

Audit Report

Ingham Intermediate School District
Medicaid School Based Services Program

July 1, 2009 – June 30, 2010



Office of Audit
February 2012



RICK SNYDER
GOVERNOR

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

OLGA DAZZO
DIRECTOR

February 3, 2012

Ms. Elizabeth Lentz, Supervisor
Special Education Finance, Medicaid & Pupil Auditing Department
Ingham Intermediate School District
2630 W. Howell Road
Mason, Michigan 48854

Dear Ms. Lentz,

Enclosed is our final report for the Michigan Department of Community Health (MDCH) Medicaid School Based Services Program audit of the Ingham 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 Conclusions, Findings and Recommendations are organized by audit objective. The Corrective Action Plans include the agency's response to the Preliminary Analysis.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in cursive script that reads "Scott Werner".

Scott Werner, Manager
Special Audits Section
Office of Audit

Enclosure

cc: Pam Myers, Director, Office of Audit
John Lambert, Auditor, Office of Audit
Scott de Varona, Specialist, Medicaid Program Policy Division
Kevin Bauer, Auditor, Special Programs Section

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DESCRIPTION OF AGENCY

The Ingham 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 Ingham Intermediate School District is a publicly funded school district regulated by the state and federal government.

The Ingham Intermediate School District administrative offices are located in Mason, Michigan, serving 12 local education agencies (LEAs) that extend into Ingham, Eaton, Clinton, Livingston, Jackson, Washtenaw, and Shiawassee Counties. The Ingham 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 twelve local school districts within Ingham 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

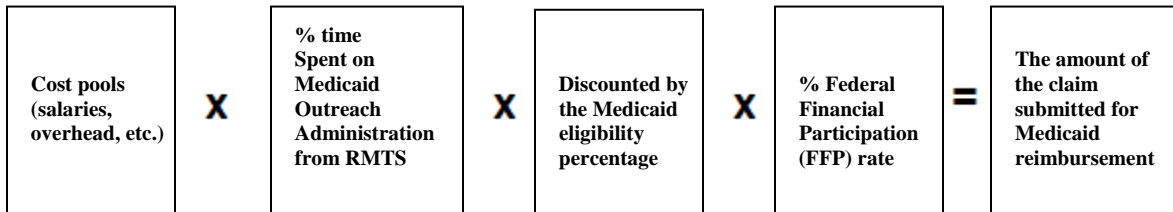
For an enrolled school district to receive reimbursement, the services provided must meet all Federal and State Medicaid regulations and provisions, including those for provider qualifications, comparability of services, and the amount, duration, and scope of services.

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

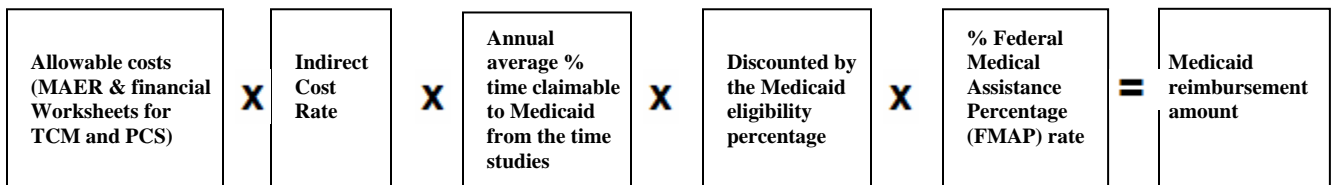
Staff salaries and related costs are reported directly to a hired contractor, the Public Consulting Group (PCG), by each of the LEAs. PCG combines the costs, applies various allocation percentages and submits the AOP claim directly to MDCH for review, processing and payment each fiscal quarter. Claim 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, the procedure code fee screens are set to pay zero.

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 (AOP) were effectively established and implemented. Our work is summarized by the following objectives:

- 1.) To assess whether the Ingham 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 Ingham 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 Ingham 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 Ingham 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 Ingham 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 Ingham 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 Ingham 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 Ingham Intermediate School District and to five of twelve LEAs including the East Lansing School District, Lansing Public School District, Okemos Public Schools, Stockbridge Community Schools and Waverly 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 September through November 2011.

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

INTERNAL CONTROLS

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

Conclusion: The Ingham Intermediate School District and its LEAs were generally 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 Cost of Goods for Personal Use (Finding 1), Use of Estimates in Eligible Cost/Cost Pool Summary Reports (Finding 2), and Duplicate Costs (Finding 3). The costs reflected below in the findings are gross costs, prior to application of the applicable reimbursement formula.

