

# Audit Report

Wayne Regional Educational Service Agency

July 1, 2008 – June 30, 2009



Office of Audit  
March 2012



RICK SNYDER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
OFFICE OF AUDIT  
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DIRECTOR

March 14, 2012

Ms. Kathleen Cummins Merry  
Executive Director of Legislative Affairs and Medicaid Reimbursement  
Wayne Regional Educational Service Agency  
33500 Van Born Road  
Wayne, Michigan 48184

Dear Ms. Merry,

Enclosed is our final report for the Michigan Department of Community Health (MDCH) Medicaid School Based Services Program audit of the Wayne Regional Educational Service Agency 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,

A handwritten signature in blue ink that reads "Scott Werner".

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  
Scott de Varona, Specialist, Medicaid Program Policy Division  
Steve Ireland, Manager, Rate Review Section  
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## 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>	
Internal Controls .....	4
1. Lack of Oversight of Financial Data Reported .....	5
2. Inappropriate Method of Determining Estimated Salaries and Benefits .....	8
3. Federal Funds.....	9
4. Use of Estimates in Financial Data Reported .....	11
5. Athletic Expenditures.....	13
6. Summer Quarter Reporting.....	13
7. Completion of Treatment Plans .....	14
8. Validity of Direct Medical Claims.....	15
9. Retention of Progress Notes.....	16
Corrective Action Plans .....	17

## **DESCRIPTION OF AGENCY**

The Wayne Regional Educational Service Agency (Wayne RESA), one of 57 intermediate schools 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. Wayne RESA is a publicly funded school district regulated by the state and federal government.

The Wayne RESA administrative offices are located in Wayne, Michigan, serving 34 local educational agencies (LEAs) in Wayne County. The Wayne RESA Board of Education consists of five members, each member serving alternating 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:

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

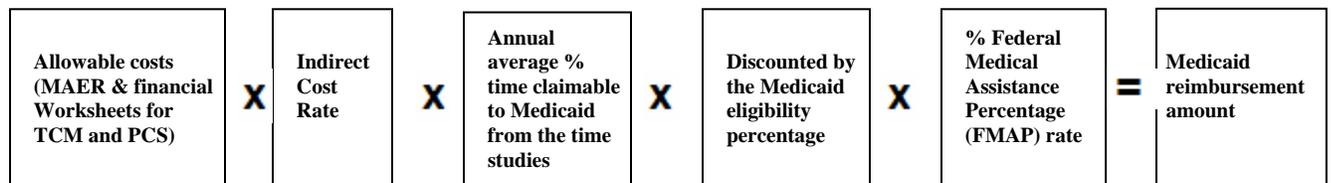
Staff salaries and related costs are reported directly to a hired contractor, the Public Consulting Group (PCG), by each of the LEAs. PCG combines the costs, applies various allocation percentages and submits the AOP claim directly to MDCH for review, processing and payment each fiscal quarter. Claim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

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 Wayne RESA 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 Wayne RESA 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 Wayne 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 Wayne RESA and the LEAs selected for testing.

The scope of our audit was generally limited to determining whether the costs reported by the Wayne 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 Wayne RESA 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 fifteen of thirty-three LEAs including Allen Park Public Schools, Dearborn Public Schools, Garden City School District, Grosse Pointe Public Schools, Inkster Public Schools, Livonia Public Schools, Northville Public Schools, Plymouth-Canton Community Schools, Redford Union School District, Southgate Community Schools, Taylor School District, Trenton Public Schools, Wayne-Westland Community Schools, Woodhaven-Brownstown School District, and Wyandotte City School District.

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 March 2010 through August 2010.

