
Sanilac Intermediate School District and Croswell-Lexington Community School District

Medicaid School Services Programs
Financial Audit

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

Audit Report – Issued August 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

August 31, 2023

Ms. Gail Denton, Business Manager
175 East Aitken Road
Peck, Michigan 48466

Dear Ms. Denton:

Enclosed is our final report for the Michigan Department of Health and Human Services (MDHHS) audit of Sanilac Intermediate School District (SISD) Medicaid School Based Services claims for the period July 1, 2019, through June 30, 2020. This report includes an audit of SISD's Local Education Agency: Croswell-Lexington Community Schools.

The final report contains the following: Executive Summary, Exceptions, Recommendations and 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 the 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
Audit Division

- c: Duane Lange, Sanilac Intermediate School District
- Renee Jansen, Sanilac Intermediate School District
- Keith Bishop, Croswell-Lexington Community School District
- Kevin Bauer, MDHHS, Medicaid Policy
- Steve Ireland, MDHHS, Rate Review
- Shannah Havens, MDHHS, Audit
- Bryce Wooton, MDHHS, Audit
- Cheryl Miller, MDHHS, Audit
- Kimberley Maharaj, MDHHS, Audit

TABLE OF CONTENTS

Executive Summary	1
Exceptions, Recommendations, and Corrective Actions	
1. Unallowable Costs Reported on the Transportation Cost Report	3
2. Unallowable Federally Funded Costs Reported on the Quarterly Financial Reports	5
3. Insufficient Documentation for Employee Costs	7
4. Insufficient Controls Over the Financial Management System	9
Funding Methodology	11
Scope and Methodology	13
Glossary of Abbreviations and Terms	14

EXECUTIVE SUMMARY

Exception 1 Page 3	Unallowable Costs Reported on the Transportation Cost Report
Criteria	Medicaid Provider Manual, School Based Services, Section 6.2A
Disallowed Cost	\$22,196
Corrective Action	Documented process for Transportation Cost Report Increased attendance at implementer and annual meetings
Completion Date	December 2022
Persons Responsible	Gail Denton, Business Manager Kellie Paehlig, Transportation Supervisor

Exception 2 Page 4	Unallowable Federally Funded Costs Reported on the Quarterly Financial Reports
Criteria	Medicaid Provider Manual, School Based Services, Section 5.2; and Administrative Outreach Program Claims Developments, Section 2.4
Disallowed Cost	\$590,471
Corrective Action	SISD - Yearly review of chart of accounts against State Accounting Manual CLCS - Modification of reports to excluded federal funding
Completion Date	October 2022
Persons Responsible	Gail Denton, Business Manager Keith Bishop, CFO, Croswell-Lexington Community Schools

Exception 3 Page 6	Insufficient Documentation for Employee Costs
Criteria	Medicaid Provider Manual, School Based Services, Section 5.1 and 10.2; Administrative Outreach Program Claims Development, Section 2.4
Corrective Action	Work with software provider to create employee level detail in reports
Completion Date	June 2024
Persons Responsible	Gail Denton, Business Manager Kimberly Foster, Payroll, Benefits and Business Support

Exception 4 Page 8	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	Coding errors were corrected See corrective actions for exceptions 1-3
Completion Date	October 2022
Person Responsible	Gail Denton, Business Manager

EXCEPTIONS, RECOMMENDATIONS, AND CORRECTIVE ACTIONS

**Exception 1
Unallowable Employee Benefit Costs Reported on Transportation Cost Report**

Condition

SISD reported unallowable employee benefit costs on its 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 – Staff (Bus Drivers and Aides only); Purchased Services – Vehicle Related Costs; Supplies (Gasoline/Fuel, Oil/Grease, Tires/Batteries, Other Expense/Adjustments, and Bus Amortization).

Exception

During our review, we noted that the SISD reported unallowable employee fringe benefit costs for the transportation supervisor on its Transportation Cost Report. Only benefit costs for bus drivers and aides are allowed to be reported on the Transportation Cost Report.

We also noted that SISD double counted workers compensation benefits on its Transportation Cost Report.

Disallowed Cost

Total disallowed costs = \$22,196

	Unallowable Costs	Indirect Costs 12.99%	Total
Supervisor Benefits	\$16,149	\$2,098	\$18,247
Workers Compensation	\$3,495	\$454	\$3,949

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 aids to ensure compliance with the Medicaid Provider Manual.

Corrective Action Plan

The Sanilac ISD has prepared notes on how to complete the transportation report, indicating the Supervisor salary and benefits cannot be included as they are not direct service. The ISD will start having more than one individual from the district attend implementers, quarterly and annual meeting, so the finance portion can be reviewed on a regular basis with the individual completing the reports.

The Business Manager has shared information with the Transportation Supervisor in regard to not claiming additional worker's compensation on the 4094 Transportation Report.

Completion Date

December 2022

Responsible Individuals

Gail Denton, Business Manager

Kellie Paehlig, Transportation Supervisor

Exception 2

Unallowable Federally Funded Costs Reported on the Quarterly Financial Reports

Condition

SISD and its LEA reported unallowable federally funded costs on the 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 nonfederal 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 Developments, 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 ISDs'/DPS' financial accounting system. The financial accounting system data is applied using generally accepted governmental accounting standards and principles or applicable administrative rules. The expenditures accumulated for calculating the Administrative Outreach claim are to include only actual expenditures incurred during the claiming period, except for the summer quarter.

Exception

During our review of the October to December Quarterly Reports, we noted that SISD reported costs that were identified as federal funds in their financial accounting system. SISD stated that these amounts were not actually reported on federal grants. However, it is required that costs reported be taken directly from the financial accounting system. Due to the amount of federal funds reported in the Quarterly Reports (19% of total costs reported for the quarter), a review for federal funds was expanded to all quarters.

