

# **FINAL AUDIT REPORT**

Genesee Intermediate School District  
Medicaid Administrative Outreach Claim

January 1, 2004 – March 31, 2004



Office of Audit  
Central Regional Office  
June 2005



JENNIFER M. GRANHOLM  
GOVERNOR

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

JANET OLSZEWSKI  
DIRECTOR

June 13, 2005

Thomas Svitkovich, Ed.D., Superintendent  
Genesee Intermediate School District  
2413 West Maple Avenue  
Flint, Michigan 48507-3493

Dear Mr. Svitkovich:

Enclosed is the final report from the Michigan Department of Community Health (MDCH) audit of the Genesee Intermediate School District's (GISD) Medicaid claim for Administrative Outreach Program (AOP) costs during the period January 1, 2004 through March 31, 2004.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations. Attached are schedules that summarize the amounts considered allowable and unallowable, by element of expense and by district that reported the cost. The conclusions, findings, and recommendations are organized by audit objective.

Approximately \$14.9 million of the \$15.1 million reported costs during the audit period are considered allowable. After allocations based on rates in effect during our audit fieldwork, \$2,341 of the Federal reimbursement based on those costs is considered unallowable.

If you agree with our findings and recommendations, no further action other than the implementation of the recommendations is required by GISD. The MDCH Policy Section will notify your billing agent to make the necessary adjustments after a 30 day period for filing appeals has elapsed. If you choose your right to appeal our findings, the procedures are described below.

Please note that the exact amount of Federal reimbursement applicable to your AOP costs was unknown as our report was being prepared, because certain allocation rates were being revised. The revised rates became available to us on May 25, 2005. Rather than amending the report and schedules that were previously presented to you, we will simply summarize the impact in this letter. As a result of the increased rates, the Federal share of your Medicaid claim has increased from the \$171,873 found acceptable and presented in our report to \$324,126. This is the total amount Medicaid should reimburse MDCH based on the \$14,903,125 of accepted cost shown in the audit report. Your total payment for the quarter ended March 31, 2004 will be calculated by your billing agent, and should equal 60% of the \$324,126.

Thomas Svitkovich Ed. D., Superintendent  
Genesee Intermediate School District  
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Appeal Procedures

If GISD disagrees with the MDCH audit findings, GISD may use the administrative review process as specified for Medicaid Provider Reviews and Hearings. To use the Medicaid Provider Reviews and Hearings, GISD must request a conference or hearing within 30 days of receipt of this notice. The adjustments presented in this final report are an adverse action as defined by MAC R 400.3401. If GISD disagrees with this adverse action, GISD has a right to request a preliminary conference, bureau conference or an administrative hearing pursuant to MCL 400.1 et seq. and MAC R 400.3401, et seq. The request should identify the specific audit adjustment(s) under dispute, explain the reason(s) for the disagreement, and state the dollar amount(s) involved, if any. GISD should also include any substantive documentary evidence to support their position. Requests must specifically identify whether GISD is seeking a preliminary conference, a bureau conference or an administrative hearing.

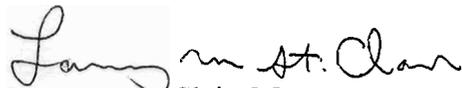
If GISD chooses to request a preliminary conference, bureau conference, or administrative hearing, the request must be sent within 30 days of receipt of this letter to:

Administrative Tribunal & Appeals Division  
Michigan Department of Community Health  
1033 S. Washington  
P.O. Box 30763  
Lansing, Michigan 48909

If GISD does not appeal this adverse action within 30 days of receipt of this notice, this letter will constitute MDCH's Final Determination Notice according to MAC R 400.3405, and we will implement the adjustments as outlined above and in this final report.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

  
Larry M. St. Clair, Manager  
Central Regional Office

Enclosure

cc: Mr. Jan Russell, Assistant Superintendent  
Mr. Paul Reinhart, Senior Deputy Director, Medical Services Administration

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## **DESCRIPTION OF AGENCY**

The Genesee Intermediate School District (GISD) operates under the provisions of Act 451 of 1976, the Revised School Code, Sections 380.601 – 380.703 of the Michigan Compiled Laws. GISD is a public governmental entity separate from Genesee County and subject to oversight by the Michigan Department of Education (MDE) and the Michigan Department of Community Health (MDCH).