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

### **INTERNAL CONTROLS**

**Objective:** To assess whether the Wayne RESA 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 Wayne RESA and its LEAs were only moderately effective in establishing and implementing internal controls over the development of School Based Service Medicaid claims. We did not identify any instances of fraud or intentional misstatements, but we did identify material internal control weaknesses related to the Lack of Oversight of Financial Data Reported (Finding 1), Inappropriate Method of determining Estimated Salaries and Benefits (Finding 2) and Federal Funds (Finding 3). Additionally, we identified reportable deficiencies in internal control over financial reporting and program compliance in Use of Estimates in Financial Data Reported (Finding 4), Athletic Expenditures (Finding 5), Summer Quarter Reporting (Finding 6), Completion of Treatment Plans (Finding 7), Validity of Direct Medical Claims (Finding 8), and Retention of Progress Notes (Finding 9).

## **Finding**

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

The internal controls of 13 local school districts 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 collective errors resulted in an overstatement of reported expenditures of \$1,677,008.

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. Wyandotte reported Registered Nurse, Physical Therapist, Occupational Therapist, Psychologist, Speech Therapist and Social Worker salaries and benefits in the MAER Medical Staff Costs Report. The costs reported included unallowable expenditures that resulted in an overstatement of reported expenditures by \$1,580,788. The district stated that lack of knowledge of allowable costs for the program attributed to the errors.
- b. Livonia reported Speech Therapist, Social Worker and Orientation and Mobility worker salaries and benefits in the MAER Medical Staff Costs Report. The district inadvertently omitted the salaries and benefits of workers that totaled \$461,187. Conversely, the district also reported costs for activities that were unallowable that totaled \$213,956. Therefore, the costs reported in total were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$247,231. The district stated that lack of knowledge of allowable costs for the program attributed to the errors.

Livonia also reported AOP salaries in the Eligible Cost/Cost Pool Summary Reports. The costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$4,749. The district stated they inappropriately omitted the salaries.

- c. Grosse Pointe reported Occupational Therapist, Speech Therapist and Social Worker salaries and benefits in the MAER Medical Staff Costs Report. The costs reported included unallowable expenditures that resulted in an overstatement of reported expenditures by \$116,320. The district reported several employee's entire annual salary and benefits despite these employees not being eligible to have their annual expenditures reported. In addition, the district reported costs for activities that were unallowable in the program. The district stated that lack of knowledge of allowable costs for the program attributed to the errors.

Grosse Pointe also reported AOP benefits in the Eligible Cost/Cost Pool Summary Reports. The costs reported exceeded actual expenditures in the financial accounting system and resulted in an overstatement of reported expenditures by \$9,153. The district stated there was a clerical error when performing calculations to determine the expenditure.

- d. Redford Union reported Occupational Therapist, Speech Therapist and Social Worker salaries and benefits in the MAER Medical Staff Costs Report. The costs reported included unallowable expenditures that resulted in an overstatement of reported expenditures by \$174,673. The district reported several employee's entire annual salary and benefits despite these employees not being eligible to have their annual expenditures reported. The district stated that lack of knowledge of allowable costs for the program attributed to the errors.

Redford Union reported Special Education Benefits in the MAER Transportation report. The costs reported included unallowable expenditures that resulted in an overstatement of reported expenditures by \$57,481. The district stated they inadvertently included the costs on the report.

- e. Taylor reported Registered Nurse salaries and benefits in the MAER Medical Staff Costs Report. The costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$84,680. The district stated they inappropriately omitted a portion of the salaries and benefits as well had a clerical error when performing calculations to determine the expenditure.

Taylor also reported AOP salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$4,468. The district stated they inappropriately omitted the salaries and that there was a clerical error when performing calculations to determine the expenditure.

- f. Allen Park reported Speech Therapist and Social Worker benefits in the MAER Medical Staff Costs Report. The costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$71,850. The district stated they inadvertently omitted the benefits of eight Speech Therapists and Social Workers.
- g. Woodhaven reported Psychologist salaries and benefits in the MAER Medical Staff Costs Report. The costs reported exceeded actual expenditures in the financial accounting system and resulted in an overstatement of reported expenditures by \$57,388. The district listed the Psychologist in the AOP portion of the Eligible Cost/Cost Pool Summary Reports and inappropriately included the employee in the MAER Medical Staff Costs Report as well.
- h. Westland reported gasoline costs in the MAER Transportation report. The costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$24,172. The district stated they inappropriately omitted the costs.
- i. Garden City reported Special Education Benefits in the MAER Transportation report. The costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$21,617. The district stated they inappropriately omitted the costs.

