
Kalamazoo Regional Educational Services Agency

including its Local Education Agencies:

Kalamazoo Public Schools and Portage Public Schools

Medicaid School Services Programs

Financial Audit

For the Period July 1, 2019 through June 30, 2020

Audit Report - Issued November 2022

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





STATE OF MICHIGAN
DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

GRETCHEN WHITMER
GOVERNOR

ELIZABETH HERTEL
DIRECTOR

November 30, 2022

Mr. Brad Storms, Business Manager
Kalamazoo RESA
1424 Gull Road
Kalamazoo, Michigan 49048

Dear Mr. Storms:

Enclosed is our final report or the Michigan Department of Health and Human Services (MDHHS) audit of the Kalamazoo Regional Educational Service Agency (KRESA) Medicaid School Based Services claims for the period July 1, 2019 through June 30, 2020. The report also includes an audit of KRESA's Local Education Agencies: Kalamazoo Public Schools (KPS) and Portage Public Schools (PPS).

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

Thank you for they courtesy and cooperation extended throughout this audit process.

Sincerely,

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

Tracie Bonner, Manager
Child Care Fund and Medicaid School Services Program Audit Section
Bureau of Audit - Audit Division

c: Pat Simpson, KRESA
Tori Wentela, KRESA
Scott Thomas, KRESA
Mindy Miller, KRESA
Brenda Ingraham, KPS
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EXECUTIVE SUMMARY

Below is a summary of our audit objective, conclusion, and exception:

Audit Objective #1 – Financial Reporting	Conclusion
To assess whether Kalamazoo Regional Educational Services Agency (KRESA) and its Local Education Agencies (LEAs) effectively developed student claims in accordance with applicable Federal and State requirements.	Generally Effective
We identified four exceptions related to Financial Reporting.	

Exception 1 Page 3	Unallowable Federal Funds Reported on the Medical Cost Report
Criteria	Medicaid Provider Manual, School Based Services, Section 5.2
Disallowed Cost	\$132,909
Corrective Action	Detailed review of Cost Report and Quarterly wage reporting, including review of staff reported.
Completion Date	January 1, 2023
Person Responsible	Pat Simpson, SE Application Specialist Brand Storms, KRESA Business Manager

Exception 2 Page 4	Inaccurate Costs Reported on the Medical Cost Report
Criteria	Medicaid Provider Manual, School Based Services, Section 5.1
Offset Amount	(\$359,050)
Corrective Action	KPS – Detailed review of all spreadsheets used in compiling data and comparison to general ledger. PPS – Business office will confirm year-end figures and accruals. Staff pool listing will be reviewed for appropriate reporting of staff and charges.
Completion Date	KPS – December 31, 2022 PPS – December 31, 2022
Person Responsible	KPS – Brenda Ingraham, Accounting Supervisor PPS – Sammi Stevens, Business Manager Paula Johnson, Director of Finance

Exception 3 Page 6	Unallowable Costs Reported on the Transportation Cost Report
Criteria	Medicaid Provider Manual, School Based Services, Section 6.2A, Transportation Expenditure Report (SE-4094) Instructions
Invalid Claims	\$17,100
Corrective Action	KPS – Accounting Supervisor to review general ledger detail and related spreadsheets. PPS – Create a new account for general supply costs to ensure they are not included in reporting. Communication to staff on allowed vs disallowed costs for the Transportation Cost Report.
Completion Date	KPS – September 30, 2023 PPS – December 31, 2022
Person Responsible	KPS – Brenda Ingraham, Accounting Supervisor PPS – Sammi Steven, Business Manager Paula Johnson, Director of Finance

Exception 4 Page 8	Insufficient Controls Over the Financial Management System
Criteria	2 CFR 200.302; 2 CFR 200.303; Medicaid Provider Manual, School Based Services, Section 3.3
Corrective Action	Add Medicaid reporting session to monthly meetings and review of LEAs reports.
Completion Date	Additional training materials – November 1, 2022 Monthly meetings – January 1, 2023
Person Responsible	Brad Storms, KRESA Business Manager

Exceptions, Recommendations, and Corrective Actions

Exception 1
Unallowable Federal Funds Reported on Medical Cost Report

Condition

KRESA reported unallowable costs from federal funds on its Medical Cost Report.