GISD is a regional service agency providing leadership linking public schools, the community, private sector and public agencies to improve education and lifelong learning for all citizens.

The GISD administrative office is located in the city of Flint. The GISD board consists of 5 members elected for six-year terms by an electorate made up of one member of each of the 21 constituent public school districts.

## **BACKGROUND**

On August 31, 2000 the Centers for Medicare and Medicaid Services (CMS) issued a disallowance letter for school administrative costs claimed for Medicaid reimbursement by MDCH. The disallowance included all costs claimed for three fiscal quarters under MDCH's school based administrative outreach program. The primary concern of CMS was that the claiming mechanism implemented by MDCH did not properly differentiate between the costs of allowable Medicaid administrative activities and unallowable activities in the school districts. Subsequent actions by CMS for similar reasons extended their deferrals and disallowances to several years of Michigan's school based service claims.

In May 2002 the United States Department of Health and Human Services, acting through CMS, entered into a settlement agreement with MDCH in the matter of the school based Medicaid administrative costs. As a result of that agreement MDCH implemented a new claims development methodology that became effective January 1, 2004. Highlights of the new methodology include:

- A random moment time study (RMTS) using the Medicaid Administrative Claiming System (MACS) software.
- New time study activities.
- Two options for claim development.
- Establishment of central administrative responsibilities related to the administration of the RMTS.
- A single method of determining the Medicaid eligibility rate(s) to be used in the MACS.
- A special monitoring system.

This new claims process may also be used to generate backcasting information for the settlement of past CMS deferrals and disallowances, based on the allowable cost claimed by MDCH under the new methodology.

MDCH contracted with Public Consulting Group (PCG) to perform random moment time studies, determine the Medicaid eligibility rate for each intermediate school district, provide training, and perform certain other functions needed to develop Medicaid claims. Each school district or consortium of districts that qualified as a Medicaid provider was free to choose PCG for completing its Medicaid claim, or to employ others to complete the claims' development.

The settlement agreement required MDCH and CMS to monitor the newly developed claim procedures for at least the first two quarters of its use. For its part, MDCH hired a subcontractor (MAXIMUS) and added one position to its Office of Audit to monitor the claim development. The subcontractor reviewed all aspects of the RMTS, monitored the providers' understanding of the claim development and verified that formulas embedded within the Medicaid claim documents will generate the correct claim amounts. The auditor's function is primarily to: 1) evaluate the new AOP claims processing system; 2) determine whether the costs reported to PCG and used to develop the Medicaid claim were reasonable, allocable and allowable under Federal and State criteria; and 3) determine whether certain allocation percentages were accurate and properly applied to the ISD's costs, resulting in the appropriate amounts reported for Medicaid claims and for backcasting.

### **FUNDING METHODOLOGY**

GISD uses PCG to prepare its Medicaid claims. Staff salaries and related costs are reported directly to PCG by each of the 21 local school districts and GISD. PCG then combines the costs, applies various allocation percentages and submits the claim directly to MDCH. The ISDs' Medicaid claims are submitted to the MDCH for review, processing and payment each fiscal quarter. Because CMS reimbursement policies for school based services by medical professionals have changed, the ISD must also report an informational claim amount each quarter for use in the settlement of past disallowances. Claim development for both the informational claim and the claim for reimbursement are 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 the RMTS. 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:

$$\begin{aligned} & \text{The Cost Pool} \times \text{the RMTS \%} \times \text{the \% of students enrolled in Medicaid} \times \\ & (100\% + \text{Approved Indirect Cost Rate}) \times \text{Federal Financial Participation} \\ & \text{(FFP) Rate} \end{aligned}$$

The percentage of students enrolled in Medicaid does not apply to outreach activities nor assisting with eligibility determinations, and therefore that factor is not applied to the costs for those activities. Other adjustments are made for the informational claim, to increase the FFP rate for any medical professional salaries and related fringe benefit costs, for the settlement of past disallowances.

## **PURPOSE AND OBJECTIVES**

The primary purpose of our audit was to determine whether \$348,427 (\$174,214 – Federal share) of administrative costs claimed by GISD for Medicaid reimbursement for January 1 through March 31, and the \$200,655 – Federal share reported for backcasting, are reasonable, allocable and allowable using the methodology approved by CMS. Because this was our first audit of a claim prepared under the approved methodology, we also attempted to identify any weaknesses in the new AOP claims processing system. Our work is summarized by the following three objectives:

1. To evaluate the effectiveness of the new AOP claims processing system.
2. To determine whether the costs reported to PCG and used to develop the Medicaid claim were reasonable, allocable and allowable under Federal and State criteria.
3. To determine whether certain allocation percentages were accurately calculated and properly applied to the ISD's costs, resulting in the appropriate amounts reported for Medicaid claims and for backcasting.