Garden City also reported AOP salaries in the Eligible Cost/Cost Pool Summary Reports. The costs reported included unallowable expenditures that resulted in an overstatement of reported expenditures by \$2,321. The district stated that lack of knowledge of allowable costs for the program attributed to the errors.

- j. Southgate reported Psychologist benefits in the MAER Medical Staff Costs Report. The costs reported exceeded actual expenditures in the financial accounting system and resulted in an overstatement of reported expenditures by \$16,739. The district stated there was a clerical error when performing calculations to determine the expenditure.

Southgate also reported AOP contracted costs in the Eligible Cost/Cost Pool Summary Reports. The costs reported included unallowable expenditures that resulted in an overstatement of reported expenditures by \$5,581. The district stated that lack of knowledge of allowable costs for the program attributed to the errors.

- k. Dearborn reported Pupil Transportation Fleet Insurance in the MAER Transportation report. The costs reported exceeded actual expenditures in the financial accounting system and resulted in an overstatement of reported expenditures by \$7,730. The district stated there was a clerical error when performing calculations to determine the expenditure.

1. Trenton reported Other Vehicle Related costs in the MAER Transportation report. The costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$4,915. The district stated they used the wrong percentages when performing calculations to determine the expenditure.

Trenton also reported Special Education benefits in the MAER Transportation report. The costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$1,834. The district stated they inappropriately omitted the supervision benefits.

- m. Plymouth-Canton reported AOP salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$5,121. The district stated they inappropriately omitted the salaries.

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

## **Recommendation**

We recommend that the 13 local school districts improve internal controls to ensure compliance with the Medicaid Provider Manual regarding the accuracy of financial data reported.

## **Finding**

### **2. Inappropriate Method of Determining Estimated Salaries and Benefits**

The internal controls of Livonia did not ensure compliance with federal laws and regulations regarding the use of appropriate methods for determining estimated salaries and benefits when actual expenditure data was not available. Livonia's use of the inappropriate method of calculating estimated salary and benefits expenditures resulted in an overstatement of reported expenditures of \$973,629.

OMB Circular A-87 (located at 2 CFR Part 225), Appendix B, Section 8. h. (5) (e) (i) states the following with respect to methods used in determining estimated salary and benefits expenditures:

*The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed.*

The Michigan Department of Education - Special Education and Early Intervention Services instructed all LEAs to use an estimation method involving the actual time spent driving school buses to calculate the estimated special education bus driver salaries and benefits. Instead of adhering to these instructions, Livonia inappropriately used a method involving the miles driven by bus drivers to calculate the estimated special education bus driver salaries and benefits.

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

### **Recommendation**

We recommend that Livonia improve internal controls to ensure compliance with federal laws and regulations regarding the use of appropriate methods for determining estimated salaries and benefits when actual expenditure data is not available.

### **Finding**

#### **3. Federal Funds**

The internal controls of seven local school districts 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 \$646,591 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. Northville allowed federally funded expenditures to be included the Eligible Cost/Cost Pool Summary Reports. AOP, Targeted Case Management and Personal Care staff had federally funded expenditures of \$216,387 included in their reported salary and benefits.

Northville also allowed federally funded expenditures to be included in the MAER Medical Staff Costs Report. Speech Therapist staff had federally funded expenditures of \$6,618 included in their reported salary.

- b. Inkster allowed federally funded expenditures to be included the Eligible Cost/Cost Pool Summary Reports. AOP, Support, Targeted Case Management and Personal Care staff had federal funded expenditures of \$153,447 included in their reported salary and benefits.

