manual could result in adjustments, disallowances, and/or future reductions of Medicaid funding.

Recommendation

We recommend that Genesee ISD improve internal controls to ensure compliance with the Medicaid Provider Manual regarding the validity of Direct Medical Services claims.

FINANCIAL REPORTING

Objective: To assess whether the School Based Service costs reported by the Genesee Intermediate School District and its LEAs that were used to develop the Medicaid claim were reasonable, allocable and allowable under Federal and State laws and regulations.

Conclusion: We determined that the Genesee Intermediate School District and its LEAs were moderately effective in reporting costs that were reasonable, allocable, and allowable under Federal and State laws and regulations. We identified instances of material noncompliance and misstatement in the MAER Medical Staff Cost Report (Finding 2). Additionally, we identified reportable deficiencies regarding Inclusion of Unallowable Costs (Finding 3) and Federal Funds (Finding 4).

Finding

2. MAER Medical Staff Cost Report

Eight LEAs did not comply with the Medicaid Provider Manual regarding the accuracy of financial data reported on the MAER Medical Staff Cost Report. Calculation errors, inadvertent omissions and lack of knowledge of the program contributed to the errors noted in the review of payroll costs. The collective errors resulted in an overstatement of reported expenditures of \$1,880,265.

The Medicaid Provider Manual, School Based Services, Section 2 outlines the Medicaid covered services that can be billed by the ISD. This section includes a definition of the allowable covered service as well as procedure codes that may be billed for the services.

For the specific reporting of expenditures related to Direct Medical Services and Special Education Transportation, the Medicaid Provider Manual, School Based Services, Section 5.1 states:

The financial data reported for the Direct Medical Services (salaries, benefits, supplies, etc.) must be based on actual detailed expenditure reports obtained directly from the participating ISD's financial accounting system.

Our review of payroll costs disclosed:

- a. Flint reported Registered Nurse, Psychologist, Speech Therapist and Social Worker payroll expenditures in the MAER Medical Staff Costs Report. The costs reported were greater than the actual expenditures in the financial accounting system and resulted in an overstatement of reported expenditures by \$1,388,509. The district was unable to provide justification for the differences.
- b. Carman-Ainsworth reported payroll expenditures for Psychologists from the “AOP Staff Pool” in both the MAER Medical Staff Cost Report and Eligible Cost/Cost Pool Summary Report. Expenditures from the “AOP Staff Pool” are not allowed to be reported on the MAER Medical Staff Cost Report. This resulted in an overstatement of reported expenditures by \$211,567. The district stated that lack of knowledge of allowable costs attributed to the errors.

Carman-Ainsworth also reported Speech Therapist and Social Worker payroll expenditures in the MAER Medical Staff Costs Report. The costs reported were greater than the actual expenditures in the financial accounting system and resulted in an overstatement of reported expenditures by \$67,434. The district was unable to provide justification for the differences.

- c. Bendle reported payroll expenditures for Psychologists and Speech Therapists from the “AOP Staff Pool” in both the MAER Medical Staff Cost Report and Eligible Cost/Cost Pool Summary Report. Expenditures from the “AOP Staff Pool” are not allowed to be reported on the MAER Medical Staff Cost Report. This resulted in an overstatement of

reported expenditures by \$217,249. The district stated that lack of knowledge of allowable costs attributed to the errors.

Bendle also reported Social Worker salaries and benefits in the MAER Medical Staff Cost Report. The costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$70,264. The district stated they inappropriately omitted the salaries.

- d. Linden reported payroll expenditures for Psychologists from the “AOP Staff Pool” in both the MAER Medical Staff Cost Report and Eligible Cost/Cost Pool Summary Report. Expenditures from the “AOP Staff Pool” are not allowed to be reported on the MAER Medical Staff Cost Report. This resulted in an overstatement of reported expenditures by \$95,840. The district stated that lack of knowledge of allowable costs attributed to the errors.

Linden also reported Speech Therapist and Social Worker payroll expenditures in the MAER Medical Staff Costs Report. The costs reported were greater than the actual expenditures in the financial accounting system and resulted in an overstatement of reported expenditures by \$25,638. The district was unable to provide justification for the differences.