## **SCOPE AND METHODOLOGY**

Within the limitations described below, our audit included reviews of the claims development process and the costs claimed by GISD for the three months ended March 31, 2004.

The scope of our review of the claims development process was limited to parts of the process that were not monitored by others. The RMTS and the assignment of sampled moments to activities were monitored by MAXIMUS and CMS and, therefore, 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 GISD since these procedures apply to all ISDs and were subsequently reviewed and approved by CMS. School districts are subject to Federal single audit requirements and the independent auditors' reports on internal controls were used to identify weaknesses that might affect our review; none were reported for GISD and the other districts selected for testing.

The scope of our cost audit was generally limited to determining if the amounts reported by GISD school districts were (1) allowable under State policies and Federal regulations, (2) allocable to the Medicaid program and (3) properly allocated using the percentages developed by others. Our audit included site visits to six of the twenty-two districts that, cumulatively, reported over 55% of the GISD costs claimed.

As noted elsewhere in our report (see Objective 3, page 8), it is likely certain allocation percentages will be revised in the future. Although the costs reported to PCG should remain the same for January 1 through March 31, 2004, the amounts identified for the Medicaid claim and

for backcasting may change due to revised allocation percentages. Our opinion is limited to the amounts claimed as of March 2005.

Our tests included judgmental samples of the costs reported to PCG by GISD and five selected local districts. We verified the costs were directly related to individuals included in the RMTS, incurred during the sample period, did not duplicate costs claimed indirectly, were not claimed as costs of other Federal projects and were otherwise allowable under the Federal regulations in OMB Circular A-87. We also verified 1) the accuracy of allocation percentages based on the number of moments assigned to each activity, and 2) that all allocation percentages were properly applied. Our review of internal controls included gaining a general understanding of the control procedures for costs included in the cost pool.

Fieldwork was performed from August 2004 through March 2005 at the central offices of MDCH and MDE, at GISD, and at five selected school districts listed on Schedule A of this report.

## **CONCLUSIONS, FINDINGS AND RECOMMENDATIONS**

### **REVIEW OF THE NEW AOP CLAIMS PROCESSING SYSTEM**

**Objective 1:** To evaluate the effectiveness of the new AOP claims processing system.

**Conclusion:** The new AOP claims processing system was generally effective. However, we noted a material weakness in internal controls that was not corrected until after the ISD claims were paid (Finding 1).

#### **Finding**

##### **1. Lack of Claim Validations**

The ISDs were prevented from validating or disputing their own Medicaid claims because the MDCH did not inform them of the claim data submitted on their behalf.

The ISDs could not verify whether their claims, as approved by MDCH, were based on the correct costs and rates because the ISDs were not sent a remittance advice detailing the costs, rates, amount claimed and the cost accepted for payment. The ISDs, therefore, could not determine if the costs reported by the local districts and the appropriate rates were used in their own Medicaid claims.

Like other ISDs, it was not possible for GISD to verify whether its claim, as approved by MDCH, was based on the correct costs and rates. We believe one result of this procedural weakness was that cost revisions by GISD's local school districts were not included in the Medicaid claim. The revised Medicaid claim submitted in January 2005 included only one of three cost revisions made by the school districts we visited. The business managers at GISD and one local district (Grand Blanc Schools) found errors while preparing for our audit and corrected their cost reports prior to our review. Another local district, Swartz Creek

Community Schools, was requested to revise its cost report prior to audit because we found the initial report was based on budget estimates. The local districts forgot to submit their revisions, and only the GISD cost revisions were included in a revised claim prepared by PCG in January 2005. We found the GISD and its local districts were unable to identify and correct these omissions because neither the claim nor a remittance advice is routinely provided for their review.

This is considered a material weakness in internal controls. The ISDs must be informed of the claim data before they can review, or even be held responsible for, the Medicaid claims submitted on their behalf.