- c. Grosse Pointe allowed federally funded expenditures to be included in the MAER Medical Staff Costs Report. Speech Therapist staff had federally funded expenditures of \$114,606 included in their reported salary and benefits.

Grosse Pointe also allowed federally funded expenditures to be included the Eligible Cost/Cost Pool Summary Reports. AOP and Targeted Case Management employees had federally funded expenditures of \$28,805 included in their reported salary and benefits.

- d. Westland allowed federally funded expenditures to be included the Eligible Cost/Cost Pool Summary Reports. Targeted Case Management employees had federally funded expenditures of \$89,751 included in their salary and benefits.
- e. Wyandotte allowed federally funded expenditures to be included in the MAER Medical Staff Costs Report. Speech Therapist staff had federally funded expenditures of \$74,353 included in their salary and benefits.
- f. Southgate allowed federally funded expenditures to be included in the MAER Medical Staff Costs Report. Psychologist and Speech Therapist staff had federally funded expenditures of \$24,101 included in their benefits and purchased services.
- g. Garden City allowed federally funded expenditures to be included in the MAER Medical Staff Costs Report. Registered Nurse and Psychologist staff had federally funded expenditures of \$1,606 included for purchased services.

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

### **Recommendation**

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

### **Finding**

#### **4. Use of Estimates in Financial Data Reported**

The internal controls of seven local school districts did not ensure compliance with the Medicaid Provider Manual regarding the use of estimates in determining financial data reported. These school districts developed their own allocation method to calculate estimated costs despite having the actual costs from the financial accounting system available to report.

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. Westland reported estimated costs for Special Education Benefits in the MAER Transportation report. The estimated costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$493,735.
- b. Plymouth-Canton reported estimated costs for Occupational Therapists, Social Workers and Speech Therapists salaries and benefits in the MAER Medical Staff Costs Report. The estimated costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$241,618.
- c. Taylor reported estimated costs for Special Education Benefits in the MAER Transportation report. The estimated costs reported exceeded actual expenditures in the financial accounting system and resulted in an overstatement of reported expenditures by \$67,975.
- d. Wyandotte reported estimated costs for AOP, Targeted Case Management and Personal Care staff salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The estimated costs reported exceeded actual expenditures in the financial accounting system and resulted in an overstatement of reported expenditures by \$13,711.

Wyandotte also reported estimated costs for Special Education Benefits in the MAER Transportation report. The estimated costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$9,979.

Wyandotte also reported estimated costs for Occupational Therapists, Psychologists and Speech Therapists salaries and benefits in the MAER Medical Staff Costs Report. The estimated costs reported exceeded actual expenditures in the financial accounting system and resulted in an overstatement of reported expenditures by \$5,449.

- e. Inkster reported estimated costs for Support and Targeted Case Management staff benefits in the Eligible Cost/Cost Pool Summary Reports. The estimated costs reported exceeded actual expenditures in the financial accounting system and resulted in an overstatement of reported expenditures by \$5,425.
- f. Northville reported estimated costs for Speech Therapists benefits in the MAER Medical Staff Costs Report. The estimated costs reported exceeded actual expenditures in the financial accounting system and resulted in an overstatement of reported expenditures by \$3,110.
- g. Garden City reported estimated costs for AOP and Targeted Case Management staff benefits in the Eligible Cost/Cost Pool Summary Reports. The estimated costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$1,254.

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

### **Recommendation**

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

### **Finding**

#### **5. Athletic Expenditures**

The internal controls of Woodhaven and Westland did not ensure 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 are not related to Medicaid services and, therefore, cannot be included in the state match expenditures.

Our review of payroll costs disclosed:

- a. Westland allowed athletic wages to be included in the Eligible Cost/Cost Pool Summary Reports. Staff was paid \$37,948 in salary and benefits for coaching athletics.
- b. Woodhaven allowed athletic wages to be included in the Eligible Cost/Cost Pool Summary Reports. Support staff was paid \$5,241 in salaries and benefits for coaching athletics.