- e. Swartz Creek reported payroll expenditures for Psychologists from the “AOP Staff Pool” in both the MAER Medical Staff Cost Report and Eligible Cost/Cost Pool Summary Report. Expenditures from the “AOP Staff Pool” are not allowed to be reported on the MAER Medical Staff Cost Report. This resulted in an overstatement of reported expenditures by \$52,618. The district stated that lack of knowledge of allowable costs attributed to the errors.

Swartz Creek also reported Speech Therapist salary and benefits in the MAER Medical Staff Cost Report. The costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$96,427. The district stated they inappropriately omitted the salaries.

- f. Flushing also reported Speech Therapist and Social Worker payroll expenditures in the MAER Medical Staff Cost Report. The costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$19,426. The district stated they inappropriately omitted the salaries.
- g. Davison reported Speech Therapist salary and benefits in the MAER Medical Staff Costs Report. The costs reported were greater than the actual expenditures in the financial accounting system and resulted in an overstatement of reported expenditures by \$6,352. The district was unable to provide justification for the differences.
- h. Grand Blanc reported Social Worker salaries and benefits in the MAER Medical Staff Costs Report. The costs reported were greater than the actual expenditures in the

financial accounting system and resulted in an overstatement of reported expenditures by \$1,175. The district was unable to provide justification for the differences.

Noncompliance with the Medicaid Provider Manual could result in adjustments, disallowances, and/or future reductions of Medicaid funding.

Recommendation

We recommend that the eight LEAs report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data reported on the MAER Medical Staff Cost Report.

Finding

3. Inclusion of Unallowable Expenditure

Genesee ISD and five LEAs did not comply with federal laws and regulations regarding allowable and allocable costs related to staff salaries and benefits.

OMB Circular A-87 (located at 2 CFR Part 225), Appendix A, Subsection C requires costs charged to a federal award to be allowable, reasonable, and allocable to the federal award in accordance with relative benefits received. General Education, Community Services, Vocational Education, School Lunch and Custodial payroll expenditures are not related to Medicaid School Based Services program and cannot be included in the state match expenditures in the Eligible Cost/Cost Pool Summary Reports. The collective errors noted result in an overstatement of reported expenditures of \$414,558.

Our review of sampled employees in the payroll costs disclosed:

- a) Flint allowed General Education, Community Services, Vocational Education and School Lunch expenditures to be included in the Eligible Cost/Cost Pool Summary Reports. The costs reported are all unallowable expenditures and resulted in an overstatement of reported expenditures by \$322,990.
- b) Swartz Creek payroll disclosed that General Education expenditures were included in the Eligible Cost/Cost Pool Summary Reports. The costs reported are unallowable expenditures and resulted in an overstatement of reported expenditures by \$42,536.
- c) Carman-Ainsworth allowed General Education expenditures to be included in the Eligible Cost/Cost Pool Summary Reports. The costs reported are unallowable expenditures and resulted in an overstatement of reported expenditures by \$29,476.
- d) Davison allowed General Education expenditures to be included in the Eligible Cost/Cost Pool Summary Reports. The costs reported are unallowable expenditures and resulted in an overstatement of reported expenditures by \$15,968.

- e) Grand Blanc allowed Community Services expenditures to be included in the Eligible Cost/Cost Pool Summary Reports. The costs reported are unallowable expenditures and resulted in an overstatement of reported expenditures by \$2,337.
- f) Genesee ISD allowed Custodial payroll expenditures to be included in the Eligible Cost/Cost Pool Summary Reports. The costs reported are unallowable expenditures and resulted in an overstatement of reported expenditures by \$1,251.

Noncompliance with federal laws and regulations could result in adjustments, disallowances, and/or future reductions of Medicaid funding.

Recommendation

We recommend that Genesee ISD and the five LEAs report future costs in compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits.

Finding

4. Federal Funds

Genesee ISD did not comply with the Medicaid Provider Manual regarding the inclusion of federally funded expenditures pertaining to staff salaries and benefits.

Medicaid Provider Manual, School Based Services, Section 5.2 states:

Providers are not allowed to report any costs that are federal funds, State flow-through funds, or non-federal funds that have been committed as local match for other federal or State funds or programs.