The \$5,884 of unprocessed cost revisions are recommended adjustments to the Medicaid claim calculations (see Schedule A). In our opinion, the reporting errors could have been avoided if MDCH had provided the ISD with claim data for their review.

### **Recommendation**

We separately recommended procedures to the MDCH Policy personnel that would allow the GISD to review its claim. MDCH Policy subsequently established procedures to provide the claim data to all AOP providers. We recommend that once claim data becomes available to ISDs, the GISD verify that the costs and indirect cost rates used in its Medicaid claim are correct. We further recommend the \$5,884 of unprocessed cost revisions shown in Schedule A be included in a future revision to the GISD costs reported for the period ended March 31, 2004.

### **Auditee Comments**

The GISD is now receiving claim data for verification. GISD informed us that they concur with our recommendations.

## **FINANCIAL REPORTING**

**Objective 2:** To determine whether the costs reported to PCG and used to develop the Medicaid claim were reasonable, allocable and allowable under Federal and State criteria.

**Conclusion:** Generally, the costs reported and used to develop the Medicaid claim were reasonable, allocable and allowable under Federal and State criteria. However, the costs reported by two of the six districts we reviewed contained clerical errors (Finding 2), federally funded costs (Finding 3), duplicate costs (Finding 4), and costs that were misallocated to the AOP cost report (Finding 5).

In total, we found approximately \$14.9 of the \$15.1 million reported costs for the quarter ended March 31, 2004 are allowable and allocable to the Medicaid claim. The amounts considered unallowable are summarized in Schedules A & B of this report, with more detail provided in the findings below. In our opinion, the errors were caused by misinformation, oversights and clerical errors at the local districts while preparing their cost reports. A comprehensive list of corrective actions is included after Finding 5.

**Finding**

**2. Clerical Errors**

Costs reported by two districts contained off-setting clerical errors resulting in a net overstatement of \$169,605.

At Fenton Area Schools we found a clerical error that overstated costs by \$174,875. A spreadsheet, developed to specifically identify the one-month cost of fringe benefits for each employee, contained formulas that calculated the three-month cost of social security, retirement and workers compensation. When the “monthly” costs were tripled for the quarterly claims the amount claimed for social security, retirement and workers compensation became three times the actual cost. Costs claimed in excess of actual costs are not allowed by MDCH policy nor OMB Circular A-87.

These unallowable costs were partially offset (\$5,270 under reported) by a clerical error in the Swartz Creek cost report; one employee’s net pay after withholding taxes was inadvertently reported rather than the total salary.

In our opinion, these are clerical errors that may have been detected by a review of the cost report and related calculations prior to the cost report’s submission to PCG.

**Finding**

**3. Federally Funded Cost**

The Swartz Creek (revised) cost report included \$27,796 claimed for salaries (\$21,212) and fringe benefits (\$6,584) that were charged to accounts funded by other Federal awards.

The person that prepares Swartz Creek’s cost report had been informed that employees working less than half time on other federal grants were eligible for the AOP staff list and assumed, therefore, the entire salary should be reported for those employees. Although he was correctly informed regarding the staff list eligibility, it was not proper to report salaries and other costs funded by the other federal programs. The MDCH School Based Services (SBS) policy (section L in the initial policy; section 6.12 of the SBS AOP policy published in the current MDCH Medicaid Provider Manual) states:

*... Claims for approved Medicaid SBS administrative outreach 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....*

In our opinion, the error was caused by misinformation at the local district.

**Finding**

**4. Duplicate Costs**

Costs reported by one district contained costs also reported by another district, resulting in overstated costs of \$6,770.

One Fenton staff employee was subcontracted to work for Grand Blanc Community Schools two days a week. Grand Blanc properly included their payments to Fenton as a contracted

staff cost in their cost report. The Fenton Schools' cost report, however, included all of the employee's salary and benefit costs. Therefore, the salary (\$4,688) and fringe benefits (\$2,082) claimed by Fenton Schools and reimbursed by Grand Blanc Schools for the employee's services during the quarter ended March 31, 2004 was a duplicate Medicaid claim.

Federal regulations (OMB Circular A-87, Attachment A, Paragraph C.1.a) state that, to be allowable under Federal awards, a cost must be necessary and reasonable for the proper and efficient performance of the Federal award. The duplicate Medicaid claim was for costs that are neither reasonable nor necessary for performance of the award and, therefore, the costs are unallowable.