Finding

1. Cost of Goods for Personal Use

Waverly's internal controls did not ensure compliance with federal laws and regulations regarding cost of goods or services for personal use.

OMB Circular A-87 (located at 2 CFR Part 225), Appendix B, Subsection 20 states that cost of goods or services for personal use of the governmental unit's employees are unallowable regardless of whether the cost is reported taxable income to the employees.

Our review of costs associated with employees in Waverly's payroll disclosed the purchase of a laptop for \$2,168.85 for an employee that was reported in the Eligible Cost/Cost Pool Summary Reports. Waverly's purchasing procedures state that school district equipment should be tagged with a unique ID and bar code and be entered into the equipment inventory records. Upon inquiry, we determined that the laptop was not included in the school district's equipment inventory records and was being utilized by the employee for personal use. As a result, the laptop is deemed as an unallowable cost for inclusion in the Eligible Cost/Cost Pool Summary Reports.

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

Recommendation

We recommend that Waverly improve internal controls to ensure compliance with federal laws and regulations regarding goods or services for personal use.

Finding

2. Use of Estimates in Eligible Cost/Cost Pool Summary Reports

Waverly's internal controls did not ensure compliance with the Medicaid Provider Manual regarding the use of estimates in determining financial data reported.

The MDCH Medicaid Provider Manual School Based Services Administrative Outreach Program Claims Development Section 2.4 states that the financial data reported (salaries, benefits, supplies, etc.) must be based on actual detailed expenditure reports obtained directly from the participating ISDs financial accounting system.

Our review of costs associated with employees in Waverly's payroll disclosed that employee salaries for the summer quarters of 2009 were reported in the Eligible Cost/Cost Pool Summary Reports based on estimated amounts. The use of estimated amounts resulted in a \$1,722.46 overstatement of expenditures in one quarter and a \$1,722.54 understatement of expenditures in the following quarter.

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

Recommendation

We recommend that Waverly improve internal controls to ensure compliance with the Medicaid Provider Manual regarding the use of estimates in determining financial data reported.

Finding

3. Duplicate Costs

East Lansing's internal controls did not ensure compliance with the Medicaid Provider Manual regarding the inclusion of duplicate costs.

Medicaid Provider Manual, School Based Services Random Moment Time Study, Section 8.4 states the financial data reported (salaries, benefits, supplies, purchased services, and other expenditures) must be based on actual detailed expenditures from LEA payroll and financial systems. Payroll and financial system data must be applied using generally accepted governmental accounting standards and principles and applicable administrative rules.

Our review of costs associated with employees in East Lansing's payroll disclosed that travel costs were reported for an employee in both the salary portion and in the travel portion of the report. This resulted in duplicate costs of \$1,250 being reported.

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

Recommendation

We recommend that East Lansing improve its internal controls to ensure compliance with the Medicaid Provider Manual regarding the inclusion of duplicate costs.

FINANCIAL REPORTING

Objective: To assess whether the School Based Services costs reported by the Ingham Intermediate School District 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 Ingham Intermediate School District generally reported costs that were reasonable, allocable, and allowable under Federal and State laws and regulations. We did not identify any instances of material noncompliance, but we did identify exceptions with the reporting of Athletic and Community Education Expenditures (Finding 4) and Federal Funds (Finding 5).

Finding

4. Athletic and Community Education Expenditures

East Lansing, Okemos, and Stockbridge were not in compliance with federal laws and regulations regarding allocable costs pertaining 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. Athletic expenditures and Community Education expenditures are not related to Medicaid services and, therefore, cannot be included in the state match expenditures.

Our review of payroll costs disclosed:

- a. East Lansing allowed athletic wages to be included in the Eligible Cost/Cost Pool Summary Reports. Two employees were paid \$14,134.42 in salaries and benefits for coaching athletics.
- b. Okemos allowed athletic wages to be included in the Eligible Cost/Cost Pool Summary Reports. One employee was paid \$1,029.76 in salary and benefits for coaching athletics.

Okemos also allowed community education expenditures to be included in the Eligible Cost/Cost Pool Summary Reports. Two employees earned \$7,774.29 in salary and benefits for community education.

- c. Stockbridge allowed athletic wages to be included in the Eligible Cost/Cost Pool Summary Reports. One employee was paid \$3,970.67 in salaries and benefits for coaching athletics.

