
Allegan Area Educational Service Agency

with Allegan Public Schools and Plainwell Community Schools

Medicaid School Services Programs
Financial Claims Audit

For the Period July 1, 2020, through June 30, 2021

Final Report – Issued April 2024

State of Michigan
Department of Health and Human Services
Bureau of Audit
Audit Division





GRETCHEN WHITMER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

ELIZABETH HERTEL
DIRECTOR

April 4, 2024

Abby Lloyd, Assistant Superintendent of Finance and Operations
Allegan Area Educational Service Agency
310 Thomas Street
Allegan, Michigan 49010

Dear Ms. Lloyd:

This is Michigan Department of Health and Human Services' (MDHHS) audit report of the Medicaid School Services Programs financial claims of Allegan Area ESA for the period July 1, 2020, through June 30, 2021. This also includes an audit of the ISD's Local Education Agencies (LEAs): Allegan Public Schools and Plainwell Community Schools.

The Michigan Department of Health and Human Services (MDHHS) is committed to ensuring high standards of integrity and accountability for public funds. To that end, we periodically perform audits to assess the agency's compliance with fiscal reporting and other requirements contained in MDHHS agreements, and policies and procedures, and Federal regulations.

The final report contains the following: Executive Summary; Exceptions, Recommendations and Corrective Actions; Funding Methodology; Scope and Methodology; and Glossary Abbreviations and Terms.

Thank you for the cooperation extended by your agency throughout this audit process.

Sincerely,

A handwritten signature in cursive script that reads "Tracie Bonner".

Tracie Bonner, Manager
Youth Service Programs Audit Section
Bureau of Audit – Audit Division

- c: John Solomon, Accounting Supervisor, Allegan Area ESA
Jamie Klimp, Ottawa Area ISD
Stacie Ehler, Ottawa Area ISD
Kevin Bauer, MDHHS, Medicaid Program Policy Division
Shannah Havens, MDHHS, Audit
Bryce Wooton, MDHHS, Audit
Craig Castagnasso, MDHHS, Audit
Cindy Keller, MDHHS, Audit

Cheryl Miller, MDHH, Audit
Kimberley Maharaj, MDHHS, Audit

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EXECUTIVE SUMMARY

| Exception 1 Page 3 | Actual Expenses Not Reported on the Medical Cost Report |
|------------------------------|---|
| Criteria | Medicaid Provider Manual, School Based Services, Section 5.1 |
| Offset Amount | (\$133,626) |
| Corrective Action | Detailed cost report reconciliation process implemented. |
| Completion Date | June 30, 2023 (ongoing) |
| Person Responsible | Amy Christman & Malissa Minnema, Allegan Public Schools Stacie Ehler, Medicaid Program Finance Coordinator |

| Exception 2 Page 4 | Unallowable Costs Reported on Transportation Cost Report |
|------------------------------|--|
| Criteria | Medicaid Provider Manual, School Based Services, Section 6.2A |
| Disallowed Cost | \$287,196 |
| Corrective Action | Employee benefits reported limited to Bus Drivers and Aides. |
| Completion Date | June 30, 2023 (ongoing) |
| Person Responsible | Abby Lloyd, Assistant Superintendent of Finance and Operations Stacie Ehler, Medicaid Program Finance Coordinator |

| Exception 3 Page 5 | Unallowable Costs Reported on the Quarterly Financial Report |
|------------------------------|--|
| Criteria | Medicaid Provider Manual, School Based Services, Administrative Outreach Program Claims Development, section 2.4A |
| Disallowed Cost | \$10,107 |
| Corrective Action | Allowable Cost guidance document created along with quarterly training sessions held by PCG; and ISD is requesting LEAs report only salaries and benefits, no other costs. |
| Completion Date | June 30, 2023 (ongoing) March 19, 2024 (ongoing) |
| Person Responsible | Abby Lloyd, Assistant Superintendent of Finance and Operations John Solomon, Supervisor of Financial Services Stacie Ehler, Medicaid Program Finance Coordinator LEA Business Offices |

| | |
|------------------------------|--|
| Exception 4 Page 7 | Insufficient Controls Over the Financial Management System |
| Criteria | 2 CFR 200.302: and 2 CFR 200.303; and Medicaid Provider Manual, School Based Services, Section 3.3 |
| Corrective Action | Onsite training and education. |
| Completion Date | June 30, 2023 (ongoing) |
| Person Responsible | Abby Lloyd, Assistant Superintendent of Finance and Operations John Solomon, Supervisor of Financial Services Amy Christman & Mallisa Minnema, Allegan Public Schools Melissa Gelbaugh, Plainwell Community Schools Stacie Ehler, Medicaid Program Finance Coordinator LEA Business Offices |

EXCEPTIONS, RECOMMENDATIONS, AND CORRECTIVE ACTIONS

Exception 1 Actual Expenses Not Reported on Medical Cost Report

Condition

The ISD and its LEA did not report actual accrued costs reported on the Medical Cost Report.

