

Audit Report

Midland County Educational Service Agency
Medicaid School Based Services Program

July 1, 2011 – June 30, 2012



Audit Division
September 2017



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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HEALTH AND HUMAN SERVICES
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NICK LYON
DIRECTOR

September 29, 2017

Mr. Mark Orihel
Ms. Michelle Bahr
Midland County Educational Service Agency
3917 Jefferson Ave.
Midland, MI 48640

Dear Mr. Orihel & Ms. Bahr:

Enclosed is our final report for the Michigan Department of Health & Human Services (MDHHS) Medicaid School Based Services Program audit of the Midland County Educational Service Agency for the period July 1, 2011 – June 30, 2012.

The final report contains the following: Description of Agency; Background; Funding Methodology; Purpose and Objectives; Scope and Methodology; Conclusions, Findings and Recommendations; and Corrective Action Plans. The Corrective Action Plans include the agency's response to the Preliminary Analysis.

Thank you for the cooperation extended throughout this audit process.

Sincerely,
Scott Werner, Director
Audit Support Division
Bureau of Audit, Reimbursement and Quality Assurance

Enclosure

cc: John Lambert, School Based Services Auditor
Tim Kubu, HS, Medicaid, Behavioral Health & Single Audit Section Manager
Cindy Linn, Manager, Medicaid Program Policy Division
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DESCRIPTION OF AGENCY

The Midland County Educational Service Agency (Midland County ESA), one of 56 intermediate school districts (ISDs) in Michigan, was established in 1962. ISDs are regional service agencies that offer support services to school personnel that are best delivered regionally. Midland County ESA is a publicly funded school district regulated by the state and federal government.

The Midland County ESA administrative offices are located in Midland, Michigan, serving the 4 public school districts primarily in Midland County. The Midland County ESA Board of Education consists of seven members.

BACKGROUND

Effective July 1, 2008, the Center for Medicare & Medicaid Services (CMS) made changes to the Medicaid School Based Services (SBS) Program. Under the new SBS Program, the Michigan Department of Health & Human Services (MDHHS) provides SBS reimbursement to school districts that provide Medicaid covered health and health-related services. There are two components of the SBS program that include:

- Direct Medical Services (includes specialized transportation, personal care services, and targeted case management services)
- Medicaid Administrative Outreach (AOP)

Those beneficiaries who are served by the SBS program are individuals with physical and/or behavioral disabilities, ages 0-21, who meet the eligibility requirements of the Federal Individuals with Disabilities Education Act (IDEA) Statute and the Michigan Board of Education Administrative Rule for Special Education. Medicaid covers some medical services included in an Individualized Education Program (IEP) or Individualized Family Service Plan (IFSP) for Medicaid eligible students including:

- Medically necessary services included in a Medicaid covered category
- Services that are included in the Medicaid State Plan

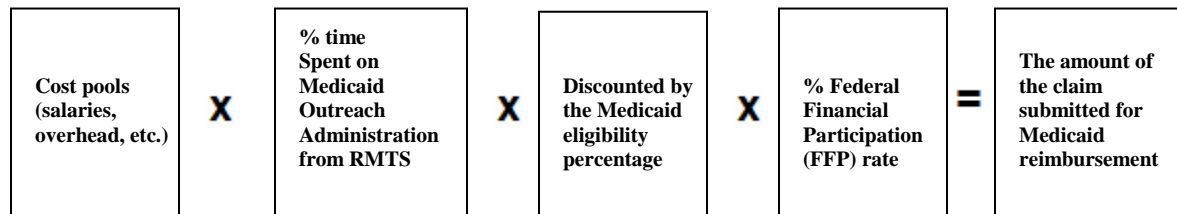
For an enrolled school district to receive reimbursement, the services provided must meet all Federal and State Medicaid regulations and provisions, including those for provider qualifications, comparability of services, and the amount, duration, and scope of services.

FUNDING METHODOLOGY

The AOP and Direct Medical Services program are companion programs. The AOP provides reimbursement for administrative activities required to identify, manage, refer and develop programs for children at risk of academic failure due to an underlying health issue, including mental health. The Direct Medical Services program reimburses schools for the cost of providing direct medical services to the special education Medicaid student population.

