



STATE OF MICHIGAN
DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

GRETCHEN WHITMER
GOVERNOR

ELIZABETH HERTEL
DIRECTOR

April 22, 2021

Mr. Josh Beaver-Gallagher
Director of Finance
Shiawassee Regional Education Service District
1025 N. Shiawassee Street
Corunna, Michigan 48817

Dear Mr. Beaver-Gallagher;

Enclosed is our final Audit Report for the Michigan Department of Health and Human Services (MDHHS) audit of the Shiawassee Regional Education Service District's Medicaid School Based Services Program for the period July 1, 2016 through June 30, 2017.

The final report contains the following: Executive Summary, Exceptions, Funding Methodology, Scope and Methodology, Corrective Action Plans, and Glossary. The Corrective Action Plans include the agency's response to the Preliminary Analysis.

Thank you for the courtesy and 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, Audit Division

Enclosure

cc: Mr. Trent Toney, Asst. Superintendent and Director of Special Education, SRES
Ms. Pam Myers, Director, MDHHS – Bureau of Audit
Ms. Deb Hallenbeck, Director, MDHHS – Audit Division
Ms. Tracie Bonner, Senior Auditor, MDHHS – Audit Division
Mr. Kabeer Singh, Auditor, MDHHS – Audit Division
Mr. Steve Ireland, Manager, MDHHS – Rate Review Section
Mr. Kevin Bauer, Specialist, MDHHS – Medicaid Program Policy Division

Shiawassee Regional Education Service District

School Based Services Program
Financial Audit

For the Period July 1, 2016 through June 30, 2017

Final Report – Issued April 22, 2021

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EXECUTIVE SUMMARY

Below is a summary of our audit objective and conclusion:

Audit Objective - Financial Reporting	Conclusion
To assess whether Shiawassee Regional Education Service District (SRES D) and its Local Education Agencies (LEAs) effectively developed cost claims in accordance with applicable Federal and State requirements.	Generally Effective
We identified three exceptions related to financial reporting.	

Exception 1 Page 3	Duplicate Costs Reported on Quarterly Financial Reports
Criteria	Medicaid Provider Manual, School Based Services, Section 5.1; and Administrative Outreach Program Claims Development, Section 2.4
Disallowed Cost	\$409,577.66
Corrective Action	Review current procedures related to financial reporting of Medicaid information on the Quarterly Financial reports and implement additional controls to ensure accuracy of reporting.
Completion Date	June 30, 2022
Person Responsible	Joshua Beaver-Gallagher; LEA Business Managers

Exception 2 Page 5	Unallowable Costs Claimed on Quarterly Financial Reports
Criteria	Medicaid Provider Manual, School Based Services, Section 5.2; and Administrative Outreach Program Claims Development, Section 2.3A
Disallowed Cost	\$303,135.71
Corrective Action	Review current procedures related to financial reporting of Medicaid information on the Quarterly Financial reports and implement additional controls to ensure accuracy of reporting.
Completion Date	June 30, 2022
Person Responsible	Joshua Beaver-Gallagher; LEA Business Managers

Exception 3 Page 6	Unallowable Costs Claimed on Transportation Cost Report
Criteria	Medicaid Provider Manual, School Based Services, Section 6.2A
Disallowed Cost	\$ 72,982.23
Corrective Action	Review current procedures related to the financial reporting of allowable and unallowable costs on the Transportation Cost Report.
Completion Date	June 30, 2022
Person Responsible	Joshua Beaver-Gallagher

Exception 1 Duplicate Costs Reported on Quarterly Financial Reports

Condition

Shiawassee Regional Education Service District did not identify Corunna Public Schools' (CPS) duplicated costs on their Quarterly Financial Reports.

Criteria

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.” Further, “the expenditures accumulated for calculating the Direct Medical Services allowable costs are to include actual non-federal expenditures incurred during the claiming period, except summer quarter.”

The Medicaid Provider Manual, School Based Services Administrative Outreach Program Claims Development, 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 ISD/DPS’s financial accounting system.” Further, “the expenditures accumulated for calculating the Administrative Outreach claim are to include only actual expenditures incurred during the claiming period, except summer quarter.”

Exception

During our review, we identified CPS recorded salaries for 30 employees within the cost of benefits as well as the cost of salaries resulting in duplicate reporting in both Targeted Case Management and Administrative Outreach Program cost pools for one quarter. In addition, some benefit amounts were inadvertently omitted for the 30 employees for two quarters, and for 3 employees for a third quarter. (See Table 1 below)

Table 1

	Duplicated Salaries	Omitted Benefits	Total
Targeted Case Management	\$241,882.52	\$(44,481.06)	\$197,401.46
Administrative Outreach Program	\$258,198.89	\$(46,022.69)	\$212,176.20
Total	\$500,081.41	\$(90,503.75)	\$409,577.66

Disallowed Cost

Total disallowed costs = \$409,577.66

- Targeted Case Management = \$197,401.46 (\$174,861.77 direct, \$22,539.69 indirect)
- Administrative Outreach Program = \$212,176.20 (\$187,949.51 direct, \$24,226.69 indirect)

Recommendation

We recommend the SRES D and CPS improve internal controls and LEA oversight and review to ensure future costs are reported in compliance with the Medicaid Provider Manual, and to ensure accuracy of financial data reported on the Quarterly Financial reports.

