

# Audit Report

Newaygo County  
Regional Educational Service Agency  
Medicaid School Based Services Program

July 1, 2010 – June 30, 2011



Office of Audit  
January 2014



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GOVERNOR

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January 27, 2014

Ms. Jodi DeKuiper  
Ms. Lynette Suchner  
Newaygo County Regional Educational Service Agency  
4747 West 48th Street  
Fremont, Michigan 49412

Dear Ms. DeKuiper and Ms. Suchner:

Enclosed is our final report for the Michigan Department of Community Health (MDCH) Medicaid School Based Services Program audit of the Newaygo County Regional Educational Service Agency for the period July 1, 2010 – June 30, 2011.

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

## TABLE OF CONTENTS

	Page
Description of Agency .....	1
Background.....	1
Funding Methodology.....	2
Purpose and Objectives.....	3
Scope and Methodology .....	3
 <u>Conclusions, Findings and Recommendations</u>  	
<u>Internal Controls</u>	
1. Validity of Direct Medical Claims.....	4
 <u>Financial Reporting</u>	
2. Inclusion of Unallowable Expenditures in Eligible Cost/Cost Pool Summary Reports .....	5
3. Federal Funds.....	6
4. MAER Medical Staff Cost Report.....	7
5. MAER Transportation Cost Report .....	8
6. Lack of Oversight of Financial Data Reported .....	9
Corrective Action Plans .....	10

## **DESCRIPTION OF AGENCY**

The Newaygo County Regional Educational Service Agency (Newaygo RESA), one of 57 intermediate school districts (ISDs) in Michigan, was established in 1962. ISDs are regional service agencies that offer support services to school personnel that are best delivered regionally. Newaygo RESA is a publicly funded school district regulated by the state and federal government.

The Newaygo RESA administrative offices are located in Fremont, Michigan, serving the six public school districts primarily in Newaygo County. The Newaygo RESA Board of Education consists of five members serving six year terms.

## **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

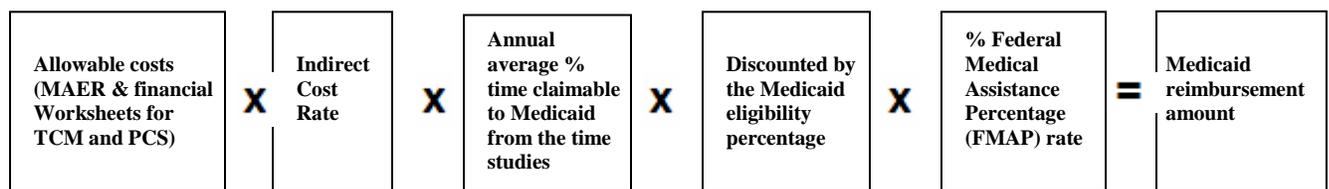
Staff salaries and related costs are reported directly to a hired contractor, the Public Consulting Group (PCG), by each of the LEAs. PCG combines the costs, applies various allocation percentages and submits the AOP claim directly to MDCH for review, processing and payment each fiscal quarter. Claim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

- 1.) To assess whether the Newaygo County Regional Educational Service Agency 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 Newaygo County Regional Educational Service Agency 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 Newaygo RESA and its LEAs for the year ended June 30, 2011.

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 Newaygo RESA 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 Newaygo and its LEAs selected for testing.

The scope of our audit was generally limited to determining whether the costs reported by the Newaygo RESA 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 Newaygo RESA and its LEAs, as well as reviewing IEP/IFSPs 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 Newaygo County Regional Educational Service Agency and to three of six LEAs including Fremont Public School District, Grant Public School District, and White Cloud Public 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 November to March 2013.

## **CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS**

### **INTERNAL CONTROLS**

**Objective:** To assess whether the Newaygo County Regional Educational Service Agency and its LEAs effectively established and implemented internal controls over the development of School Based Service Medicaid claims.

**Conclusion:** The Newaygo County Regional Educational Service Agency and its LEAs were moderately effective in establishing and implementing internal controls over the development of School Based Service Medicaid claims. We did identify a material weakness related to internal controls over Validity of Direct Medical Claims. (Finding 1)

#### **Finding**

##### **1. Validity of Direct Medical Claims**

The internal controls of Newaygo RESA 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 testing identified 15 (30%) invalid claims in the 50 sampled claims we reviewed including:

- Seven claims did not have annual goals related to the service in the IEP.
- Three claims did not have supervision on file and the audit team was not provided with documentation supporting supervision.
- Three claims did not have appropriate prescriptions on file and the audit team was not provided with documentation supporting prescription/referral/authorization.
- One claim, the student was absent on the date of service.
- One claim did not have appropriate provider notes. The notes were determined to be vague.