AOP

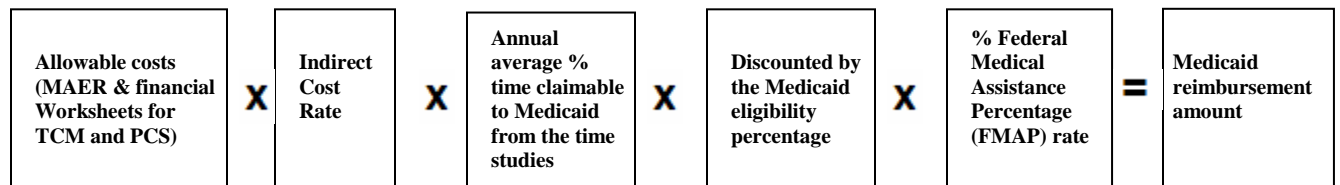
Staff salaries and related costs are reported directly to a hired contractor, the Public Consulting Group (PCG), by each of the LEAs. PCG combines the costs, applies various allocation percentages and submits the AOP claim directly to MDHHS for review, processing and payment each fiscal quarter. Claim development is based on a “pool” of costs, primarily salaries, incurred by the school districts for individuals that engage in Medicaid-type activities on a regular basis. The percentage of effort actually spent on Medicaid-type activities is identified by a Random Moment Time Study (RMTS) that is also conducted by PCG. Reallocation of administrative activities found in the RMTS and certain other allocation percentages are applied to the Medicaid activities where appropriate. For most activities, the final amount claimed for Medicaid reimbursement is equal to:



Direct Medical Services

SBS providers are required to submit Direct Medical Services claims for all Medicaid covered allowable services. These claims do not generate a payment, but are required by 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 their funding from the interim monthly payments that are based on prior year actual costs and that are reconciled on an annual basis to the current year costs. Cost reporting and reconciliation are based on the school fiscal year which is July 1 through June 30 of each year. 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. 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 by the total ISD-reported special education one-way transportation trips. The Medicaid reimbursable amount is obtained by multiplying the number of “allowable” one-way trips paid by the Medicaid Invoice Processing system per ISD. An “allowable” one-way trip is provided to a Medicaid-eligible beneficiary and fulfills all of the following requirements:

- Documentation of ridership is on file;
- The need for the specialized transportation service is identified in the IEP or IFSP; and
- A Medicaid-covered service is provided on the same date of the trip

The cost settlement is accomplished by comparing the interim payments to the annual Medicaid allowable specialized transportation costs. Any over/under settlement payments are made. This settlement amount will be included with the Direct Medical Services cost settlement payment/recovery.

PURPOSE AND OBJECTIVES

The purpose of our audit was to review that School Based Service costs reported by the ISD and its LEAs were in compliance with Federal and State laws and regulations and that internal controls for the Direct Medical Services and the Administrative Outreach Program were effectively established and implemented. Our work is summarized by the following objectives:

- 1.) To assess whether the Midland County Educational Service Agency and its LEAs effectively established and implemented internal controls over the development of School Based Service Medicaid claims.
- 2.) To assess whether the School Based Service costs reported by Midland County Educational Service Agency and its LEAs that were used to develop the Medicaid claim were reasonable, allocable and allowable under Federal and State laws and regulations.

SCOPE AND METHODOLOGY

Within the limitations described below, our audit included reviews of the claims development process and the costs claimed by Midland County ESA and its LEAs for the year ended June 30, 2012.

The scope of our review of the claims development process was limited to the parts of the process that were not monitored by others. The RMTS and the assignment of sampled moments to activities are monitored by PCG and were excluded from the scope of this audit. We also accepted the federally approved indirect cost rate without review; but verified that the approved rate was used in claim calculations and applied only to costs in the specified base. We did not audit the procedures used to calculate the percentage of Medicaid eligible students in Midland County ESA since these procedures apply to all ISDs and were reviewed and approved by CMS. School districts are subject to Federal Single Audit requirements and the independent auditors’

report on internal controls was used to identify weaknesses that might affect our review; none were reported for Midland County ESA and its LEAs selected for testing.

The scope of our audit was generally limited to determining whether the costs reported by the Midland County ESA and its LEAs were reasonable, allocable and allowable under Federal and State laws and regulations and that proper internal controls were in place to develop Medicaid claims under the SBS program. This included reviewing payroll documentation at the Midland County ESA and its LEAs, as well as reviewing IEP/IFSPs and all required supporting documentation for a sample of Direct Medical Services claims to ensure compliance with applicable Federal and State laws and regulations. Our audit included site visits to the Midland County Education Service Agency and to one of 4 LEAs including Midland Public Schools.