In our opinion, the error was caused by an oversight at the local district while preparing their cost report. The payroll costs reported for AOP and the receivables for the employee's work in another school district are processed separately within the district's accounting office; the reimbursed salary was easily overlooked.

## **Finding**

### **5. Misallocated Costs**

At Fenton Area Schools we found \$1,190 was misallocated to AOP.

One support person worked part-time in community recreation. The costs of support personnel are only allocable to Medicaid to the extent they support employees included on the AOP staff list. This is a requirement of Federal regulations (Attachment A of OMB Circular A-87, paragraph C.), and the requirement is described in the cost report instructions provided to school districts by PCG, as follows:

*...If any of the Direct Support Staff spent part of their time working for staff not on the staff pool list, then include only the costs associated with the percentage of time spent assisting staff on the staff pool list....*

We found the AOP staff at Fenton Area Schools do not routinely work part-time in community recreation and, therefore, the salary (\$740) and fringe benefits (\$450) earned by the support person are not considered allocable to the cost report. We believe these few wages earned outside the employee's usual workload were simply overlooked when the cost report was prepared.

## **Recommendations**

We recommend that:

- 1.) MDCH Policy instruct PCG to prepare a revised claim that excludes the \$205,361 of unallowable cost found during our audit,
- 2.) GISD review the cost reports filed by the Swartz Creek and Fenton School Districts after our audit period, to assure the types of problems we identified were corrected in subsequent claims, and
- 3.) GISD develop monitoring procedures to reduce the number of cost reporting errors in its Medicaid claims.

### **Auditee Comments**

GISD informed us that they agree with our findings and recommendations.

### **ALLOCATION PERCENTAGES**

**Objective 3:** To determine whether certain allocation percentages were accurately calculated and properly applied to the costs reported by the ISD, resulting in the appropriate amounts reported for Medicaid claims and for backcasting.

**Conclusion:** We found the Medicaid claim, the amount requested for Federal reimbursement and the amount reported for backcasting were properly calculated based on the allocation percentages known at the time of our audit.

Subsequent to our audit period CMS reviewed and approved a revised methodology for calculating the percentage of Medicaid eligible children in each ISD. Also, MDE is currently considering the removal of a 15% cap on the school district indirect cost rates, retroactive to January 1, 2004. Either of these events may change the amounts reported to CMS and calculated for this report.

### **GLOSSARY OF ACRONYMS AND TERMS**

AOP	- Administrative Outreach Program
CMS	- Centers for Medicare & Medicaid Services (the Federal Medicaid agency)
GISD	- Genesee Intermediate School District
ISD	- Intermediate School District
LEA	- Local Education Agency (a local school district)
MACS	- Medicaid Administrative Claiming System
MDCH	- Michigan Department of Community Health (the State Medicaid agency)
MDE	- Michigan Department of Education
PCG	- Public Consulting Group - the current State contractor for the AOP RMTS and billing agent for the GISD
RMTS	- Random Moment Time Study
SBS	- School Based Services

**SCHEDULE OF COSTS AUDITED, CONSIDERED UNALLOWABLE, AND ACCEPTED  
FOR THE PERIOD JANUARY 1, 2004 through MARCH 31, 2004**

SCHOOL DISTRICTS	COSTS CLAIMED		RECOMMENDED ADJUSTMENTS			Accepted Cost	Medicaid Claim Accepted
	Cost Reported to MDCH, as of January 2005	Medicaid Claim for Reported Costs	Unprocessed Cost Revisions Requested by School Districts	Unallowable Costs Per Audit	Medicaid Claim for Recommended Adjustments		
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		( Note 1 )	( Note 2 )	(See Schedule B)	( Note 1 )		( Note 1 )
<u>Districts reviewed on site</u>							
Genesee ISD	\$ 1,569,097	\$ 34,626	\$	\$	\$	\$1,569,097	\$34,626
Fenton Area Public Schools	755,909	17,789		(182,835)	(4,303)	573,074	13,486
Flint City Schools	3,300,003	77,659				3,300,003	77,659
Flushing Community Schools	942,873	22,028				942,873	22,028
Grand Blanc Community Schools	1,067,137	25,113	(12,013)		(283)	1,055,124	24,830
Swartz Creek Community Schools	<u>774,318</u>	<u>15,897</u>	<u>17,897</u>	<u>(22,526)</u>	<u>(95)</u>	769,689	15,802
Sub-totals	\$8,409,337	\$193,112	\$5,884	(\$205,361)	(\$4,681)	8,209,860	\$188,431
<u>Districts with no site visit (16)</u>	<u>6,693,265</u>	<u>155,315</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,693,265</u>	<u>155,315</u>
Totals	<u>\$15,102,602</u>	<u>\$348,427</u>	<u>\$5,884</u>	<u>(\$205,361)</u>	<u>(\$4,681)</u>	<u>\$14,903,125</u>	<u>\$343,746</u>
Medicaid FFP Rate		50%			50%		50%
Claim for Federal Reimbursement		<u>\$174,214</u>			<u>(\$2,341)</u>		<u>\$171,873</u>
For Use in Backcasting		<u>\$200,655</u>			<u>(\$2,689)</u>		<u>\$197,966</u>

