

Audit Report

Traverse Bay Area Intermediate School District

July 1, 2008 – June 30, 2009



Office of Audit
June 2012



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
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OLGA DAZZO
DIRECTOR

June 6, 2012

Ms. Deb Johnson
Medicaid Coordinator
Traverse Bay Area Intermediate School District
1101 Red Drive
Traverse City, Michigan 49696-6020

Dear Ms. Johnson,

Enclosed is our final report for the Michigan Department of Community Health (MDCH) Medicaid School Based Services Program audit of the Traverse Bay Area Intermediate School District for the period July 1, 2008 – June 30, 2009.

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
Matt Hiatt, Auditor, Office of Audit
John Lambert, Auditor, Office of Audit
Cindy Linn, Medicaid Program Policy Division
Steve Ireland, Manager, Rate Review Section
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DESCRIPTION OF AGENCY

The Traverse Bay Area Intermediate School District (TBAISD), one of 57 intermediate schools districts (ISDs) in Michigan, was established in 1967. ISDs are regional service agencies that offer support services to school personnel that are best delivered regionally. TBAISD is a publicly funded school district regulated by the state and federal government.

The TBAISD administrative offices are located in Traverse City, Michigan, serving the 16 local educational agencies (LEAs) in Benzie, Leelanau, Grand Traverse, Antrim, and Kalkaska Counties. The TBAISD Board of Education consists of seven members. Under current rules, board members are elected to six year terms by single representatives designated by each of the local school districts.

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:

1. Medically necessary services included in a Medicaid covered category
2. 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

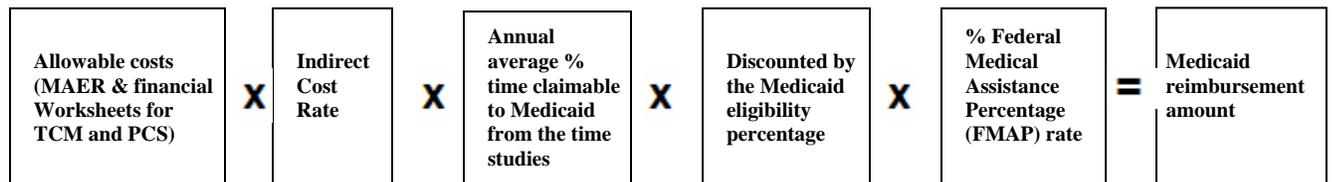
Staff salaries and related costs are reported directly to a hired contractor, the Public Consulting Group (PCG), by each of the LEAs. PCG combines the costs, applies various allocation percentages and submits the AOP claim directly to MDCH for review, processing and payment each fiscal quarter. Claim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



A cost reconciliation and settlement process for Direct Medical Services is then performed annually by comparing the interim payments made to SBS providers to the annual Medicaid allowable costs reported. An over/under settlement payment is made based on the results of the review.

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

A cost reconciliation and settlement process for Specialized Transportation is then performed by comparing the interim payments made to SBS providers to the annual Medicaid allowable specialized transportation costs reported. An over/under settlement payment is made based on the results of the review. 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 objective:

To assess whether the Traverse Bay Area Intermediate School District and its LEAs effectively established and implemented internal controls over the development of School Based Service Medicaid claims that was 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 TBAISD and its LEAs for the year ended June 30, 2009.

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 TBAISD 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 TBAISD and the LEAs selected for testing.

The scope of our audit was generally limited to determining whether the costs reported by the TBAISD 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 TBAISD 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 three of sixteen LEAs including Kingsley Area Schools, Suttons Bay Public Schools, and Traverse City Area 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 OMB Circular A-87 (located at 2 CFR Part 225). Fieldwork was performed from October 2009 through January 2010.

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

INTERNAL CONTROLS

Objective: To assess whether the Traverse Bay Area Intermediate School District and its LEAs effectively established and implemented internal controls over the development of School Based Service Medicaid claims that was reasonable, allocable, and allowable under Federal and State laws and regulations.

Conclusion: The Traverse Bay Area 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 internal control weaknesses, but we did identify deficiencies in internal control over Federal Funds (Finding 1), Lack of Oversight of Financial Data Reported (Finding 2) and Validity of Direct Medical Claims (Finding 3).

Findings

1. Federal Funds

The internal controls of the TBAISD did not ensure compliance with the Medicaid Provider Manual regarding the inclusion of federally funded expenditures pertaining to staff salaries and benefits reported. As a result, expenditures totaling \$822,222 were inappropriately reported to MDCH.

The 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. Traverse City Area Schools allowed federally funded expenditures to be included on the Eligible Cost/Cost Pool Summary Reports. AOP staff had federally funded expenditures of \$739,769 included in their reported salary and benefits.

Traverse City Area Schools also allowed federally funded expenditures to be included on the MAER Transportation report. Staff had federally funded expenditures of \$6,809 included in their Bus Driver and Employee Benefits expenditures.

- b. TBAISD allowed federally funded expenditures to be included on the MAER Medical Staff Costs Report. Psychologist and Speech Therapist staff had federally funded expenditures of \$48,114 included in their reported salary.

TBAISD also allowed federally funded expenditures to be included on the Eligible Cost/Cost Pool Summary Reports. AOP and Direct Services staff had federally funded expenditures of \$12,889 included in their reported salary and benefits.

