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NICK LYON
DIRECTOR

March 22, 2018

Mr. Ryan Harp
Ms. Sarah Figueroa
Eaton Regional Education Service Agency
1790 E. Packard Highway
Charlotte, MI 48813

Dear Mr. Harp and Ms. Figueroa:

Enclosed is our final report for the Michigan Department of Health and Human Services (MDHHS) Medicaid School Based Services Program audit of the Eaton Regional Education Service Agency for the period July 1, 2012 – June 30, 2013.

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 Division - Audit & Review Section
Bureau of Audit, Reimbursement & Quality Assurance

Enclosure

cc: Deb Hallenbeck, Director, Audit Division
Scott Werner, Director, Audit Support Division
John Lambert, Audit Specialist, Appeals
Cindy Linn, Manager, Medicaid Program Policy Division
Kevin Bauer, Specialist, Medicaid Program Policy Division
Steve Ireland, Manager, Rate Review Section

Audit Report

Eaton Regional Education Service Agency
Medicaid School Based Services Program

July 1, 2012 – June 30, 2013



Audit Division
March 2018

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DESCRIPTION OF AGENCY

The Eaton Regional Education Service Agency (Eaton RESA), one of 56 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. Eaton RESA is a publicly funded school district regulated by the state and federal government.

The Eaton RESA's administrative offices are located in Charlotte, Michigan, serving the five public school districts primarily in Eaton County. The Eaton RESA Board of Education consists of five members.

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 Health & Human Services (MDHHS) 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

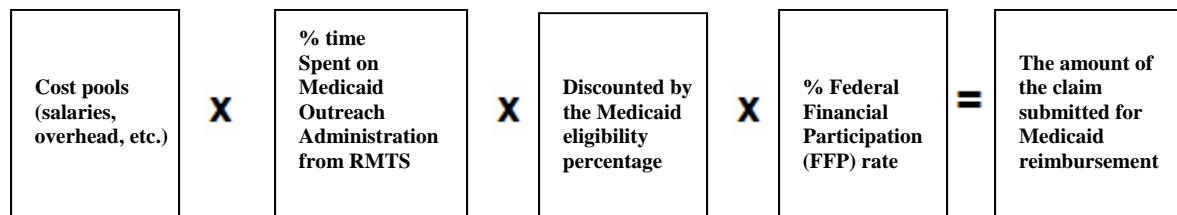
For an enrolled school district to receive reimbursement, the services provided must meet all Federal and State Medicaid regulations and provisions, including those for provider qualifications, comparability of services, and the amount, duration, and scope of services.

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

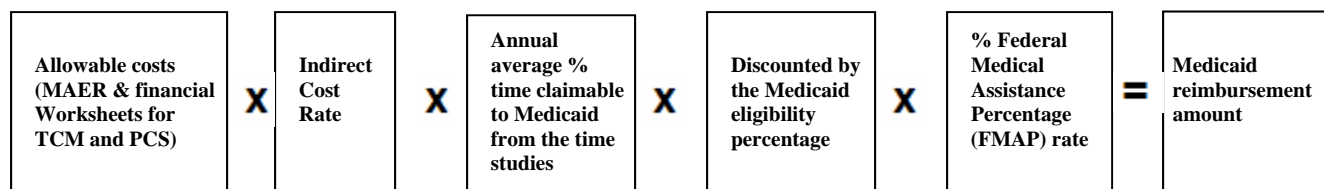
Staff salaries and related costs are reported directly to a hired contractor, the Public Consulting Group (PCG), by each of the LEAs. PCG combines the costs, applies various allocation percentages and submits the AOP claim directly to MDHHS for review, processing and payment each fiscal quarter. Claim 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 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 Eaton Regional Education 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 Eaton Regional Education 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 Eaton RESA and its LEAs for the year ended June 30, 2013.

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 Eaton 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 Eaton RESA and its LEAs selected for testing.

The scope of our audit was generally limited to determining whether the costs reported by the Eaton 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 Eaton 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 Eaton Regional Education Service Agency and to two of five LEAs including Eaton Rapids Public Schools and Grand Ledge 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 May to August 2017.

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

INTERNAL CONTROLS

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

Conclusion: The Eaton Regional Education Service Agency and its LEAs were only 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 Eaton Regional Education Service Agency 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 (50%) invalid claims in the 77 sampled claims we reviewed including:

- Twenty-one claims were invalid because the prescription, referral, or authorization was not provided.
- Nine claims were invalid because the treatment plan did not contain appropriate short-term and long-term goals or the billed service.
- Seven claims were invalid because the beneficiary was not in attendance on the date of service or attendance records were not provided.
- Two claims were invalid because the provider notes were not provided.

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

Recommendation

We recommend that Eaton Regional Education Service Agency 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 Eaton Regional Education 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 Eaton Regional Education 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 MAER Medical Transportation Cost Report (Finding 2), Inclusion of Unallowable Expenditure (Finding 3), Lack of Oversight of Financial Data Reported (Finding 4), and MAER Medical Cost Report (Finding 5).

Finding

2. MAER Transportation Cost Report

Eaton Regional Education Service Agency did not comply with the Medicaid Provider Manual regarding the accuracy of financial data reported on the MAER Transportation Cost Report. Calculation errors contributed to the errors noted in the review of transportation costs. The combined errors resulted in an overstatement of \$8,419 to the costs reported in the MAER Transportation Cost Report.

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 in Eaton Regional Education Service Agency disclosed:

The costs reported under the "Pupil Trans Common Carrier black/yellow" included unallowable expenditures and duplicative costs. The errors resulted in an overstatement of reported expenditures by \$8,419.

