
Saginaw Intermediate School District

including its Local Education Agencies: Saginaw Township
Community Schools, and School District of the City of Saginaw

Medicaid School Based Services
Financial Claims Audit

For the Period July 1, 2018, through June 30, 2019

Audit Report – Issued March 2023

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

March 3, 2023

Mr. David Smith, Director of Finance
Saginaw Intermediate School District
3933 Barnard Road
Saginaw, Michigan 48603

Dear Mr. Smith:

Enclosed is our final report or the Michigan Department of Health and Human Services (MDHHS) audit of the Saginaw Intermediate School District (SISD) Medicaid School Based Services financial claims for the period July 1, 2018, through June 30, 2019. The report also includes an audit of SISD's Local Education Agencies: School District of the City of Saginaw (SPSD) and Saginaw Township Community Schools (STCS).

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: Jeffry Collier, SISD
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EXECUTIVE SUMMARY

| Exception 1 Page 3 | Unallowable Employee Benefits Reported on the Transportation Cost Report |
|------------------------------|---|
| Criteria | Medicaid Provider Manual, School Based Services, Section 5.1 and Section 6.2.A |
| Disallowed Cost | \$96,489 |
| Corrective Action | Benefits for employees other than bus drivers and bus aides will be excluded from the Facility Settlement report. |
| Completion Date | February 17, 2023 |
| Person Responsible | David Smith, Executive Director of Finance Tammy Cavendish, Director of Finance |

| Exception 2 Page 4 | Unallowable Costs Reported on the Transportation Cost Report |
|------------------------------|---|
| Criteria | Medicaid Provider Manual School Based Services, Section 2.11, and Section 6.2.A. |
| Disallowed Cost | \$225,526 |
| Corrective Action | Inform transportation department on which buses can be included in reporting. Assign reporting duties to one person for consistency, with oversight from the Deputy Superintendent. |
| Completion Date | February 23, 2023 |
| Person Responsible | Tamara Johnson, Deputy Superintendent Sarah Hutter, Senior Accountant |

| Exception 3 Page 6 | Failure to approve LEA Cost Report Amendments |
|------------------------------|--|
| Criteria | Medicaid Provider Manual, School Based Services, Section 3.3. and Section 6.1.D; and SISD Quality Assurance Plan |
| Corrective Action | Finance Department review of approved LEA cost reports to confirm all necessary reports have been completed. |
| Completion Date | February 17, 2023 |
| Person Responsible | David Smith, Executive Director of Finance Tammy Cavendish, Director of Finance |

| | |
|------------------------------|---|
| 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 | SISD will review and evaluate internal controls. SISD will review the Facility Settlement report prior to submission. |
| Completion Date | February 17, 2023 |
| Person Responsible | David Smith, Executive Director of Finance Tammy Cavendish, Director of Finance |

EXCEPTIONS, RECOMMENDATIONS, AND CORRECTIVE ACTIONS

Exception 1 Unallowable Employee Benefits Reported on Transportation Cost Report

Condition

SISD did not accurately report employee benefits on its Transportation 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 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.

The Medicaid Provider Manual, School Based Services, Section 6.2.A. states that *Medicaid-allowable specialized transportation costs include... Employee Benefits (Bus Drivers and Aides only).*

Exception

During our review, we noted that the SISD overreported employee benefit costs on the Transportation Cost Report. The SISD did not have sufficient controls in place to ensure that its Transportation Cost Report included only benefit costs for bus drivers and aides from the financial accounting system.

Disallowed Cost

| ISD/LEA | Unallowable Direct Amount | Indirect 9.54% | Total Unallowable |
|---------|---------------------------|----------------|-------------------|
| SISD | \$88,086 | \$8,403 | \$96,489 |

Recommendation

We recommend that the SISD implement sufficient controls and procedures to ensure that its Transportation Cost Reports included only benefit costs for bus drivers and aides supported by its financial accounting system to ensure compliance with the Medicaid Provider Manual.