Criteria

The Medicaid Provider Manual, School Bases 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.

Exception

During our review, we noted that KRESA included Psychologist/Psychiatrist costs for one Federally funded employee (salary and benefits) on the Medical Cost Report. All costs that are Federal funds, pass through Federal funds from a State or local agency or used as a local match to Federal funds, are not allowable costs to be claimed for Medicaid.

Disallowed Cost

Total disallowed costs = \$132,909

LEA	Salaries/ Benefits	Indirect @ 11.29%	Total
KRESA	\$119,426	\$13,483	\$132,909

Recommendation

We recommend that KRESA implement controls and procedures to ensure that federal funded costs are not reported on its cost reports.

Corrective Action Plan

KRESA has already implemented a more detailed review of the individuals being included in the Cost Report and Quarterly wage reporting, to determine if any of them are funded by Federal dollars. We began doing this more thorough review with the 20/21 submissions and are continuing this more thorough review at this time, to look at each individual reported and confirm they are not federally funded. We also have a system to check individuals prior to them being added to the Staff Pool List to prevent federally funded individuals in the first place.

Completion Date

January 1, 2023

Responsible Individuals

Pat Simpson, SE Application Specialist

Brad Storms, KRESA Business Manager

Exception 2**Actual Expenses Not Reported on the Medical Cost Report****Condition**

KRESA did not have sufficient controls to ensure that its LEAs reported actual expenses on the Medical Cost 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 the actual detailed expenditure reports obtained 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.”

Exception

We noted that the two LEAs we reviewed did not report actual expenses on its cost reports:

- During our Kalamazoo Public Schools (KPS) review, we noted the following issues with the costs reported for Speech and Language Pathologists on the Medicaid Cost Reports, that resulted in KPS reported costs not reconciling to its financial accounting system:
 - Formula errors in the documentation used to support the costs in the report that did not reconcile to the actual costs recorded in the financial accounting system.
 - Estimated costs were reported on the April to June quarterly cost report instead of the actual costs recorded in the financial accounting system.
 - Costs were reported on a cash basis instead of accrual basis, which was recorded in the financial accounting system, and less than the actual costs.
- During our Portage Public School (PPS) review, we noted the following issues with the costs reported for Psychologist/Psychiatrist on the Medical Cost Report, that resulted in PPS reported costs not reconciling to its financial accounting system:
 - Costs were reported on a cash basis instead of accrual basis which was recorded in the financial accounting system.
 - Omitted one licensed psychologist/psychiatrist’s costs on its report.

The LEAs did not have sufficient controls and procedures in place to ensure that the costs reported on the Medicaid Costs Reports reconciled to its accounting records that resulted in underreported costs.

Offset Amount

Total Offset Amount = \$359,050

LEA	Issue	Salary/ Benefit	Indirect Rate	Indirect Amount	Total
KPS	Calculation Errors	\$(26,412)	14.81%	\$(3,912)	\$(30,324)
KPS	Use of Estimates	\$(60,944)	14.81%	\$(9,026)	\$(69,970)
KPS	Cash Basis	\$(76,280)	14.81%	\$(11,297)	\$(87,577)
PPS	Cash Basis	\$(106,724)	14.72%	\$(15,709)	\$(122,433)
PPS	Omitted Employee	\$(42,491)	14.72%	\$(6,255)	\$(48,746)
TOTAL		\$(312,851)		\$(46,199)	\$(359,050)

Recommendation

We recommend that KRESA implement sufficient controls and procedures to ensure that its LEAs have sufficient controls and procedures to ensure that only actual costs that are recorded in its financial accounting system and are reported on its Medicaid Cost Reports to ensure compliance with the Medicaid Provider Manual.

Corrective Action Plan

KPS

1. The Accounting Supervisor will closely review all spreadsheets used to compile information to ensure that all formulas are correct for calculating costs.
2. The Accounting Supervisor will compare all costs that are reported on the Medical Cost Report with the general ledger. This will ensure that they are reported on an accrual basis in the future. If there are discrepancies, they will be documented in detail for back up to clarify any questions that may arise in the future.
3. The Accounting Supervisor will attend all trainings throughout the year to refresh the procedures on how to prepare this report as well as awareness of any changes.