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

Exception

During our review, we noted that the ISD reported costs on the Medical Cost Report on a cash basis instead of an accrual basis generated from its financial accounting system. A review of supporting documentation showed the reported costs were less than the accrued amounts.

We also noted that its LEA, Allegan Public Schools (APS) omitted allowable costs for a psychologist on the Medical Cost Report. The psychologist was reported on the direct service staff pool list and on the quarterly financials.

Offset Cost

Total Offset Cost = (\$133,626)

| Agency | Line item | Allowable Salaries | Allowable Benefits | Indirect % | Indirect Costs | Total Allowable |
|--------|------------|--------------------|--------------------|------------|----------------|-----------------|
| APS | Psychology | (\$74,035) | (\$42,577) | 14.59% | (\$17,014) | (\$133,626) |

Recommendation

We recommend the ISD implement controls to ensure costs reported on the Medical Cost Report for the ISD and its LEAs contain actual allowable costs on an accrual basis generated from the financial accounting system in compliance with the Medicaid Provider Manual.

Corrective Action Plan

After the 20-21 Medicaid Cost Report was completed, the ISD/LEA implemented a process to reconcile direct staff by function code and expenditures. The process highlights each direct staff reported in the staff pool list, as well as the quarterly financials

(cash basis) and the Medicaid Cost Reports (accrued basis) to help ensure accurate reporting.

Completion Date

June 30, 2023 (ongoing)

Responsible Individuals

Amy Christman and Mallisa Minnema, Allegan Public School Business Office
Stacie Ehler, Medicaid Program Finance Coordinator

Exception 2

Unallowable Costs Reported on Transportation Cost Report

Condition

The ISD reported unallowable employee benefit costs on the 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 the only 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 noted that the ISD reported unallowable benefits for dispatchers, mechanics, and administrative staff. Only benefit costs for bus drivers and aides are allowed to be reported on the Transportation Cost Report.

Disallowed Cost

Total Disallowed Cost = \$287,196

| Agency | Line item | Unallowable Benefits | Indirect % | Indirect Costs | Total Unallowable |
|---------------|------------------|-----------------------------|-------------------|-----------------------|--------------------------|
| ISD | Benefits | \$229,757 | 25% | \$57,439 | \$287,196 |

Recommendation

We recommend that the ISD implement controls so that only allowable costs are reported on the Transportation Cost Report in compliance with the Medicaid Provider Manual.

Corrective Action Plan

The ISD/LEA implemented a process change as of December 13, 2022, due to the information received at the December 2022 Medicaid Implementer Meeting. The ISD/LEA now only includes the employee benefits for Bus Drivers and Aides on the Transportation Cost Report. The ISD/LEA changed employee benefit reporting immediately.

Completion Date

June 30, 2023

Responsible Individuals

Abby Lloyd, Assistant Superintendent of Finance and Operations
Stacie Ehler, Medicaid Program Finance Coordinator

Exception 3 Unallowable Costs Reported on Quarterly Financial Report

Condition

The ISD did not have sufficient controls to ensure that its LEAs reported only actual allowable expenses on the Quarterly Financial Report.

Criteria

The Medicaid Provider Manual, School Based Services Administrative Outreach Program Claims Development, section 2.4A 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 noted that the ISD's LEAs reported unallowable costs on their Quarterly Financial Reports as described below:

- APS reported travel stipends, miscellaneous office supplies (food, gum, gloves, etc.), curriculum supplies, computer equipment, and professional dues that were reported twice.
- PCS reported an unallowable special payment to a Case Manager

Disallowed Cost

Total Disallowed Cost = \$10,107

| Agency | Cost Pool | Unallowable Costs | Indirect % | Indirect Costs | Total Unallowable |
|--------------|-----------|-------------------|------------|----------------|-------------------|
| APS | AOP | \$2,114 | 14.59% | \$308 | \$2,422 |
| | TCM | \$689 | 14.59% | \$101 | \$790 |
| | DS | \$5,510 | 14.59% | \$804 | \$6,314 |
| PCS | TCM | \$500 | 16.27% | \$81 | \$581 |
| Total | | \$8,813 | | \$1,294 | \$10,107 |

Recommendation

We recommend the ISD implement controls to ensure that LEAs only report allowable costs on the Quarterly Financial Report that are supported by the financial accounting system in compliance with the Medicaid Provider Manual.