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

### **Recommendation**

We recommend that Newaygo RESA 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 Newaygo County Regional Educational Service Agency 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 Newaygo County Regional Educational Service Agency and its LEAs were only moderately effective in reporting costs that were reasonable, allocable, and allowable under Federal and State laws and regulations. We identified reportable deficiencies regarding Inclusion of Unallowable Expenditures (Finding 2), Federal Funds (Finding 3), MAER Medical Staff Cost Report (Finding 4), MAER Transportation Cost Report (Finding 5), and Lack of Oversight of Financial Data Reported (Finding 6).

## **Finding**

### **2. Inclusion of Unallowable Expenditures in Eligible Cost/Cost Pool Summary Reports**

Newaygo RESA and Grant Public Schools did not ensure compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits reported in the Eligible Cost/Cost Pool Summary Reports. The errors resulted in an overstatement of reported expenditures of \$100,841.

The Office of Management and Budget Circular A-87, Attachment A, section C requires costs charged to a federal award to be allowable, reasonable, and allocable to the federal award in accordance with relative benefits received.

Our review of payroll costs disclosed:

- Newaygo RESA reported “Early Retirement Incentives” costs in the Eligible Cost/Cost Pool Summary Reports. “Early Retirement Incentives” do not qualify for state categorical reimbursement and are not related to providing services to pupils with disabilities. This resulted in an overstatement of reported expenditures by \$97,600.
- Grant Public Schools reported “Athletic Activities” in the Eligible Cost/Cost Pool Summary Reports. “Athletic Activities” are not related to Medicaid services and cannot be included in the state match expenditures. This resulted in an overstatement of reported expenditures by \$3,241.

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

## **Recommendation**

We recommend that Newaygo RESA and Grant Public Schools report future costs in compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits reported in the Eligible Cost/Cost Pool Summary Reports.

## **Finding**

### **3. Federal Funds**

Three LEAs did not comply with the Medicaid Provider Manual regarding the inclusion of federal funds to expenditures pertaining to staff salaries and benefits. The error resulted in an overstatement of reported expenditures of \$68,314.

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 sampled employees in the payroll costs disclosed:

- Fremont City School District allowed federal funds to be included in the Eligible Cost/Cost Pool Summary Reports. Four employees had federal funds of \$47,655 included in their salary.
- Grant Public Schools allowed federal funds to be included in the Eligible Cost/Cost Pool Summary Reports. Four employees had federal funds of \$16,055 included in their salary and benefits.
- White Cloud Public Schools allowed federal funds to be included in the Eligible Cost/Cost Pool Summary Reports. One employee had federal funds of \$4,604 included in their salary.

Noncompliance with the Medicaid Provider Manual could result in sanctions, disallowances, and/or future reductions of Medicaid awards

### **Recommendation**

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

### **Finding**

#### **4. MAER Medical Staff Cost Report**

Newaygo RESA did not comply with the Medicaid Provider Manual regarding the accuracy of financial data reported on the MAER Medical Staff Cost Report. The error resulted in an overstatement of reported expenditures by \$58,225.

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 that Newaygo RESA reported “Early Retirement Incentives” costs in the MAER Medical Staff Cost Report. “Early Retirement Incentives” do not qualify for state categorical reimbursement and are not directly related to providing services to pupils with disabilities. This resulted in an overstatement of reported expenditures by \$57,600.

Newaygo RESA also reported costs associated with other unallowable function codes in the MAER Medical Staff Cost Report. This resulted in an overstatement of reported expenditures by \$625.

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

### **Recommendation**

We recommend that Newaygo RESA 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**

#### **5. MAER Transportation Cost Report**

White Cloud Public Schools did not comply with the Medicaid Provider Manual regarding the accuracy of financial data reported on the MAER Transportation Cost Report. The error resulted in an understatement of reported expenditures by \$5,401.

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 transportation costs disclosed White Cloud Public Schools did not utilize the actual accounting records when recording gasoline on the MAER. There was a specific account number in White Cloud’s accounting system that recorded the costs of Gas/Diesel for Spec Ed Buses. The result was an understatement of \$5,401.

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

## **Recommendation**

We recommend that White Cloud Public Schools report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data reported on the MAER Transportation Cost Report.