PPS

1. The business office will confirm that all figures are for the appropriate year end (6/30), which will include the accruals.
2. The Director of Finance and Business Manager will compare the Medical Cost report and the general ledger to ensure that all costs are being reported on an accrual basis. The Director of Finance and Business Manager will also compare the staff pool listing to the Special Education Cost Report (SE-4096) staff listing to ensure no employees are omitted or claimed in error.
3. The business office will attend trainings to prepare and keep up to date with changes for the reports.

Completion Date

KPS – December 31, 2022

PPS – December 31, 2022

Responsible Individuals

KPS – Brenda Ingraham, Accounting Supervisor

PPS – Sammi Stevens, Business Manager

Paula Johnson, Director of Finance

Exception 3**LEAs Reported Unallowable Costs on the Transportation Cost Report****Condition**

KRESA did not have sufficient controls to ensure that LEA's reported only allowable costs on the Transportation Cost Reports.

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.

The Michigan Department of Education Transportation Expenditure Report (SE-4094) Instructions state:

5. Amounts for non-pupil transportation costs are not to be included on this report. Examples of such costs are employee's salaries in non-pupil transportation activities; insurance, parts, repairs, gasoline and supplies for various non-pupil transportation cars and equipment (i.e., driver's education cars, maintenance vehicles, administrative vehicles, tractors, lawn mowers and snow plows).

Other Supplies/Repair Parts provides: *"the cost of vehicle repair parts and other supplies (i.e. antifreeze, deicers, etc.) for pupil transportation vehicles..."* (emphasis added)

Exception

During our review, we noted that the two LEAs reported unallowable costs on the Other Supplies/Repair Parts line on the Transportation Cost Report.

- 1) KPS reported unallowable miscellaneous supplies and materials (account #5990) and equipment and furniture (account #6450) expenditures on its Transportation Cost Reports. KPS should have only reported the expenditures recorded in Other Supplies/Repair Parts (account #57xx) on its Transportation Cost Report.

- 2) PPS included expenditures for Transportation Shop Tools and Equipment (object #5980) in the cost reports. This account is not allowed to be included in the Transportation Cost Report line for Other Supplies/Repair Parts (object #57xx).
- 3) PPS reported costs for general supplies, including Kleenex and paper towel purchases on the Other Supplies/Repair Parts line (object #57xx). Non-vehicle related purchases, such as general supplies are unallowable expenses on the Transportation Cost Report.

Disallowed Cost

Total disallowed costs = \$17,100

LEA	Unallowable Costs	Special Education Allocation	Total	Indirect Rate	Indirect costs	Total
1) KPS	\$104,669	12%	\$12,560	14.81%	\$1,860	\$14,420
2) PPS	\$10,249	21.8%	\$2,234	14.72%	\$329	\$2,563
3) PPS	\$466	21.8%	\$102	14.72%	\$15	\$117
TOTAL	\$114,984		\$14,896		\$2,204	\$17,100

Recommendation

We recommend that KRESA implement sufficient controls and procedures to ensure that its LEAs have sufficient controls and procedures to ensure that only allowable costs are reported on the Transportation Cost Report in compliance with the Medicaid Provider Manual and MDE guidance.

Corrective Action Plan

KPS

1. The Accounting Supervisor will review general ledger detail closely to ensure that only allowable expenditures listed in the Medical Provider Manual are reported on the Transportation Report.
2. The Accounting Supervisor will adjust the internal worksheet used to compile supply costs to reflect only allowable expenditures listed in the Medical Provider Manual.
3. The Accounting Supervisor will attend all trainings throughout the year to update the procedures on how to prepare this report as well as awareness of any changes.

PPS

1. PPS will communicate with all parties the allowed and disallowed costs for the transportation report.
2. PPS will remove all general supply costs for future reporting.
3. The business office will attend trainings to prepare the report and keep up to date with changes for the reports.

Completion Date

KPS – September 30, 2023

PPS – December 31, 2022

Responsible Individuals

KPS – Brenda Ingraham, Accounting Supervisor

PPS – Sammi Stevens, Business Manager

Paula Johnson, Director of Finance

**Exception 4
Insufficient Controls Over the Financial Management System****Condition**

Kalamazoo RESA did not have sufficient controls to ensure that its LEAs reported actual costs that reconciled to the financial accounting system.

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 the 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 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 an audit finding.