Corrective Action Plan

Saginaw Intermediate School District will no longer use, verbatim, Form SE-4094 when completing the transportation portion of the annual Facility Settlement report. Instead, the benefits for employees other than bus drivers and bus aides will be excluded by altering the forms used to prepare the SE-4094. This will allow for an accurate depiction of the allowable expenditures on both the SE-4094 and the Facility Settlement report.

Completion Date

February 17, 2023

Responsible Individuals

David Smith, Executive Director of Finance

Tammy Cavendish, Director of Finance

Exception 2 Unallowable Costs Reported on the Transportation Cost Report

Condition

SPSD did not accurately report costs for special education buses on its Transportation Cost Report.

Criteria

The Medicaid Provider Manual, School Based Services, Section 2.11 states:

Medicaid does not reimburse for transportation provided in a regular or general education school bus.

The Medicaid Provider Manual, School Based Services, Section 6.2.A. states:

Specialized transportation costs...are only the costs associated with special education buses, taxis or private vehicles used for the specific purpose of transporting only special education children.

Exception

During our review, we noted that SPSP reported unallowable costs for mixed use (general education/special education) transportation costs on its Transportation Cost Report. Only the costs associated with special education buses are allowed to be claimed on the Transportation Cost Report.

Disallowed Cost

| LEA | Unallowable Direct Amount | Indirect 16.72% | Total Unallowable |
|------|---------------------------|-----------------|-------------------|
| SPSD | \$193,220 | \$32,306 | \$225,526 |

Recommendation

We recommend that SPSP implement sufficient controls and procedures to ensure only allowable expenses are reported on the Transportation Cost Report in compliance with the Medicaid Provider Manual.

Corrective Action Plan

- Transportation department has been notified that buses with special ed and general ed students cannot be counted in the report so they are to try and make sure mixed buses do not happen.
- In the event that routes cannot be accommodating, and we have to have special ed and general ed students on a bus, then it will not be counted on the Transportation Cost Report.
- The district has designated the job duties of reporting to the Senior Accountant. The district believes that one person completing the reporting for the district will be consistent and thorough.

The Senior Accountant as part of job duties will be required to read and update him or herself on the reporting requirements for each report that they are completing. They will also work with the state or ISD if questions come up on what is reportable and what is not allowable.

The Deputy Superintendent of Fiscal Services and Operations will oversee the Senior Accountant to make sure and maintain compliance with reporting requirements and what is allowable.

Completion Date

February 23, 2023

Responsible Individuals

Tamara Johnson, Deputy Superintendent
Sarah Hutter, Senior Accountant

Exception 3 Failure to Approve LEA Cost Reports Amendments

Condition

SISD did not review and approve the LEA's Medicaid Cost Report amendments and include them in the summarized Cost Report submitted to MDHHS.

Criteria

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.

The Medicaid Provider Manual, School Based Services, Section 6.1.D states:

... Cost Reports from the Local Educational Agencies will be submitted to their Intermediate School District for summation...

The SISD Quality Assurance Plan states that:

Each local district certifies their own data. Saginaw ISD compiles and reviews district data ... and submits the certification to the Michigan Department of Health and Human Services.

Exception

During our review, we noted that SISD did not approve amendments to the LEA Medical Cost Reports submitted by three of its LEAs. The failure to approve these amendments resulted in an overstatement of \$16,853 of gross costs reported in the summarized Cost Report submitted to MDHHS for final settlement. Subsequent to our review, SISD properly approved the amended LEA Medical Cost Reports and submitted the amended summation to MDHHS to calculate an adjusted final settlement.

Recommendation

We recommend the SISD implement controls to ensure that the ISD monitors all LEA Cost Reports submitted to the ISD for review and approval; and to ensure that any amendments submitted by an LEA are included in the summarized Cost Reports submitted to MDHHS.

Corrective Action Plan

Saginaw Intermediate School District has informed all staff of the finance department, and those responsible for preparing the annual Facility Settlement report, to review the Approved LEA Cost Reports upon submission of the cost report and confirm that all necessary LEA Cost Reports have been completed. Only upon confirmation will the ISD deem the task completed.