## **Finding**

### **6. Lack of Oversight of Financial Data Reported**

Three LEAs did not comply with the Medicaid Provider Manual regarding the accuracy of financial data reported on the Eligible Cost/Cost Pool Summary Reports. The error resulted in an understatement of reported expenditures of \$5,495.

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 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:

- Fremont City School District reported salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The costs reported for salaries and benefits were greater than the actual expenditures in the financial accounting system and resulted in an overstatement of reported expenditures by \$26,886.
- Grant Public Schools reported salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The costs reported for salaries and benefits were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$4,611.
- White Cloud Public Schools reported salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The costs reported for salaries and benefits were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$27,770.

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

## **Recommendation**

We recommend that the three LEAs report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data reported on the Eligible Cost/Cost Pool Summary Reports.

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 4

**Finding:** Validity of Direct Medical Claims

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

### Newaygo RESA

**Comments:** Newaygo County RESA agrees with the findings and recommendations. For fiscal year 2012-2013 new processes were implemented to improve internal control to ensure compliance with the Medicaid Provider Manual relative to direct services.

**Corrective Action:** Go Solutions Group Inc. software was implemented at the beginning of fiscal year 2012-2013 which has assisted with compliance for documentation of provider notes, verification of student attendance with services provided, documentation of supervision, and documentation of prescription verification prior to submission in Direct Medical Services claims.

Also, direct services were more clearly defined through professional development provided as well as the requirement for goals to be included within IEPs.

### Anticipated

**Completion Date:** This action has been completed.

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 5

**Finding:** **Inclusion of Unallowable Expenditures in Eligible Cost/Cost Pool Summary Reports**

**Recommendation:** We recommend that Newaygo RESA and Grant Public Schools report future costs in compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits reported in the Eligible Cost/Cost Pool Summary Reports.

### **Newaygo RESA**

**Comments:** Newaygo County RESA agrees with the findings and recommendations. The salaries and benefits reported by Newaygo County RESA and Grant Public Schools were not regular wages and benefits and were inadvertently included in the report.

**Corrective Action:** Newaygo County RESA has reviewed federal laws and regulations for proper reporting and has also reviewed these laws and regulations with all LEAs for future compliance.

Newaygo County RESA no longer has Early Retirement Incentives available to staff.

**Anticipated Completion Date:** This action has been completed.

## **Corrective Action Plan**

**Finding Number:** 3

**Page Reference:** 6

**Finding:** **Federal Funds**

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

**Newaygo RESA**

**Comments:** Newaygo County RESA agrees with the findings and recommendations.

**Corrective Action:** Newaygo County RESA has reiterated the importance of excluding federally funded expenditures within Medicaid reporting. Newaygo County RESA has provided professional development training regarding proper reporting of salaries and benefits in compliance with the Medicaid Provider Manual.

**Anticipated**

**Completion Date:** This action has been completed.

## Corrective Action Plan

**Finding Number:** 4

**Page Reference:** 7

**Finding:** MAER Medical Staff Cost Report

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

**Newaygo RESA**

**Comments:** Newaygo County RESA agrees with the findings and recommendations.

**Corrective Action:** Newaygo County RESA has implemented additional review procedures of the MAER report by the Director of Business Services.

Also, Early Retirement Incentives are no longer available to staff. Director of Business Services reviews detail of MAER Medical Staff Cost Report for accuracy prior to submission.

**Anticipated**

**Completion Date:** This action has been completed.

## Corrective Action Plan

**Finding Number:** 5

**Page Reference:** 8

**Finding:** MAER Transportation Cost Report

**Recommendation:** We recommend that White Cloud Public Schools report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data reported on the MAER Transportation Cost Report.

**Newaygo RESA**

**Comments:** Newaygo County RESA agrees with the findings and recommendations. The amount reported for gasoline/diesel costs were based upon different information than was reported in the general ledger.

**Corrective Action:** Newaygo County RESA has reviewed the Medicaid Provider Manual with the LEAs for future compliance.

**Anticipated**

**Completion Date:** This action has been completed.

## **Corrective Action Plan**

**Finding Number:** 6

**Page Reference:** 9

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

**Recommendation:** We recommend that the three LEAs report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data reported on the Eligible Cost/Cost Pool Summary Reports.

**Newaygo RESA**

**Comments:** Newaygo County RESA agrees with the findings and recommendations. Amounts reported by the LEAs were not in agreement with the amounts reported in the financial accounting system. Some amounts reported were greater and some were less than the actual costs.

**Corrective Action:** Newaygo County RESA has reviewed the Medicaid Provider Manual with LEAs for proper reporting in the future.

**Anticipated**

**Completion Date:** This action has been completed.