



STATE OF MICHIGAN
DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

GRETCHEN WHITMER
GOVERNOR

ROBERT GORDON
DIRECTOR

July 31, 2020

Ms. Anne Papa and Mr. Kevin Philipps
Kent Intermediate School District
2930 Knapp St. NE
Grand Rapids, Michigan 49525

Dear Ms. Papa and Mr. Philipps:

Enclosed is our final report for the Michigan Department of Health and Human Services (MDHHS) Medicaid School Based Services Program audit of the Kent Intermediate School District Medicaid School Based Services Program for the period July 1, 2013 through June 30, 2014.

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 black ink, appearing to read "Timothy J. Kubu".

Timothy J. Kubu, CIA, CISA
Manager, Audit and Review Section
MDHHS - Bureau of Audit

Enclosure

cc: Kirsten Myers, Kent ISD – Director of Special Education
Mark Higgins, Kent ISD – Special Education Finance & Transportation Supervisor
Deb Hallenbeck, Director, MDHHS – Audit Division
Kabeer Singh, Auditor, MDHHS – Audit Division
Tracie Bonner, Senior Auditor, MDHHS – Audit Division
Kevin Bauer, Specialist, MDHHS – Medicaid Program Policy Division
Steve Ireland, Manager, MDHHS – Rate Review Section

Audit Report

Kent Intermediate School District
Medicaid School Based Services Program

July 1, 2013 – June 30, 2014



Bureau of Audit
Audit Division
July 2020

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DESCRIPTION OF AGENCY

The Kent Intermediate School District (Kent ISD), one of 56 intermediate school districts (ISDs) in Michigan, was established in 1962. ISDs are regional service agencies that offer support services to local school districts. Kent ISD is a publicly funded school district regulated by the state and federal government.

The Kent ISD administrative offices are in Grand Rapids, Michigan, serving twenty public school districts in Kent County. The Kent ISD Board of Education consists of five members.

BACKGROUND

Effective July 1, 2008, under the School Based Services (SBS) Program, the Michigan Department of Health and Human Services (MDHHS) provides 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 (PCS), and targeted case management (TCM) services); and
- Medicaid Administrative Outreach Program (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) 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 in a Medicaid covered category; and
- Services that are included in the Medicaid State Plan.

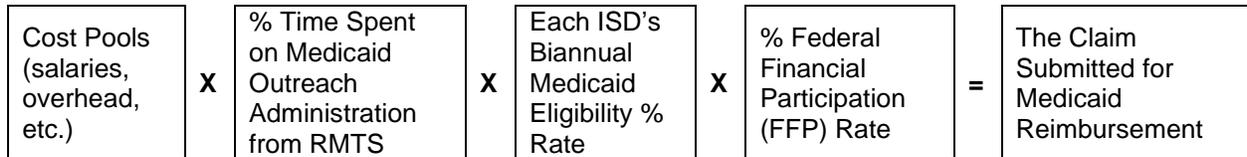
For an enrolled school district to receive reimbursement, the services provided must meet all Federal and State Medicaid regulations and provisions, including those for provider qualifications, comparability of services, and the amount, duration, and scope of services.

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

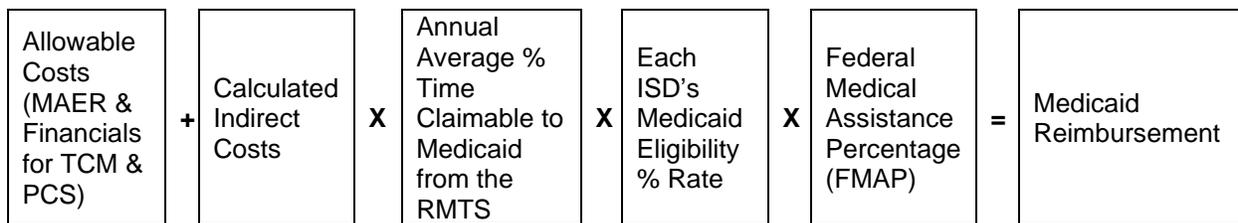
Staff salaries and related costs are reported directly to a hired contractor, the Public Consulting Group (PCG), on quarterly financial reports by each of the Local Education Agencies (LEAs). PCG combines the costs per ISD, applies various allocation percentages and submits the AOP claim directly to MDHHS 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 spent on Medicaid-type activities is identified by a Random Moment Time Study (RMTS) that is also conducted by PCG. 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 the Federal Centers for Medicare and Medicaid Services (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 Direct Medical Services funding from interim monthly payments based on prior year actual costs. The interim payments are reconciled on an annual basis to the current year costs by the MDHHS Hospital and Clinic Reimbursement Division (HCRD). Cost reporting and reconciliation are based on the school fiscal year which is July 1 through June 30 of each year. Annually, ISDs and LEAs submit allowable costs to MDHHS on the Medicaid Allowable Expenditure Report (MAER). 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.