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

## **Recommendation**

We recommend that Woodhaven and Westland improve internal controls to ensure compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits.

## **Finding**

### **6. Summer Quarter Reporting**

The internal controls of Grosse Pointe did not ensure compliance with the Medicaid Provider Manual regarding summer quarter reporting for the AOP program in the Eligible Cost/Cost Pool Summary Reports.

The Medicaid Provider Manual, School Based Services, Section 6.1.B, Summer Quarter section includes the following requirement:

*The summer quarter will be divided into two parts. The first part of the quarter will extend from July 1 to the date the 9-month staff returns to work. The second part of the quarter will be from the date the 9-month staff returns to work through September 30.*

*The RMTS will still be performed in the summer quarter, but will take place only after the employees start back to work and will only be applied to costs for the second part of the summer quarter. To accurately reflect the work efforts being performed when all staff have returned to work, the RMTS will be performed during the shorter time period.*

Grosse Pointe did not divide the summer quarter of 2008 into two parts and all costs for the summer quarter were claimed solely in the second part of the quarter. As a result, the first part of the summer quarter was understated by \$17,714 in salaries and \$16,440 in benefits. The second part of the summer quarter was overstated by \$17,714 in salaries and \$16,440 in benefits. The district stated that lack of knowledge of requirement attributed to the error.

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

## **Recommendation**

We recommend that Grosse Pointe improve internal controls to ensure compliance with the Medicaid Provider Manual regarding summer quarter reporting for the AOP program in the Eligible Cost/Cost Pool Summary Reports.

## **Finding**

### **7. Completion of Treatment Plans**

The internal controls of Wayne RESA did not ensure compliance with the Medicaid Provider Manual regarding the appropriate completion of beneficiary's treatment plans.

The Medicaid Provider Manual, School Based Services, Section 1.7, "Components" portion states:

*The treatment plan, which is an immediate result of the evaluation, must consist of the following components:*

- *Beneficiary's name;*
- *Description of the beneficiary's qualifying diagnosis and medical condition;*
- *Time-related goals that are measurable and significant to the beneficiary's function and/or mobility;*
- *Long-term goals that identify specific functional achievement to serve as indicators that the service is no longer needed;*
- *Anticipated frequency and duration of treatment required to meet the time-related goals;*
- *Plan for reaching the functional goals and outcomes in the IEP/IFSP;*
- *A statement detailing coordination of services with other providers (e.g., medical and educational); and*
- *All services are provided with the expectation that the beneficiary's primary care provider and, if applicable, the beneficiary's case manager are informed on a regular basis.*

Wayne RESA utilizes the IEP of the student to fulfill the Medicaid Provider Manual treatment plan requirements. Our review of IEP documentation associated with one hundred sampled claims disclosed:

- 1.) Two IEPs were missing the frequency requirements that would document the extent of services provided to meet the time-related goals.
- 2.) One IEP was missing documentation related to the student's eligibility for special education transportation.

The ISD stated they inadvertently omitted the information on the IEPs.

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

## **Recommendation**

We recommend that Wayne RESA improve internal controls to ensure compliance with the Medicaid Provider Manual regarding the appropriate completion of beneficiary's treatment plans.

## **Finding**

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

The internal controls of Wayne 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 review of one hundred sampled claims disclosed:

- 1.) Three claims were deemed invalid because the services were not included on the student's IEPs.
- 2.) One claim was deemed invalid because Wayne RESA billed for a procedure 13 days before the IEP was effective.
- 3.) One claim was deemed invalid because Wayne RESA billed for a service on a day when the student was reported absent.
- 4.) One claim was deemed invalid because Wayne RESA could not produce a current IEP that corresponded with the billing.

The ISD stated the six invalid claims were due to clerical errors and lack of management oversight.