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

KRESA's insufficient controls over its financial management system contributed to the issues noted above and identified in Exceptions 1 through 3. Sufficient controls over its financial management system would include the submission of accurate Medicaid Cost Reports filed under KRESA's National Provider Identifier (NPI); monitoring LEA costs reports for accuracy and approving prior to submission; and training of its LEA staff to ensure all cost reports submitted reconcile to the LEAs financial accounting systems.

Recommendation

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

Corrective Action Plan

KRESA plans to add a Medicaid reporting session to one of its upcoming, monthly Business Manager meetings with all of our local Business Managers, to discuss the general process for reporting out these Medicaid costs, including quarterly staff reporting and Facility Settlement reporting through CHAMPS. KRESA will begin requesting additional financial reports from the LEAs during the review period for the Facility Settlement Cost reporting so that we are able to confirm the completeness of the costs reported.

Completion Date

Additional training materials and documentation – November 1, 2022

Monthly meetings to discuss – January 31, 2023

Responsible Individual

Brad Storms, KRESA Business Manager

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 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 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.

AOP

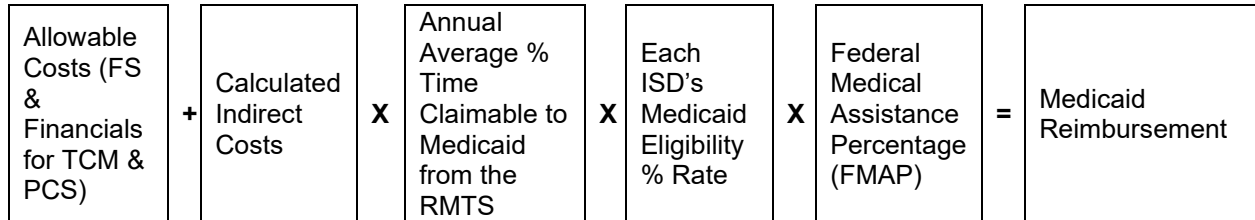
Staff salaries and related costs are reported directly to a hired contractor, the Public Consulting Group (PCG), on quarterly financial reports by each of the Local Education Agencies (LEAs). PCG combines the costs per Intermediate School District (ISD), applies various allocation percentages and submits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

Cost Pools (salaries, overhead, etc.)	×	% Time Spent on Medicaid Outreach Administration from RMTS	×	Each ISD's Biannual Medicaid Eligibility % Rate	×	% Federal Financial Participation (FFP) Rate	=	The Claim Submitted for Medicaid Reimbursement
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Direct Service Claiming and Caring 4 Students

Direct Service Claiming and Caring 4 Students providers are required to submit Direct 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.

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 ISD's and LEAs' records and activities for the period July 1, 2019 through June 30, 2020.

Our audit procedures included the following:

- Performed virtual fieldwork at the Kalamazoo Regional Educational Service Agency and reviewed two of nine LEAs: Kalamazoo Public Schools and Portage Public Schools.
- Reviewed the School district's Single Audits and Financial Statement Audits and relied upon the independent auditor's report on internal controls to identify potential weaknesses that might affect our review.
- Reviewed accounting records and payroll documentation, certification/licensure, and all required supporting documentation for a sample of Direct Medical staff for Speech Therapists and Psychologists reported on the Medical Cost Reports.
- Reviewed accounting records and payroll documentation, and all required supporting documentation for a sample of Administrative Outreach Program, Personal Care Service and Targeted Case Managers personnel reported on the Quarterly Financial Documents for the Administrative Outreach Program.
- Reviewed transportation cost reports, payroll documentation, and all required supporting documentation for a sample of transportation costs reported on the Transportation Cost Reports.
- Verified that costs reported on the Cost Reports and the Quarterly Financial Reports did not include federal funds.
- 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

GENERAL ABBREVIATIONS	
AOP	Administrative Outreach Program
C4S	Caring 4 Students
CHAMPS	Community Health Automated Medicaid Processing System
CMS	Centers for Medicare & Medicaid Services
DSC	Direct Service Claiming
FFP	Federal Financial Participation
FMAP	Federal Medical Assistance Percentage
FS	Facility Settlement
IDEA	Individuals with Disabilities Education Act
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	
KRESA	Kalamazoo Regional Educational Service Agency
KPS	Kalamazoo Public Schools
PPS	Portage Public Schools