



STATE OF MICHIGAN

DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

GRETCHEN WHITMER
GOVERNOR

ROBERT GORDON
DIRECTOR

October 11, 2019

Mr. Brian Marcel, Assistant Superintendent
Washtenaw Intermediate School District
1819 S. Wagner Road
P.O. Box 1406
Ann Arbor, Michigan 48106

Dear Mr. Marcel:

Enclosed is our final report for the Michigan Department of Health and Human Services (MDHHS) Medicaid School Based Services Program audit of the Washtenaw 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: Elette Collins, Grant Manager, Washtenaw ISD
Lana Stiebe, Technical Assistant, Washtenaw ISD
Deb Hallenbeck, Director, MDHHS – Audit Division
Kabeer Singh, Auditor, MDHHS – Audit Division
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Audit Report

Washtenaw Intermediate School District
Medicaid School Based Services Program

July 1, 2013 – June 30, 2014



Bureau of Audit
Audit Division
October 2019

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DESCRIPTION OF AGENCY

The Washtenaw Intermediate School District (Washtenaw 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. Washtenaw ISD is a publicly funded school district regulated by the state and federal government.

The Washtenaw ISD administrative offices are in Ann Arbor, Michigan, serving nine public school districts in Washtenaw County. The Washtenaw 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.

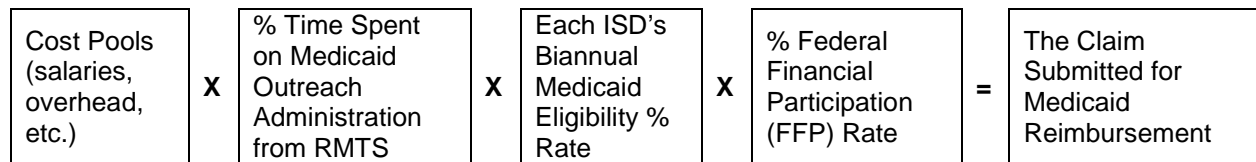
For an enrolled school district to receive reimbursement, the services provided must meet all Federal and State Medicaid regulations and provisions, including those for provider qualifications, comparability of services, and the amount, duration, and scope of services.

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

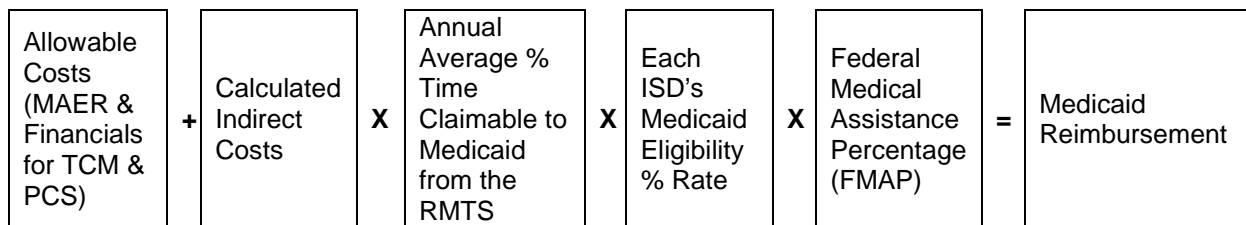
Staff salaries and related costs are reported directly to a hired contractor, the Public Consulting Group (PCG), on quarterly financial reports by each of the Local Education Agencies (LEAs). PCG combines the costs per ISD, applies various allocation percentages and submits the AOP claim directly to 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 Washtenaw ISD and its LEAs effectively developed School Based Services student claims in accordance with applicable Federal and State requirements.
- 2.) To assess whether Washtenaw 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 Washtenaw ISD and its LEAs for the year ended June 30, 2014.

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. 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 Washtenaw 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 Washtenaw 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 Washtenaw 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 Washtenaw ISD and reviewing six of nine LEAs including; Ann Arbor Public Schools, Ypsilanti Community Schools, Lincoln Consolidated School District, Saline Area Schools, Manchester Community Schools, and Dexter Community School District.

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 (located at 2 CFR Part 225).

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

STUDENT CLAIMS

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

Conclusion: The Washtenaw ISD and its LEAs were generally effective in developing student claims in accordance with applicable Federal and State requirements.

FINANCIAL REPORTING

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

Conclusion: The Washtenaw 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 four LEAs' MAER direct medical services cost reports (Finding 1).