Through discussions with East Lansing, Okemos and Stockbridge staff, we determined that the individuals responsible for preparing the Eligible Cost/Cost Pool Summary Reports were unaware that Athletic expenditures and Community Education expenditures were unallowable.

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

Recommendation

We recommend that East Lansing, Okemos, and Stockbridge report future costs in compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits.

Finding

5. Federal Funds

East Lansing and Okemos were not in compliance 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 payroll costs disclosed:

- a. East Lansing allowed federally funded expenditures to be included in the Eligible Cost/Cost Pool Summary Reports. Eight employees had federal fund expenditures of \$94,592.82 included in their salary and benefits.
- b. Okemos allowed federally funded expenditures to be included in the Eligible Cost/Cost Pool Summary Reports. One employee earned \$1,233.40 that was designated as Title II funding; however, that amount was included in the Case Manager section.

Through discussions with East Lansing and Okemos staff, we determined that the individuals responsible for preparing the Eligible Cost/Cost Pool Summary Reports were unaware that the inclusion of federal fund expenditures was unallowable.

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

Recommendation

We recommend that East Lansing and Okemos 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: 4

Finding: Cost of Goods for Personal Use

Recommendation: We recommend that Waverly improve internal controls to ensure compliance with federal laws and regulations regarding goods or services for personal use.

Ingham ISD

Comments: Ingham ISD agrees with the finding and recommendation.

Corrective Action: The Business Manager will review the quarterly financial reports prepared by the Payroll Specialist to ensure that the cost of goods or services for personal use are not included in the request for Federal reimbursement, in accordance with OMB Circular A-87. In addition, the Business Manager will maintain a log of equipment purchased with Federal funds and ensure the equipment is properly identified and asset tagged.

Anticipated

Completion Date: January 2012

Corrective Action Plan

Finding Number: 2

Page Reference: 5

Finding: Use of Estimates in Eligible Cost/Cost Pool Summary Reports

Recommendation: We recommend that Waverly improve internal controls to ensure compliance with the Medicaid Provider Manual regarding the use of estimates in determining financial data reported.

Ingham ISD

Comments: Ingham ISD agrees with the finding and recommendation.

Corrective Action: Detailed payroll reports for each period of July 1 – August 15 and August 16 – September 30 will be used to report salaries and benefits for the July – September financial statements in lieu of calculating the total salaries and fringes paid and allocating based on the total number of pay periods during each time period.

Anticipated

Completion Date: October 2012

Corrective Action Plan

Finding Number: 3

Page Reference: 5-6

Finding: Duplicate Costs

Recommendation: We recommend that East Lansing improve its internal controls to ensure compliance with the Medicaid Provider Manual regarding the inclusion of duplicate costs.

Ingham ISD

Comments: Ingham ISD agrees with the finding and recommendation.

Corrective Action: District has modified the payroll reports used to complete the quarterly financials to exclude payroll reimbursements charged to non-salary and benefit accounts. This will eliminate amounts showing up on multiple reports and thus eliminate the error of the inclusion of duplicate costs.

Anticipated

Completion Date: This action has been completed.

Corrective Action Plan

Finding Number: 4

Page Reference: 6-7

Finding: **Athletic and Community Education Funds**

Recommendation: We recommend that East Lansing, Okemos, and Stockbridge report future costs in compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits.

Ingham ISD

Comments: Ingham ISD agrees with the finding and recommendation.

Corrective Action: The online financial reporting tool implemented by Public Consulting Group in January 2011 contains an additional column titled 'Other Excluded Costs.' This new field serves as a placeholder for these costs and is excluded from the claim calculation.

Additionally, districts have modified payroll reports as appropriate, ensured that staff completing the quarterly financials have proper knowledge regarding allocable costs and added an additional layer of review to comply with OMB Circular A-87, Appendix A, Subsection C.

Anticipated

Completion Date: This action has been completed.

Corrective Action Plan

Finding Number: 5

Page Reference: 7-8

Finding: Federal Funds

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

Ingham ISD

Comments: Ingham ISD agrees with the finding and recommendation.

Corrective Action: The online financial reporting tool implemented by Public Consulting Group in January 2011 contains an additional column titled 'Federal Funds Offset.' This field is used to help staff separate and automatically exclude federal funds from the claim calculation.

Additionally, districts have modified payroll reports as appropriate, ensured that staff completing the quarterly financials have proper knowledge regarding the exclusion of federally funded expenditures and added an additional layer of review to comply with the Medicaid Provider Manual, School Based Services, Section 5.2.

Anticipated

Completion Date: This action has been completed.