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

Recommendation

We recommend that Eaton Regional Service Agency report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data reported on the MAER Transportation Cost Report.

Finding

3. Inclusion of Unallowable Expenditures

Grand Ledge Public Schools did not ensure compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits. The errors resulted in an overstatement of reported expenditures of \$5,361.

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

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. Support Services – Other and General Education expenditures are not related to Medicaid services and, therefore, cannot be included in the state match expenditures.

Our review of sampled employees in Grand Ledge Public Schools' payroll disclosed:

Costs associated with non-instructional technology services, general education, and athletic funds were included in the Eligible Cost/Cost Pool Summary Reports. The costs reported are unallowable expenditures and resulted in an overstatement of reported expenditures by \$5,361.

Recommendation

We recommend that Grand Ledge Public Schools report future costs in compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits.

Finding

4. Lack of Oversight of Financial Data Reported

Eaton Regional Education Service Agency, Eaton Rapids Public Schools, and Grand Ledge Public Schools 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 (\$299,752).

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

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:

Eaton Regional Education Service Agency 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 (\$219,149).

Eaton Rapids 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 (\$4,345).

Grand Ledge 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 (\$76,258).

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

Recommendation

We recommend that Eaton Regional Education Service Agency, Eaton Rapids Public Schools, and Grand Ledge Public Schools 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.

Finding

5. MAER Medical Staff Cost Report

Eaton Regional Education Service Agency 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 understatement of reported expenditures by (\$712,528).

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

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 medical staff costs in Eaton Regional Education Service Agency disclosed:

Eaton RESA did not include expenditures for salaries and benefits for multiple positions in the MAER Medical Staff Cost Report. The combined errors resulted in an understatement of these reported expenditures by (\$712,528).

Recommendation

We recommend that Eaton Regional Education Service Agency report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data reported on the MAER Medical Staff Cost Report.

Corrective Action Plan

Finding Number: 1

Page Reference: 5

Finding: Validity of Direct Medical Claims

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

Eaton RESA

Comments: Eaton RESA agrees with the finding and recommendation.

Corrective Action: PowerSchool Special Education software has been implemented to assist with compliance. The software requires verification of prescriptions, supervision, and provider notes prior to submitting claims. All documentation in regards to a service claim will be available within PowerSchool Special Education in order to provide a centralized location for documents in the event of an audit. Internal monitoring and on-going training is also provided to ensure compliance.

Anticipated

Completion Date: This action has been completed.

Corrective Action Plan

Finding Number: 2

Page Reference: 6

Finding: MAER Transportation Cost Report

Recommendation: We recommend that Eaton Regional Education Service Agency report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data reported on the MAER Transportation Cost Report.

Eaton RESA

Comments: Eaton RESA agrees with the finding and recommendation.

Corrective Action: Eaton RESA has structured its business and special education offices so that there is consistency with who is completing Medicaid reports. Staff receive training to keep current on reporting requirements.

Anticipated

Completion Date: This action has been completed.

Corrective Action Plan

Finding Number: 3

Page Reference: 7

Finding: Inclusion of Unallowable Expenditures

Recommendation: We recommend that Grand Ledge Public Schools report future costs in compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits.

Eaton RESA

Comments: Grand Ledge agrees with the finding and recommendation.

Corrective Action: District transitioned to a new general ledger accounting software as of July 1, 2017. Staff costs are allocated to appropriate accounts based on work performed.

Anticipated

Completion Date: This action has been completed.

Corrective Action Plan

Finding Number: 4

Page Reference: 7

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

Recommendation: We recommend that Eaton Regional Education Service Agency, Eaton Rapids Public Schools, and Grand Ledge Public Schools 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.

**Eaton RESA
Comments:**

Eaton RESA agrees with the finding and recommendation

Grand Ledge agrees with the finding and recommendation. The District reported paraprofessional wages, as instructed by the (former) Special Education Director, reporting only Healthcare wages as allowable Medicaid expenditures. I would like to add that I personally attended a minimum of three PCG workshops and was never informed by PCG representatives to report all special education paraprofessional wages as well as all healthcare wages. Eaton Rapids agrees with the finding and recommendation

Corrective Action: Eaton RESA: Costs are reported based on detailed reports printed from the district's finance software for the appropriate time frame on a cash basis. Documentation is filed with the report and reviewed by a second person before the report is submitted.

Grand Ledge: Once informed of reporting all special education paraprofessional wages as allowable Medicaid expenditures, Grand Ledge Public Schools began reporting these expenditures effective with the quarter ending 3/31/17.

Eaton Rapids: A new staff member is doing the reporting, and she has reviewed the Medicaid provider manual to help ensure proper reporting is taking place.

Anticipated

Completion Date: Eaton RESA: This action has been completed.

Grand Ledge: This action has been completed.

Eaton Rapids: This action has been completed.

Corrective Action Plan

Finding Number: 5

Page Reference: 8

Finding: **MAER Medical Staff Cost Report**

Recommendation: We recommend that Eaton Regional Education Service Agency report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data reported on the MAER Medical Staff Cost Report.

Eaton RESA

Comments: Eaton RESA agrees with the finding and recommendation.

Corrective Action: Costs are reported based on detailed reports printed from the district's finance software for the appropriate time frame on an accrual basis, and checked against the SE-4096 to ensure that MAER costs don't exceed the SE-4096. Documentation is filed with the report and reviewed by a second person before the report is submitted.

Anticipated

Completion Date: This action has been completed.