Corrective Action Plan

After the 20-21 Medicaid Cost Report, the ISD/LEA implemented an Allowable Cost guidance document that is available to all Business Offices. In addition, PCG continues to support the ISD/LEA through training documentation and quarterly financial training sessions to all financial users. The ISD shares PCG training dates with LEA business offices on a regular basis. On March 19, 2024, all local district business officials will be notified that the ISD is requesting only salary and benefits are to be claimed going forward. These processes should ensure that unallowable costs are NOT claimed.

Completion Date

June 30, 2023 (ongoing)

Responsible Individuals

Abby Lloyd, Assistant Superintendent of Finance and Operations

John Solomon, Supervisor of Financial Services

Stacie Ehler, Medicaid Program Finance Coordinator

AAESA Business Office, Allegan Public Business Office, Fennville Public Business Office, Hopkins Public Business Office, Otsego Public Business Office, Plainwell Public Business Office, Martin Public Business Office, Wayland Public Business Office, Innacademy Business Office, Glenn Public Business Office, Outlook Business Office

Exception 4 Insufficient Controls Over the Financial Management System

Condition

The ISD did not have sufficient controls over ISD and LEAs financial management systems to ensure that Medicaid School Services Program expenses complied with Federal standards and regulations.

Criteria

Title 2 CFR 200.302 states that the non-Federal entity's financial management system must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and permit the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to Federal statutes, regulations, and the terms and conditions of the Federal award. The financial management system of each non-Federal entity must provide for accurate, current, and complete disclosure of the financial results of each Federal award or program.

Title 2 CFR 200.303 states that the non-Federal entity must:

- a) *Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.*
- b) *Comply with the U.S. Constitution, Federal statutes, regulations, and the terms and conditions of the Federal awards.*
- c) *Evaluate and monitor the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards.*
- d) *Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.*

The Medicaid Provider Manual, School Based Services, Section 3.3 states, *Each ISD must establish an implementation plan that includes explicit quality control review mechanisms to ensure full staff training and compliance, accuracy and completeness of the RMTS sample frame (designated employees), adherence to MDHHS-published methodology, editing of all moments for completeness and consistency, and accurate financial and staffing reports.*

Exception

The ISD did not have sufficient controls over its financial management systems and did not have sufficient oversight to ensure its LEAs costs were reported accurately. This contributed to the issues noted above and identified in Exceptions 1 through 3. The ISD and LEAs also had numerous financial control issues resulting in misclassified and unallowable expenses being reported, but were not considered material, including:

ISD:

- Use of inconsistent object code (#1441 social work salaries) and function code (#214 psychologist) were recorded in the financial accounting system for psychologist costs reported on the Medical Cost Report.
- Speech therapist costs reported on the Medical Cost Report did not reconcile to the trial balance.
- Bus driver and aide salaries reported on the Transportation Cost Report did not reconcile to the trial balance.
- Costs for training and supplies were not reported under the correct employee on the Quarterly Financial Reports.

APS:

- Social work costs reported on the Medical Cost Report did not reconcile to the trial balance.
- Costs for training and supplies were not reported under the correct employee on the Quarterly Financial Reports.

PCS

- Social Worker benefits were reported on the Medical Cost Report for one staff who was not on the staff pool list.
- Inconsistent function code used between the employee ledger (#122 Special Education) and the general ledger (#226 Supervision and Direction for Instructional Staff) for one employee reported in the Quarterly Financial Reports.
- Benefit costs for one personal care employee was included as salary on the Quarterly Financial Report.

Recommendation

We recommend the ISD implement sufficient controls to ensure that the ISD and its LEAs report actual costs that reconcile to the financial management system, in accordance with the Federal regulations and the Medicaid Provider Manual.

Corrective Action Plan

The ISD/LEA is continuing to commit to train, educate, and monitor all allowable costs through the quarterly process and annual Medicaid Cost Report. This will ensure proper cost and provider reconciliation through many of the financial systems associated with the Allegan Area ESA footprint. This will be achieved through onsite training to local districts, including special education secretaries, special education directors and, or business officials on an as needed basis.