NOTES :

- (1) Each of these amounts was calculated using the rates approved at the time of our audit. However, it is likely certain allocation rates will change after this report is issued. The amounts claimed, reported for backcasting and related to our audit exceptions are, therefore, also expected to change. See Objective 3 for further details.
- (2) These local districts revised their cost reports, but did not forward the revised reports to PCG to process for the Medicaid claim. The GISD could not determine whether the revisions were included in its claim because there was no procedure for MDCH to inform the ISDs of the costs and rates used for the Medicaid claim. See Finding 1.

**SCHEDULE OF COSTS CONSIDERED UNALLOWABLE  
FOR THE PERIOD 1/1/04 through 3/31/ 04**

Type of cost claimed	FENTON AREA PUBLIC SCHOOLS				SWARTZ CREEK COMMUNITY SCHOOLS			
	Costs Reported For Audit	Considered Unallowable	Notes:	Accepted Costs	Costs Reported For Audit	Considered Unallowable	Notes:	Accepted Costs
AOP staff salaries	\$379,907	(\$4,688)	(1)	\$375,219	\$626,602	(\$21,212)	(4)	\$610,660
Support staff salaries	37,947	(740)	(2)	37,207	0	5,270	(5)	
Fringe benefits	335,581	(174,875)	(3)		165,613	(6,584)	(4)	159,029
		(2,082)	(1)	158,174				
Contracted costs	0	(450)	(2)					
Other costs	<u>2,474</u>	<u>0</u>		<u>2,474</u>				
Total costs	<u>\$755,909</u>	<u>(\$182,835)</u>		<u>\$573,074</u>	<u>\$792,215</u>	<u>(\$22,526)</u>		<u>\$769,689</u>
Medicaid Claim	<u>\$17,789</u>	<u>(\$4,303)</u>		<u>\$13,486</u>	<u>\$16,265</u>	<u>(\$463)</u>		<u>\$15,802</u>

NOTES (AUDIT EXCEPTIONS) :

- (1) Grand Blanc Community Schools used the services of a speech therapist employed by Fenton Area Schools two days a week, and reimbursed Fenton Schools for the salary and fringe benefits earned two days per week. Grand Blanc properly reported their payments to Fenton Schools as an AOP contracted cost. The Fenton cost report, however, included all the same costs as AOP staff salaries and fringe benefits. The duplicate salaries (\$4,688) and fringe benefits (\$2,082) are considered unallowable. See Finding 4 of our report, Duplicate Costs, for additional information.
- (2) One support person earned some salary (\$740) and fringe benefits (\$450) supporting community recreation rather than the AOP staff. These costs are not considered allocable to the AOP cost report. See report Finding 5, Misallocated Costs.
- (3) The \$335,581 reported for fringe benefits included \$174,875 more than was paid by Fenton Schools. An incorrect formula in the spreadsheet used by Fenton to quantify fringe benefits for their AOP cost report inadvertently tripled the actual costs of social security, workers compensation and retirement. Only the actual costs paid are allowable on the cost report. See report Finding 2, Clerical Errors.
- (4) The Swartz Creek cost report included salaries (\$21,212) and fringe benefits (\$6,584) that had been charged to accounts funded by other Federal awards. This is not allowed by the procedures approved for AOP. See report Finding 3, Federally Funded Cost.
- (5) One employee's net pay was inadvertently reported, rather than the gross salary earned as an AOP staff person. The difference (\$5,270) is added into allowable staff salaries by reducing the unallowable salaries described in note (4), above. See also, report Finding 2, Clerical errors.