SISD's LEA also included federal funds on the quarterly reports. The amounts reported did have a federal offset reported, but the amount was not sufficient to completely offset the federal funds reported. All costs that are federal funds are not allowable costs to be claimed for Medicaid.

Disallowed Cost

Total disallowed costs = \$590,471

ISD/LEA	Cost Pool	Federal Funds	Indirect %	Indirect Costs	Total
SISD	AOP	\$36	12.99%	\$5	\$41
SISD	TCM	\$249,110	12.99%	\$32,359	\$281,469
SISD	PCS	\$228,711	12.99%	\$29,710	\$258,421
LEA	TCM	\$44,326	14.02%	\$6,214	\$50,540

Recommendation

We recommend that SISD implement controls and procedures to ensure that federal funded costs are not reported on its quarterly financial reports and its LEAs' financial reports in compliance with the Medicaid Provider Manual.

Corrective Action Plan

The Sanilac ISD Business Manager will compare the District's Chart of Accounts with the Bulletin 1022 State Accounting Manual on a yearly basis for accuracy in the coding of federal funds. When federal grants are submitted, the Business Manager will review each program that is going to be federally funded and correct the Chart of Accounts accordingly.

While the district only reported locally funded staff, the grant code indicated they were federally funded. The above procedure will eliminate that from happening again.

The LEA, Croswell-Lexington, has modified the reports used when inputting the staff costs to include all federal program numbers. After identifying that the previous reports were limited to backing out only funds related to IDEA, the district has changed the parameters to properly assess all federal funding which was done effectively immediately.

Completion Date

October 2022. The district corrected all federal coding issues once identified by the Medicaid auditing staff.

Responsible Individuals

Gail Denton, Business Manager

Keith Bishop, CFO, Croswell-Lexington Community Schools

Exception 3 Insufficient Documentation for Employee Costs

Condition

SISD did not retain the supporting employee level documentation for the costs generated from its financial accounting system and reported on its quarterly financial and costs 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. The financial accounting system data is applied using generally accepted governmental accounting standards and principles or applicable administrative rules. 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. These allowable expenditures include such things as salaries, wages, fringe benefits and medically related supplies, purchased services and materials.*

The Medicaid Provider Manual, 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's financial accounting system. The financial accounting system data is applied using generally accepted governmental accounting standards and principles or applicable administrative rules. The expenditures accumulated for calculating the **Administrative Outreach** claim are to include actual expenditures incurred during the claiming period, except for the summer quarter.*

Medicaid Provider Manual, School Based Services, Section 10.2 states:

ISDs/LEAs must cooperate fully with any review requested by MDHHS and CMS, and maintain all necessary records for a minimum of seven (7) years.

Exception

During our review, SISD did not provide detailed expenditure reports generated from its accounting system to support employee salaries, wages, and benefit expenses reported on the cost reports and quarterly financials. SISD was only able to provide summary level documentation to support the costs reported. SISD stated that the paper documentation

supporting the financial costs reported on the cost reports and the quarterly financial reports for fiscal year 2020 had been mistakenly destroyed along with other documents that had a shorter retention schedule.

SISD regenerated some of the employee documentation at a summary level in the form of spreadsheets or handwritten documentation. Additional audit procedures were performed to gain assurance that the reported costs were allowable and supported the costs reported.

Recommendation

We recommend that SISD implement sufficient procedures to ensure that detailed employee level financial documentation is obtained from its financial accounting system and all documentation is retained in compliance with the Medicaid Provider Manual.

Corrective Action Plan

The Sanilac ISD will work with their software provider to expand their Chart of Accounts to include a separate line for each staff member for their wages and benefits. The district was able to recreate the reports had been purged in error, but the district never has had wages and benefits split out for each individual. They have always been grouped by classroom program.

Completion Date

June 2024

Responsible Individuals

Gail Denton, Business Manager

Kimberly Foster, Payroll, Benefits and Business Support

Exception 4

Insufficient Controls Over the Financial Management System

Condition

SISD did not have sufficient controls over its financial management system 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

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

We also noted that SISD had numerous insufficient controls over its financial management system resulting in misclassified and unallowable expenses reported, but were not considered material including:

- Audiologist salaries and benefits coded with the incorrect coding.
- Short-term substitutes reported with staff salaries.
- Benefit costs reported as salaries.
- Account names mislabeled and not consistent with MDE Public Accounting Manual.

Recommendation

We recommend that SISD implement sufficient controls over its financial management system to ensure compliance with Federal regulations and the Medicaid Provider Manual.

Corrective Action Plan

The ISD has corrected all coding errors identified. The district had used the proper three-digit code for Audiology but had entered it in a program code. The district was using a generic function code because the itinerant services fell within a Contracted Services program grouping. The district will no longer use the program code to replace the function code. The district will adhere to the information provided in Exceptions 1 - 3 Corrective Action.

Completion Date

October 2022

Responsible Individual

Gail Denton, 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 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:

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
--	---	--	---	---	---	---	---	---

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	X	Annual Average % Time Claimable to Medicaid from the RMTS	X	Each ISD's Medicaid Eligibility % Rate	X	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 Sanilac ISD's records and activities for the period July 1, 2019, through June 30, 2020.

Our audit procedures included the following:

- Performed remote fieldwork for Sanilac ISD and 1 of 8 of the Local Education Agencies; Croswell-Lexington Community School District.
- 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 Social Worker and Speech Therapists.
- Reviewed payroll documentation, and all required supporting documentation for a sample of Targeted Case Management, Personal Care Service, and Administrative Outreach Program personnel for October – December 2019.
- 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 Driver 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 and 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 (see below)
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	
SISD	Sanilac Intermediate School District
CLCSD	Croswell-Lexington Community School District