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

## **Recommendation**

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

## **Finding**

### **9. Retention of Progress Notes**

The internal controls of Wayne RESA did not ensure compliance with the Medicaid Provider Manual regarding the retention of progress notes of Direct Medical Services claims.

The Medicaid Provider Manual, School Based Services, Section 10.1 includes the following requirement:

*Progress notes must be written monthly, or more frequently as appropriate, and must include:*

- *Evaluation of progress;*
- *Changes in medical or mental status; and*
- *Changes in treatment with rationale for change.*

Our review of one hundred sampled claims disclosed:

- 1.) One claim was missing progress notes because a new provider inadvertently discarded the original billing provider's progress notes.
- 2.) One claim was missing progress notes because the local school district inadvertently discarded that specific student's progress notes after the student graduated from that school district.
- 3.) One claim was missing progress notes because the local school district was not granted access to the provider's progress notes.

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

### **Recommendation**

We recommend that Wayne RESA improve internal controls to ensure compliance with the Medicaid Provider Manual regarding the retention of progress notes of Direct Medical Services claims.

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 5

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

**Recommendation:** We recommend that the 13 local school districts improve internal controls to ensure compliance with the Medicaid Provider Manual regarding the accuracy of financial data reported.

### Wayne RESA

**Comments:** Wayne RESA agrees with the finding and recommendation.

**Corrective Action:** More training needed to be offered, and that training information needed to be readily available online for easy reference. Wayne RESA thus developed a new electronic report for our districts to use that would capture staff pool list salaries and benefits directly from the payroll system.

For the 2009-10 school year and going forward, Wayne RESA now compares the costs on each district's SE-4096 and SE-4094 to the amounts reported on the MAER and requests documentation from the districts regarding any amounts in excess of these reports. Wayne RESA also requests documentation from the districts for all amounts reported on the MAER in order to verify that the costs reported relate only to staff on the staff pool lists and only for the quarters during which the staff were on the pools.

### Anticipated

**Completion Date:** Corrective Action has been completed and is ongoing.

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 8

**Finding:** Inappropriate Method of Determining Estimated Salaries and Benefits

**Recommendation:** We recommend that Livonia improve internal controls to ensure compliance with federal laws and regulations regarding the use of appropriate methods for determining estimated salaries and benefits when actual expenditure data is not available.

**Wayne RESA**

**Comments:** Wayne RESA agrees with the finding and recommendation.

**Corrective Action:** Annually, when financial reports are due to Wayne RESA, training workshops are scheduled for all district financial contacts and additional e-mails/notices are sent clarifying the district's compliance responsibilities.

**Anticipated**

**Completion Date:** Corrective Action has been completed and is ongoing.

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 9

**Finding:** Federal Funds

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

### Wayne RESA

**Comments:** Wayne RESA agrees with the finding and recommendation.

**Corrective Action:** Required Michigan forms 4096: Special Education Actual Cost Report and 4094: Transportation Expenditure Report prohibit inclusion of federal dollars. Wayne RESA compares these state submissions to the district MAER, thus ensuring that federal funds and other restricted funds are not included for Medicaid reimbursements.

### Anticipated

**Completion Date:** Corrective Action has been completed and is ongoing.

## Corrective Action Plan

**Finding Number:** 4

**Page Reference:** 11

**Finding:** Use of Estimates in Financial Data Reported

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

### Wayne RESA

**Comments:** Wayne RESA agrees with the finding and recommendation.

**Corrective Action:** Annually, when financial reports are due to Wayne RESA, training workshops are scheduled for all district financial contacts and additional e-mails/notices are sent clarifying the district's compliance responsibilities.

### Anticipated

**Completion Date:** Corrective Action has been completed and is ongoing.

## Corrective Action Plan

**Finding Number:** 5

**Page Reference:** 13

**Finding:** Athletic Expenditures

**Recommendation:** We recommend that Woodhaven and Westland improve internal controls to ensure compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits.