Completion Date

February 17, 2023

Responsible Individuals

David Smith, Executive Director of Finance

Tammy Cavendish, Director of Finance

Exception 4 Insufficient Controls Over the Financial Management System

Condition

Saginaw ISD did not have sufficient controls in place to ensure that the ISD and 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 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

During our review, we noted that the ISD and its LEAs had numerous insufficient controls over its financial management system resulting in unallowable expenses. In addition, we observed several other control issues that resulted in immaterial discrepancies in the ISD and its LEA financial reports including:

- Bus costs were reported on the incorrect line in the Transportation Cost Report
- Transportation Bus Driver Overtime was coded with the incorrect coding
- One employee was not included on the Staff Pool List
- Lack of documentation for transportation employee benefit allocation methodology

- Amounts reported did not reconcile to the General Ledger by immaterial amounts
- Lack of documentation for immaterial costs
- Use of imputed rates for self-insured benefits

SISD's insufficient controls over its financial management system also contributed to the issues noted above and identified in Exceptions 1 through 3.

Recommendation

We recommend the SISD implement sufficient controls to ensure that SISD and 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

SISD will review its internal controls as well as work in concert with the special education staff responsible for the staff pool list. SISD will further evaluate and review the Facility Settlement report prior to submission to the State.

Completion Date

February 17, 2023

Responsible Individuals

David Smith, Executive Director of Finance

Tammy Cavendish, 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

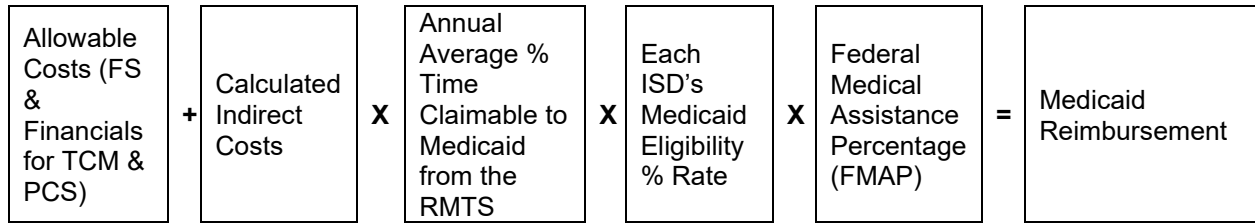
Staff salaries and related costs are reported directly to a hired contractor, the Public Consulting Group (PCG), on quarterly financial reports by each of the Local Education Agencies (LEAs). PCG combines the costs per Intermediate School District (ISD), applies various allocation percentages and submits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

| | | | | | | | | |
|--|---|--|---|---|---|---|---|---|
| Cost Pools (salaries, overhead, etc.) | x | % Time Spent on Medicaid Outreach Administration from RMTS | x | Each ISD's Biannual Medicaid Eligibility % Rate | x | % Federal Financial Participation (FFP) Rate | = | The Claim Submitted for Medicaid Reimbursement |
|--|---|--|---|---|---|---|---|---|

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 Saginaw Intermediate School District's records and activities for the period July 1, 2018 through June 30, 2019.

Our audit procedures included the following:

- Performed audit procedures remotely for Saginaw Intermediate School District and 2 of 15 of the Local Education Agencies, Saginaw Township and Saginaw District of the City.
- 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 RN/LPN 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 2018 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 Employee Benefits and Pupil Transportation Family Vehicle Cost.
- 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 |
| CHAMPS | Community Health Automated Medicaid Processing System |
| CMS | Centers for Medicare & Medicaid Services |
| RESA | Educational Service District |
| 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 |
| TCM | Targeted Case Management |

| SCHOOL ABBREVIATIONS | |
|-----------------------------|--|
| SISD | Saginaw Intermediate School District |
| SPSD | School District of the City of Saginaw |
| STCS | Saginaw Township Community Schools |