Transportation

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 submitted on the MAER Transportation cost report by the total special education one-way transportation trips reported by the ISD in CHAMPS. The Medicaid reimbursable amount is obtained by multiplying the cost per trip by the number of “allowable” one-way trips from CHAMPS. An “allowable” one-way trip is provided to a Medicaid-eligible beneficiary and fulfills all 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 monthly interim payments to the annual Medicaid allowable specialized transportation costs. The cost settlement amount for the specialized transportation is combined with the cost settlement amounts for Direct Medical, TCM, and PCS. Any over/under adjustments are processed as one transaction.

PURPOSE AND OBJECTIVES

The purpose of our audit was to review that Medicaid School Based Services financial costs and associated student claims reported by the ISD and its LEAs complied with Federal and State laws and regulations related to Direct Medical Services and the Administrative Outreach Program. Our audit had the following objectives:

- 1.) To assess whether Kent ISD and its LEAs effectively developed School Based Services student claims in accordance with applicable Federal and State requirements.
- 2.) To assess whether Kent ISD and its LEAs effectively developed School Based Services cost claims in accordance with applicable Federal and State requirements.

SCOPE AND METHODOLOGY

Within the limitations described below, our audit included reviews of the student claims and the financial costs claimed by Kent ISD and its LEAs for the year ended June 30, 2014. Findings detailed below necessitated expanding the scope of our review for Kent ISD Direct Medical Services. We expanded our review and testing to Kent ISD's fiscal year ending June 30, 2015 MAER medical costs to determine allowable psychologist/psychiatrist salaries, benefits, and purchased services costs and reviewed fiscal year 2016 MAER medical costs for reasonable assurance psychologist/psychiatrist claims were corrected.

The scope of our review of the claims development process excluded the following elements reviewed by external parties. The RMTS and the assignment of sampled moments to activities were reviewed by PCG and are included in PCG's external SSAE-18 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 State of Michigan, Center for Educational Performance and Information (CEPI) procedures used to calculate the percentage of Medicaid eligible students in Kent ISD 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 potential weaknesses that might affect our review.

The scope of our audit was generally limited to determining whether the costs reported by the Kent ISD and its LEAs were allocable and allowable under Federal and State laws and regulations and that Medicaid student claims were allowable under the SBS program. This included reviewing payroll documentation at the Kent ISD 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 onsite fieldwork at the Kent ISD and reviewing four LEAs including: Caledonia Community Schools, Grand Rapids Public Schools, Kent City Community Schools, and Lowell Area Schools.

Through sampling, testing, and reconciliations of the staff pool lists, MAER cost reports, quarterly financial reports, and ISD/LEA accounting/financial/HR records we verified that reported 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 (2 CFR Part 200 effective 12-2014).

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

STUDENT CLAIMS

Objective: To assess whether Kent ISD and its LEAs effectively developed School Based Services student claims in accordance with applicable Federal and State requirements.

Conclusion: The Kent ISD and its LEAs were effective in developing student claims in accordance with applicable Federal and State requirements. We identified no reportable findings related to student claims development.

FINANCIAL REPORTING

Objective: To assess whether Kent ISD and its LEAs effectively developed School Based Services cost claims in accordance with applicable Federal and State requirements.

Conclusion: The Kent ISD and its LEAs were not effective in developing School Based Services cost claims in accordance with applicable Federal and State requirements. We identified a material weakness related to claiming unallowable costs on Kent ISD's and two LEAs' MAER direct medical services cost reports (Finding 1). We also identified a reportable weakness related to claiming unallowable costs on one LEA's MAER Transportation cost report (Finding 2).

Finding

1. Inclusion of Unallowable Costs on the MAER Direct Medical Services ISD and LEAs Cost Reports

The Kent ISD did not ensure the ISD and LEAs claimed only allowable costs on their MAER direct medical services cost reports.

In our review of the ISD's and four LEAs' reported direct medical costs, we found that the ISD and two LEAs reported unallowable costs that Kent ISD did not identify. This resulted in an overstatement of expenditures and indirect costs of \$12,904,934 during fiscal years 2014 and 2015 (see Table 1 below). This represented 16% of total reported costs reviewed for fiscal years 2014-15 of the ISD and four LEAs.

Table 1

Details and Criteria

ISD/LEA	a.	b.	c.	Total
KISD FY14	\$ 5,931,568	\$3,662	\$85,605	\$6,020,835
KISD FY15	6,618,675			6,618,675
GRPS	243,716			243,716
Kent City	21,708			21,708
Total	\$12,815,667	\$3,662	\$85,605	\$12,904,934

Details and Criteria:

a. Staff Pool List Errors on the MAER Direct Medical Services Cost Report

Our testing identified the ISD and two LEAs submitted unallowable direct medical costs for salaries, benefits, and purchased services of staff that were: certified on the AOP staff pool list and also claimed on the quarterly AOP financial reports; claimed for quarters that staff were not on the staff pool list; or claimed for staff not on any staff pool lists.