Claims for approved Medicaid School Based Service functions may not include expenditures of:

- *Federal funds received by the district directly*
- *Federal funds that have been passed through a State or local agency*
- *Non-Federal funds that have been committed as local match for other Federal or State funds or programs*

Our review of sampled employees in the Genesee ISD's payroll costs disclosed that federally funded expenditures of \$37,460 were included in the Eligible Cost/Cost Pool Summary Reports.

Noncompliance with the Medicaid Provider Manual could result in adjustments, disallowances, and/or future reductions of Medicaid funding.

Recommendation

We recommend that Genesee ISD report future costs in compliance with the Medicaid Provider Manual regarding the inclusion of federal funds to expenditures pertaining to staff salaries and benefits.

Corrective Action Plan

Finding Number: 1

Page Reference: 5

Finding: Validity of Direct Medical Claims

Recommendation: We recommend that Genesee ISD improve internal controls to ensure compliance with the Medicaid Provider Manual regarding the validity of Direct Medical Services claims.

Genesee ISD

Comments: Genesee ISD agrees with finding and recommendation.

Corrective Action:

- a) This finding is a result of services logged by staff listed on the AOP cost pool. Services logged by these individuals should not have been released as part of the claim. This is managed by GISD sending a “Do Not Bill List” to PCG. Corrective action was completed in 2010-11 with a new error check programmed into the system by PCG.
- b) The error check will not include services logged by staff in the claim unless the date of the service logged to the service dates on the IEP. Corrective action was completed in 2010-11 with the enhanced error check programmed into the system by PCG.
- c) GISD will revise training materials to include the importance of reviewing services they log for accuracy.
- d) GISD will revise training materials to include the importance of keeping signed pages of the IEP on file.

Anticipated

Completion Date: November 2012

Corrective Action Plan

Finding Number: 2

Page Reference: 6

Finding: MAER Medical Staff Cost Report

Recommendation: We recommend that the eight LEAs report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data reported on the MAER Medical Staff Cost Report.

Genesee ISD

Comments: Genesee ISD agrees with finding and recommendation.

Corrective Action: GISD will provide finding results to LEAs and require that they agree to the corrective actions.

- a) GISD will increase and improve training for all districts participating in the program to assure LEAs understand program policies of completing the MAER Cost report. LEAs will be required to attend a mandatory training annually at the Genesee Area School Business Officials meeting prior to receiving Medicaid revenues.
- b) GISD will require LEAs to participate in a mandatory monitoring review by GISD until the MAER Cost report is accurately completed.

Anticipated

Completion Date: a) GISD will schedule the training at the first available meeting, either October 17, 2012 or November 21, 2012, depending on agenda approval from the executive board.

- b) Monitoring review will take place prior to the MAER submission beginning with the 2011-2012 MAER.

Corrective Action Plan

Finding Number: 3

Page Reference: 8

Finding: **Inclusion of Unallowable Expenditures (Quarterly Financials)**

Recommendation: We recommend that Genesee ISD and the five LEAs report future costs in compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits.

Genesee ISD

Comments: Genesee ISD agrees with finding and recommendation.

Corrective Action: GISD will provide finding results to LEAs and require that they agree to the corrective actions.

- a) GISD will increase and improve training for all districts participating in the program to assure LEAs understand program policies of completing the Quarterly Financial Report. LEAs will be required to attend a mandatory training annually at the Genesee Area School Business Officials meeting prior to receiving Medicaid revenues.
- b) GISD will require LEAs to participate in a mandatory monitoring review by GISD until the Quarterly Financial Report is accurately completed.

Anticipated

Completion Date: a) GISD will schedule the training at the first available meeting, either October 17, 2012 or November 21, 2012, depending on agenda approval from the executive board.

- b) Monitoring review will take place prior to the Quarterly Financial submission.

Corrective Action Plan

Finding Number: 4

Page Reference: 9

Finding: Federal Funds

Recommendation: We recommend that Genesee ISD report future costs in compliance with the Medicaid Provider Manual regarding the inclusion of federal funds to expenditures pertaining to staff salaries and benefits.

Genesee ISD

Comments: Genesee ISD agrees with finding and recommendation.

Corrective Action: GISD will implement a verification process by a second reviewer prior to submission.

Anticipated

Completion Date: Prior to the next Quarterly Financial submission.