Completion Date

June 30, 2023

Responsible Individuals

Abby Lloyd, Assistant Superintendent of Finance and Operations

John Solomon, Supervisor of Financial Services

Amy Christman and Mallisa Minnema, Allegan Public School Business Office

Melissa Gelbaugh, Plainwell School Business Office

Stacie Ehler, Medicaid Program Finance Coordinator
AAESA Business Office, Allegan Public Business Office, Fennville Public Business Office, Hopkins Public Business Office, Otsego Public Business Office, Plainwell Public Business Office, Martin Public Business Office, Wayland Public Business Office, Innocademy Business Office, Glenn Public Business Office, Outlook Business Office

FUNDING METHODOLOGY

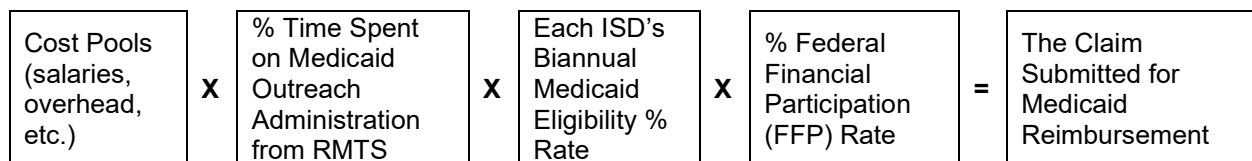
The School Services Program (SSP) includes the Administrative Outreach Program (AOP); Direct Service Claiming (DSC), formerly School Based Services (SBS); and Caring 4 Students (C4S).

The amounts reported by the ISD for the SSP programs are gross amounts and subject to the Funding Methodology. Any exceptions identified in this audit report reflect the gross amounts as reported by the ISD.

AOP

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.

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 Service Claiming and Caring 4 Students

The DSC Program reimburses schools for the cost of providing direct medical services to the special education Medicaid student population. The C4S Program provides reimbursement for the cost of providing direct medical services to general education Medicaid student populations, primarily for behavioral health and nursing services.

DSC and C4S providers are required to submit service 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.

Providers receive DSC/C4S 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:

| | | | | | | | | | | |
|---|---|---------------------------|---|---|---|--|---|--|---|------------------------|
| Allowable Costs (FS & Financials for TCM & PCS) | + | Calculated Indirect Costs | × | Annual Average % Time Claimable to Medicaid from the RMTS | × | Each ISD's Medicaid Eligibility % Rate | × | Federal Medical Assistance Percentage (FMAP) | = | Medicaid Reimbursement |
|---|---|---------------------------|---|---|---|--|---|--|---|------------------------|

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 Allegan Area Education Service Agency's records and activities for the period July 1, 2020, through June 30, 2021.

Our audit procedures included the following:

- Performed audit procedures remotely for Allegan Area Education Service Agency and two of eight of the Local Education Agencies: Allegan Public Schools and Plainwell Community Schools.
- Reviewed the School district's 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 the Quality Assurance Plan and responses to the Audit Questionnaire.
- Reviewed costs reported on the Cost Reports were appropriately supported by the books and records of the agency.
- Reviewed Employee level payroll documentation, certification/licensure, and all required supporting documentation for a sample of Psychologist/Psych, Speech Therapist and Social Worker.
- Reviewed payroll documentation, and all required supporting documentation for a sample of Targeted Case Management, Personal Care Service, and Administrative Outreach Program personnel for the October – December 2020 quarter.
- Reviewed transaction documentation, and all required supporting documentation for that line which may include payroll records, contracts, invoices, etc., for a sample of costs reported on the Transportation Cost Report for Bus Drivers, Aides and Employee Benefits.
- Verified that reported costs were directly related to individuals included in the RMTS staff pool list, 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

| GENERAL ABBREVIATIONS | |
|------------------------------|---|
| AOP | Administrative Outreach Program |
| C4S | Caring 4 Students |
| CHAMPS | Community Health Automated Medicaid Processing System |
| CMS | Centers for Medicare & Medicaid Services |
| DS | Direct Service |
| DSC | Direct Service Claiming |
| FFP | Federal Financial Participation |
| FMAP | Federal Medical Assistance Percentage |
| FS | Facility Settlement |
| IEP | Individual Education Plan |
| IFSP | Individualized Family Services 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 |
| SSP | School Services Programs |
| TCM | Targeted Case Management |

| SCHOOL ABBREVIATIONS | |
|-----------------------------|---|
| AAESA | Allegan Area Educational Service Agency |
| APS | Allegan Public Schools |
| PCS | Plainwell Community Schools |