**Wayne RESA**

**Comments:** Wayne RESA agrees with the finding and recommendation.

**Corrective Action:** Financial training now specifies athletic/extracurricular stipends cannot be used in the cost reports, so the discovery of this error was appreciated and training adjusted accordingly.

**Anticipated**

**Completion Date:** Corrective Action has been completed and is ongoing.

## Corrective Action Plan

**Finding Number:** 6

**Page Reference:** 13

**Finding:** Summer Quarter Reporting

**Recommendation:** We recommend that Grosse Pointe improve internal controls to ensure compliance with the Medicaid Provider Manual regarding summer quarter reporting for the AOP program in the Eligible Cost/Cost Pool Summary Reports.

**Wayne RESA**

**Comments:** Wayne RESA agrees with the finding and recommendation.

**Corrective Action:** Financial training now addresses the two summer quarter reporting requirements.

**Anticipated**

**Completion Date:** Corrective Action has been completed and is ongoing.

## Corrective Action Plan

**Finding Number:** 7

**Page Reference:** 14

**Finding:** Completion of Treatment Plans

**Recommendation:** We recommend that Wayne RESA improve internal controls to ensure compliance with the Medicaid Provider Manual regarding the appropriate completion of beneficiary's treatment plans.

The internal controls of Wayne RESA did not ensure compliance with the Medicaid Provider Manual regarding the appropriate completion of beneficiary's treatment plans.

### Wayne RESA

**Comments:** Wayne RESA agrees with the finding and recommendation.

While claim validity is the responsibility of Wayne RESA, treatment plans are the responsibility of the LEA Special Education Director.

**Corrective Action:** Programmatically, Wayne RESA added rules to our electronic IEP (treatment plan) form which will generate an error if a service is added without a corresponding service type (Direct, Consultative or Direct/Consultative) and service frequency and duration. Wayne RESA also reviews student files randomly throughout the year and annually during our internal quality review process.

### Anticipated

**Completion Date:** Corrective Action has been completed and is ongoing.

## Corrective Action Plan

**Finding Number:** 8

**Page Reference:** 15

**Finding:** Validity of Direct Medical Claims

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

**Wayne RESA**

**Comments:** Wayne RESA agrees with the finding and recommendation.

Of the 100 sampled claims reviewed, six claims were found to be invalid, some due to clerical errors, and some due to errors on the student's IEP. One claim 'finding' was disputed because the clinician noted that the student was tardy to school but the attendance roster did not indicate the tardy, instead left the student noted as 'absent.' We understand clerical errors do occur.

**Corrective Action:** Wayne RESA creates and sends out the monthly Medicaid Messenger newsletter to all special education staff to highlight program changes, provide updates, discuss common trends we've discovered in claiming and provide friendly "reminders" about claim volume. RESA Medicaid staff attends monthly meetings with Special Ed Directors. Wayne RESA reviews student files randomly throughout the year and annually during our internal quality process. Ongoing notices are sent to LEA special education offices and clinicians regarding claim validity and annually during our internal quality review process.

**Anticipated**

**Completion Date:** Corrective Action has been completed and is ongoing.

## Corrective Action Plan

**Finding Number:** 9

**Page Reference:** 16

**Finding:** Retention of Progress Notes

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

**Wayne RESA**

**Comments:** Wayne RESA agrees with the finding and recommendation.

Wayne RESA believes the retention of progress notes is a very important component of the SBS program and for 97% of the claims audited, progress notes were there.

**Corrective Action:** Wayne RESA has updated the Medicaid software program to make electronic service and progress notes mandatory fields to be completed prior to a clinician indicating the service is 'ready to bill.' Even if paper notes are lost, there is now documentation of service in the claiming software. We also send reminders in the "Medicaid Messenger" and notices to district special education offices regarding the importance of progress notes.

**Anticipated**

**Completion Date:** Corrective Action has been completed and is ongoing.