The Medicaid Provider Manual, School Based Services Random Moment Time Study Chapter, Section 3.3 states:

When providing the staff pool list of those eligible to participate in the time studies, school districts must certify the list of participants and activities to be claimed to ensure that all appropriate personnel are submitted and that appropriate credentials are in place for billing Medicaid.

Further, the Medicaid Provider Manual, School Based Services Random Moment Time Study Chapter, Section 8.4 states:

The financial data reported...must be based on actual detailed expenditures from LEA payroll and financial systems.

b. Claiming Direct Medical Services Costs for Unallowable Staff Payments

Our testing identified Kent ISD overstated allowable direct medical costs for salaries, benefits, and purchased services of staff coded to unallowable functions and performing unallowable activities.

The Michigan Department of Education (MDE), Office of Special Education, 2013-2014 Allowable Cost Guide specifies allowable functions and associated

accounting codes for all Michigan public schools in accordance with the State School Aid Act. The Guide provides a detailed table for allowable coding, stating: “Sections 51a, 52, and 53a of the State School Aid Act limit categorical reimbursement to costs approved by the Michigan Department of Education. The following is a list of items approved to be included as direct costs...”

c. Claiming Federal Funds for Direct Medical Services Costs

Our testing identified Kent ISD overstated allowable direct medical costs for salaries, benefits, and purchased services of staff claimed for federal funding.

The Medicaid Provider Manual, School Based Services Chapter, 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.

The unallowable Direct Medical Services costs will be provided to MDHHS-HCRD for adjustment and settlement.

Recommendation

We recommend Kent ISD implement policies and procedures to ensure the ISD and LEAs’ direct medical services cost reports contain only allowable costs in compliance with the Medicaid Provider Manual and MDE Allowable Cost Guide regarding direct medical services.

Finding

2. Inclusion of Unallowable Costs on an LEA MAER Transportation Cost Report

The Kent ISD did not ensure its LEA claimed only allowable costs on their MAER transportation cost report.

In our review of the ISD’s and LEAs’ reported transportation costs, we found that Kent City LEA reported unallowable costs that Kent ISD did not identify. This resulted in an overstatement of expenditures and indirect costs of \$22,636. This represented 14% of Kent City’s reported transportation costs.

The Medicaid Provider Manual, School Based Services Chapter, Section 6.2 states:

Specialized transportation costs reported on the Michigan Department of Education Transportation Expenditure Report (form SE-4094) are only the costs associated with the special education buses used for the specific purpose of

transporting only special education children. This report does not include any federal dollars.

Medicaid-allowable specialized transportation costs include the following costs from the SE-4094: Salaries; Benefits; Purchased Services; Supplies; Other Expenses; and Bus amortization.

The unallowable transportation costs will be provided to MDHHS-HCRD for adjustment and settlement.

Recommendation

We recommend Kent ISD implement policies and procedures to ensure LEA transportation cost reports contain only allowable costs in compliance with the Medicaid Provider Manual regarding special education transportation.

Corrective Action Plan

Finding Number: 1

Page Reference: 5

Finding: **Inclusion of Unallowable Costs on the MAER Direct Medical Services ISD and LEAs Cost Reports**

The Kent ISD did not ensure the ISD and LEAs claimed only allowable costs on their MAER direct medical services cost reports.

Recommendation: Implement policies and procedures to ensure the ISD and LEAs' direct medical services cost reports contain only allowable costs in compliance with the Medicaid Provider Manual and the MDE Allowable Cost Guide regarding direct medical services.

**Kent ISD
Comments:**

For the years of the audit it appears Kent ISD was reporting school psychologists on the MAER Facility Settlement. At the time the official in charge of the MAER put them on there as they showed up on the SPL and SE-4096, not realizing that on the SPL they were AOP.

Corrective Action: Between MDHHS making error correction changes to the MAER as well as Kent ISD correcting this error, we are no longer reporting AOP staff members on the MAER (now Facility Settlement).

**Person Responsible
for Implementation:** Mark W. Higgins

**Anticipated
Completion Date:** Complied, already in effect.

Finding Number: 2

Page Reference: 7

Finding: **Inclusion of Unallowable Costs on an LEA MAER Transportation Cost Report**

The Kent ISD did not ensure its LEA claimed only allowable costs on their MAER transportation cost report.

Recommendation: Implement policies and procedures to ensure LEA transportation cost reports contain only allowable costs in compliance with the Medicaid Provider Manual regarding special education transportation.

Kent ISD

Comments: Kent ISD oversees the collection of the MAER and SE-4094 from the LEAs. For this finding Kent City reported an expense on the MAER that was not allowed.

Corrective Action: Kent ISD will verify that all expenditures now reported on the Facility Settlement will match up to reported data from the SE-4094.

Person Responsible for Implementation: Mark W. Higgins

Anticipated Completion Date: Winter of 2020 with the 2019-2020 Facility Settlement submission.