Shiawassee RESD Comments

A new business manager was brought on board at SRES D in the year which was audited. A review of current procedures related to financial reporting for Medicaid will be undertaken.

Corrective Action Plan

Review current procedures related to the financial reporting of Medicaid information on the Quarterly Financial reports and implement additional controls to ensure accuracy of reporting. The review will include how staff pool lists are managed/maintained in PCG. We will also implement a confirmation check of the distribution account by employee listed on the PCG staff pool list compared to what is in the HRS/Payroll system along with quarterly salary and benefit reports by employee from the HRS/Payroll system to be confirmed against the values input into PCG.

SRES D will provide training and discussion opportunities to LEA Business Managers in FY 2021-2022 to review best practices in reporting to PCG and develop standard procedures to be used by districts with input and feedback from all LEA Business Managers. Additional procedures will be implemented for SRES D to confirm and ensure future costs are accurately recorded by LEAs. Such procedures will include LEA's submitting backup documentation to SRES D Business Officials to review and confirm allowable costs against values reported in PCG before submission is finalized.

Completion Date

June 30, 2022

Responsible Individual(s) [Name and Title]

Joshua Beaver-Gallagher, Director of Finance; LEA Business Managers

Exception 2 **Unallowable Costs Claimed on Quarterly Financial Reports**

Condition

Shiawassee Regional Education Service District and Corunna Public Schools (CPS) included unallowable federal funds from salary and benefit costs in their Quarterly Financial Reports.

Criteria

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.”

The Medicaid Provider Manual, School Based Services Administrative Outreach Program Claims Development, Section 2.3A states:

“...the actual costs incurred for the quarter being claimed, such as salaries, overhead, etc. Each participating ISD/DPS must certify that the claims they submit to MDHHS contain sufficient non-Federal (State, county, or local) funds to match requirements and that the claim only includes actual costs.”

Exception

During our review, we identified the SRES and CPS Quarterly Financial Reports included 10 employees' salary and benefit costs that included federal funds. These employees were included in the Targeted Case Management and the Administrative Outreach Program cost pools and occurred throughout the fiscal year.

Disallowed Cost

Total disallowed costs = \$303,135.71

- Targeted Case Management = \$179,775.63 (\$156,632.73 direct, \$23,142.90 indirect)
- Administrative Outreach Program = \$123,360.08 (\$107,223.78 direct, \$16,136.30 indirect)

Recommendation

We recommend that the SRES implement policies and procedures to improve internal controls and LEA oversight to ensure future costs are reported in compliance with the Medicaid Provider Manual regarding the exclusion of federal funds claimed on Quarterly Financial Reports.

Shiawassee RESD Comments

A new business manager was brought on board at SRESD in the year which was audited. A review of current procedures related to financial reporting for Medicaid will be undertaken.

Corrective Action Plan

Review current procedures related to the financial reporting of Medicaid information on the Quarterly Financial reports and implement additional controls to ensure accuracy of reporting. The review will include how staff pool lists are managed/maintained in PCG. We will also implement a confirmation check of the distribution account by employee listed on the PCG staff pool list compared to what is in the HRS/Payroll system along with quarterly salary and benefit reports by employee from the HRS/Payroll system to be confirmed against the values input into PCG.

SRESD will provide training and discussion opportunities to LEA Business Managers in FY 2021-2022 to review best practices in reporting to PCG and develop standard procedures to be used by districts with input and feedback from all LEA Business Managers. Additional procedures will be implemented for SRESD to confirm and ensure future costs are accurately recorded by LEAs. Such procedures will include LEA's submitting backup documentation to SRESD Business Officials to review and confirm allowable costs against values reported in PCG before submission is finalized.

Completion Date

June 30, 2022

Responsible Individual(s) [Name and Title]

Joshua Beaver-Gallagher, Director of Finance; LEA Business Managers

Exception 3

Unallowed Costs Claimed on Transportation Cost Report

Condition

Shiawassee Regional Education Service District included unallowable expenditures in their Transportation Cost Report.

Criteria

The Medicaid Provider Manual, School Based Services, Section 6.2A 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, taxis or private vehicles 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 (Bus Drivers, Aides, Employee Benefits-Bus Drivers and Aides only); Purchased Services; Supplies (Gasoline/Fuel, Oil/Grease; Tires/Batteries, Other expense/Adjustments); and Bus Amortization.

Exception

During our review, we identified unallowable costs related to Mechanic Benefits and Other Vehicle Repair Parts were incorrectly included in the Transportation Cost Report.

- Unallowable Mechanic Benefits included in Transportation Salaries resulted in an overstatement of \$65,833.20.
- Unallowable costs incorrectly coded to Other Vehicle Repair Parts resulted in an overstatement of \$7,149.03.