Finding

1. Inclusion of Unallowable Costs on the MAER Direct Medical Services LEA Cost Reports

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

In our review of six LEAs' reported direct medical costs, we found that four LEAs reported unallowable costs that Washtenaw ISD did not identify. This resulted in an overstatement of expenditures and indirect costs of \$2,157,081 (see Table 1 below). This represented 28% of total reported costs of the four LEAs. We noted that there was no review process in place to ensure LEAs claimed only allowable costs on their MAER direct medical services cost reports.

Table 1

Details and Criteria					
LEA	a.	b.	c.	d.	Total
Lincoln		\$256,137	\$591,158		\$847,295
Ypsilanti	\$382,368	26,145	381,039		789,552
Dexter	357,169	26,533	37,374		421,076
Manchester	(5,468)	13,941	90,118	\$567	99,158
Total	\$734,069	\$322,756	\$1,099,689	\$567	\$2,157,081

Details and Criteria:

a. Double Reporting AOP Costs on the MAER Direct Medical Services Cost Report

Our testing identified three LEAs submitted unallowable direct medical costs for salaries, benefits, and purchased services of psychologists certified on the AOP staff pool list and claimed on the quarterly financial reports.

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.

b. Overstating Allowable Direct Medical Services

Our testing identified four LEAs overstated the allowable direct medical costs on their MAER cost report for staff salaries, benefits, and purchased services. Overstatements included associated staff costs claimed for quarters not on the staff pool list and for unsupported contracted services.

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.”*

c. Claiming Direct Medical Services Costs for Staff Not on the Staff Pool Lists

Our testing identified four LEAs submitted unallowable direct medical costs for salaries, benefits, and purchased services of staff not identified on any staff pool lists during the claiming period.

The Medicaid Provider Manual, School Based Services Chapter, Section 5.1 states:

The expenditures accumulated for calculating the Direct Medical allowable costs are to include actual non-federal expenditures incurred during the claiming period...allowable expenditures include such things as salaries, wages, fringe benefits and medically related supplies, purchased services and materials.

d. Claiming Direct Medical Services Costs for Unallowable Staff Payments

Our testing identified one LEA overstated allowable direct medical costs for salaries, benefits, and purchased services of staff coded to unallowable functions.

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. 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...”

The identification of unallowable Direct Medical Services costs will be provided to MDHHS-HCRD for adjustment and settlement. Noncompliance with the Medicaid Provider Manual and MDE Allowable Cost Guide could result in adjustments, sanctions, disallowances, and/or future reductions of Medicaid awards.

Recommendation

We recommend Washtenaw ISD implement policies and procedures to ensure LEA 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.

Corrective Action Plan

Finding Number: 1

Page Reference: 5

Finding: **Inclusion of Unallowable Costs on the MAER Direct Medical Services LEA Cost Reports**

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

Recommendation: Implement policies and procedures to ensure LEA 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.

**Washtenaw ISD
Comments:**

Washtenaw ISD believes 2014-15 was the first year that MDHHS distributed comprehensive directions along with a spreadsheet containing all the providers that were included on the quarterly staff pool lists. Prior to that, including the audit year, there didn't seem to be much direction provided regarding the MAER preparation other than making sure the costs on the MAER did not exceed the SE-4096. Once the direction was provided, processes were modified and LEAs improved their reporting, as was evidenced when the auditors reviewed documentation for Lincoln Consolidated Schools for 2014-15.

Corrective Action: Washtenaw ISD previously implemented some actions, such as, distributing the listing of Direct Service staff that have been included on the quarterly staff pool lists to each LEA prior to their completion of the MAER. Washtenaw ISD also reviews to ensure that total costs do not exceed the SE-4096 costs. In

addition, there are also checks built into the CHAMPS reporting system to identify other issues related to differences between the MAER and the quarterly reports. However, to ensure that only eligible costs are reported, Washtenaw ISD plans to have each LEA submit a supplemental spreadsheet, the basis of which is the listing of Direct Service staff reported on the quarterly staff pool lists. The full salary and benefits (or contracted employee costs) would be listed and then the appropriate FTE based on the number of quarters reported would be applied to the full year costs. These amounts would then be used to compile the costs reported on the MAER. Each LEA would also then report a list of staff that were federally funded to confirm that they were not included on the MAER.

**Person Responsible
for Implementation:** Brian Marcel and Elette Collins

**Anticipated
Completion Date:** Partially complied. The updates to CHAMPS were implemented in FYE 2016. The remaining elements will be implemented annually, starting with the next MAER reporting by December 2019.