- c. Kingsley Area Schools allowed federally funded expenditures to be included on the Eligible Cost/Cost Pool Summary Reports. Targeted Case Management employees had federally funded expenditures of \$14,641 included in their reported salaries.

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

Recommendation

We recommend that the TBAISD improve internal controls to ensure compliance with the Medicaid Provider Manual regarding the inclusion of federally funded expenditures pertaining to staff salaries and benefits reported.

Finding

2. Lack of Oversight of Financial Data Reported

The internal controls of TBAISD did not ensure compliance with the Medicaid Provider Manual regarding the accuracy of financial data reported. Calculation errors, inadvertent omissions and lack of knowledge of the program contributed to errors noted in the review of payroll costs.

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 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.

For the reporting of expenditures related to Administrative Outreach Program, the Medicaid Provider Manual, SBS Administrative Outreach Program Section 2.4 states:

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 payroll costs disclosed:

- a. TBAISD reported Social Worker salaries and benefits on the MAER Medical Staff Costs Report. The district inadvertently omitted the Social Workers salaries and benefits of workers that totaled \$103,095.

TBAISD also reported AOP Travel/Training and Material/Supplies expenditures on the Eligible Cost/Cost Pool Summary Reports. The costs reported included unallowable expenditures that resulted in an overstatement of reported expenditures by \$6,055. The district inadvertently included expenses of employees who were either not on the staff list or associated with the AOP program.

TBAISD also reported Direct Service staff expenditures on the Eligible Cost/Cost Pool Summary Reports. The costs reported included unallowable expenditures that resulted in an overstatement of reported expenditures by \$5,670. The district reported an employee's entire annual salary and benefits despite the employee not being eligible to have their annual expenditures reported.

- b. Kingsley reported Targeted Case Management staff expenditures on the Eligible Cost/Cost Pool Summary Reports. The costs reported included unallowable expenditures

that resulted in an overstatement of reported expenditures by \$11,832. The district reported middle school instruction, athletic game management, athletic coaching, community education and advising expenditures.

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

Recommendation

We recommend that TBAISD improve internal controls to ensure compliance with the Medicaid Provider Manual regarding accuracy of financial data reported.

Finding

3. Validity of Direct Medical Claims

The internal controls of TBAISD 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 twenty sampled claims disclosed that three claims were deemed invalid because the provider's progress notes were insufficient or illegible and did not provide proper documentation to support the claims.

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

Recommendation

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

Corrective Action Plan

Finding Number: 1

Page Reference: 4-5

Finding: Federal Funds

Recommendation: We recommend that TBAISD improve internal controls to ensure compliance with the Medicaid Provider Manual regarding the inclusion of federally funded expenditures pertaining to staff salaries and benefits reported.

TBAISD

Comments: TBAISD acknowledges that there were issues with both the ISD and their local districts regarding inclusion of federal funds pertaining to staff salaries and benefits reported. 2008-2009 was the first year of the new cost based rate methodology for the School Based Medicaid Program and not all current compliance procedures were in place at that time.

Corrective Action: Following the audit, all affected 2008-2009 quarterly financial reports for TBAISD, Traverse City Area Public Schools, and Kingsley Schools were amended along with both PCG and the state contact for the School Based Services Medicaid Program reconciliation processes. DCH worked with TBAISD to correct the MMF reconciliation software and the 2008-2009 reconciliation was revised and resubmitted to the state.

The Medicaid Quality Assurance Plan for TBAISD and its LEAs was also updated to include regular communication processes with the local district business managers for updates and reminders on appropriate cost reporting practices.

Anticipated

Completion Date: February 11, 2010

Corrective Action Plan

Finding Number: 2

Page Reference: 6-7

Finding: **Lack of Oversight of Financial Data Reported**

Recommendation: We recommend that TBAISD improve internal controls to ensure compliance with the Medicaid Provider Manual regarding accuracy of financial data reported.

TBAISD

Comments: TBAISD acknowledges that they were not copied by all local districts on their quarterly cost report submission prior to the October 2009 audit visit. Also, at that time, PCG was reluctant to share the quarterly data that was submitted to them without the consent of the LEA.

Corrective Action: Following the audit visit, TBAISD required all local districts to share their quarterly financial reports with the ISD as they submitted the spreadsheets to PCG. All spreadsheets were electronically stored. This process was followed until the Medicaid quarterly cost reports began to be submitted through the on-line cost reporting system, starting with the January-March 2011 cost reports. The TBAISD Medicaid Coordinator currently has viewing access to all associated local district cost data in the PCG Cost Reporting System to ensure compliance regarding accuracy of financial data reported.

**Anticipated
Completion Date:** January 25, 2010

Corrective Action Plan

Finding Number: 3

Page Reference: 7

Finding: Validity of Direct Medical Claims

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

TBAISD

Comments: At the time of the audit, TBAISD and PCG did not require comments to be completed for individual therapy claims in the billing system. The comments were only a system requirement at the time of the monthly summary for each student at the end of the month.

Corrective Action: PCG facilitated the system requirement for comments on individual therapy logs for all Michigan clients. On January 4, 2010, TBAISD sent a communication to all staff billing Medicaid services, stating that comments would be required on individual therapy claims effective January 1, 2010.

Anticipated

Completion Date: January 4, 2010