Disallowed Cost

Total disallowed costs = \$72,982.23 (\$63,051.60 direct, \$9,930.63 indirect)

Recommendation

We recommend that the SRES D implement policies and procedures to improve internal controls and ensure that costs are properly coded and only allowable transportation costs, as provided for in the Medicaid Provider Manual, are included in the Transportation Cost Reports.

Shiawassee RESD Comments

A new business manager was brought on board at SRES D in the year which was audited. A review of current procedures related to financial reporting for Medicaid will be undertaken.

Corrective Action Plan

Review current procedures related to the financial reporting of allowable and unallowable costs on the Transportation Cost Report. The review will include account coding structure, training to staff to ensure that costs are accurately recorded to the correct expenditure account and review of employees and their account distribution codes in the HRS/Payroll system to ensure that salary and benefit costs are accurately recorded. Financial reports will be reviewed and customized to clearly reflect and identify allowable versus non-allowable costs per the Medicaid Provider Manual.

Completion Date

June 30, 2022

Responsible Individual(s) [Name and Title]

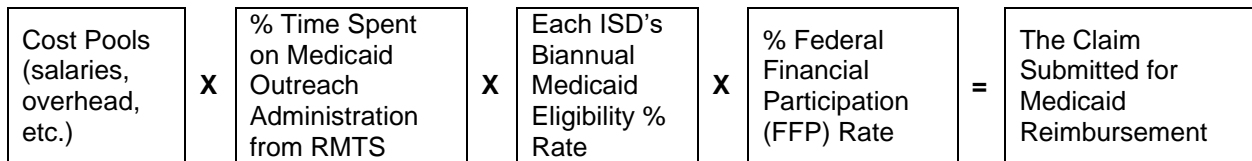
Joshua Beaver-Gallagher, Director of Finance

FUNDING METHODOLOGY

The Administrative Outreach Program (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

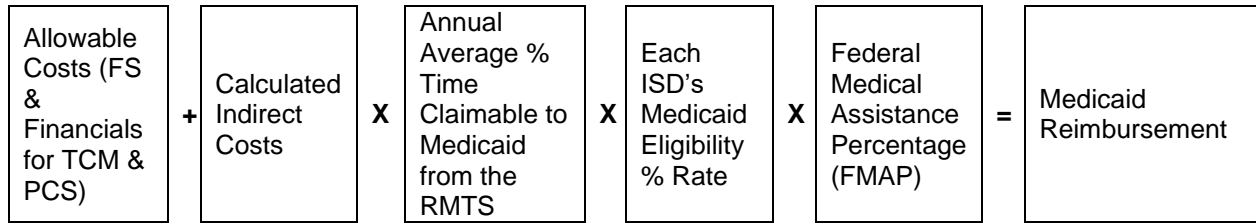
Staff salaries and related costs are reported directly to a hired contractor, the Public Consulting Group (PCG), on quarterly financial reports by each of the Local Education Agencies (LEAs). PCG combines the costs per Intermediate School District (ISD), applies various allocation percentages and submits the AOP claim directly to Michigan Department of Health and Human Services (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

School Based 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 in CHAMPS on the Facility Settlement (FS) system. 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 Facility Settlement 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 specialized transportation service is identified in the Individualized Education Program (IEP) or Individual Family Service Plan (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, Targeted Case Management (TCM), and Personal Care Services (PCS). Any over/under adjustments are processed as one transaction.

SCOPE AND METHODOLOGY

We examined the SRESA's and LEAs' records and activities for the period July 1, 2016 through June 30, 2017.

Our audit procedures included the following:

- Performed onsite fieldwork at the Shiawassee Regional Education Service District and reviewed 1 of 8 LEAs: Corunna Public School District.
- Reviewed the School districts' Single Audits and Financial Statement Audits and relied upon the independent auditors' report on internal controls to identify potential weaknesses that might affect our review.
- Reviewed payroll documentation, certification/licensure, and all required supporting documentation for a sample of Direct Medical staff for Speech and Language Therapists and Physical Therapists.
- Reviewed payroll documentation, and all required supporting documentation for a sample of Administrative Outreach Program personnel.
- Reviewed payroll documentation, Licensure/Qualifications and all required supporting documentation for a sample of Targeted Case Management personnel.
- Reviewed transportation cost reports, payroll documentation, and all required supporting documentation for a sample of transportation costs.
- 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) Uniform Guidance at 2 CFR 200.

GLOSSARY OF ABBREVIATIONS AND TERMS

AOP	Administrative Outreach Program
CHAMPS	Community Health Automated Medicaid Processing System
CMS	Centers for Medicare and Medicaid Services
CPS	Corunna Public Schools
FFP	Federal Financial Participation
FMAP	Federal Medical Assistance Percentage
FS	Facility Settlement
HCRD	Hospital and Clinic Reimbursement Division
IEP	Individualized Education Program
IFSP	Individualized Family Service Plan
ISD	Intermediate School District
LEA	Local Education Agency
MDE	Michigan Department of Education
MDHHS	Michigan Department of Health and Human Services
OMB	Office of Management and Budget
PCG	Public Consulting Group
PCS	Personal Care Services
RMTS	Random Moment Time Study
SBS	School Based Services
SRES	Shiawassee Regional Education Service District
TCM	Targeted Case Management