We verified that costs were directly related to individuals included in the RMTS, incurred during the sample period, did not contain duplicate costs, were not claimed as costs of other Federal projects and were otherwise allowable under the federal regulations in Office of Management and Budget (OMB) Circular A-87 (located at 2 CFR Part 225). Fieldwork was performed from September to March 2017.

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

INTERNAL CONTROLS

Objective: To assess whether the Midland County Educational Service Agency and its LEAs effectively established and implemented internal controls over the development of School Based Service Medicaid claims.

Conclusion: The Midland County Educational Service Agency and its LEAs were only moderately effective in establishing and implementing internal controls over the development of School Based Service Medicaid claims. We did identify a material weaknesses related to internal controls over Validity of Direct Medical Claims (Finding 1).

Finding

1. Validity of Direct Medical Claims

The internal controls of Midland County ESA did not ensure compliance with the Medicaid Provider Manual regarding the validity of Direct Medical Services claims.

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

Claim documentation must be sufficient to identify the patient clearly, justify the diagnosis and treatment, and document the results accurately. Documentation must be adequate enough to demonstrate that the service was provided and that the service followed the "approved plan of treatment" (for school-based services, the service must be identified in the child's IEP/IFSP).

Our testing identified (48%) invalid claims in the 60 sampled claims we reviewed including:

- Ten claims were invalid because the treatment plan was not provided or did not contain required information, such as short-term and long-term goals.
- Six claims were invalid because the provider notes were insufficient or were not provided.
- Five claims were invalid because the transportation log was not provided.
- Four claims were invalid because the provider did not have appropriate licensure or supervision.
- Three claims were invalid because the beneficiary was not in attendance on the date of service or attendance records were not provided.
- One claim were invalid because the referral/authorization was unallowable.

Noncompliance with the Medicaid Provider Manual could result in adjustments, disallowances, and/or future reductions of Medicaid funding.

Recommendation

We recommend that Midland County ESA improve internal controls to ensure compliance with the Medicaid Provider Manual regarding the validity of Direct Medical Services claims.

FINANCIAL REPORTING

Objective: To assess whether the School Based Service costs reported by the Midland County Educational Service Agency and its LEAs that were used to develop the Medicaid claim were reasonable, allocable and allowable under Federal and State laws and regulations.

Conclusion: We determined that the Midland County Educational Service Agency and its LEAs were only moderately effective in reporting costs that were reasonable, allocable, and allowable under Federal and State laws and regulations. We identified one instance of material noncompliance and misstatement related to the MAER Medical Staff Cost Report (Finding 2). In addition, we also identified reportable deficiencies regarding Inclusion of Unallowable Expenditure (Finding 3), Federal Funds (Finding 4), and Lack of Oversight of Financial Data Reported (Finding 5).

Finding

2. MAER Medical Staff Cost Report

Midland County Educational Service Agency and Midland Public Schools did not comply with the Medicaid Provider Manual regarding the accuracy of financial data reported on the MAER Medical Staff Cost Report. The error resulted in an overstatement of reported expenditures by \$578,222.

Noncompliance with the Medicaid Provider Manual could result in adjustments, disallowances, and/or future reductions of Medicaid funding.

The Medicaid Provider Manual, School Based Services, Section 2 outlines the Medicaid covered services that can be billed by the ISD. This section includes a definition of the allowable covered service as well as procedure codes that may be billed for the services.

For the specific reporting of expenditures related to Direct Medical Services and Special Education Transportation, 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.

Our review of payroll costs disclosed:

Midland Public Schools included reported expenditures for direct medical services employees not in the Staff Pool Listing in the MAER Medical Staff Cost Report. Staff pool listing errors resulted in an overstatement of these reported expenditures by \$359,017.

Midland County Educational Service Agency included reported expenditures for direct medical services employees not in the Staff Pool Listing in the MAER Medical Staff Cost Report. Staff pool listing errors resulted in an overstatement of these reported expenditures by \$219,205.

Recommendation

We recommend that Midland County Educational Service Agency and Midland Public Schools report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data reported on the MAER Medical Staff Cost Report.

Finding

3. Inclusion of Unallowable Expenditures

Midland Public Schools did not ensure compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits. The errors resulted in an overstatement of reported expenditures of \$207,785.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Medicaid awards.

The Office of Management and Budget Circular A-87, Attachment A, section C requires costs charged to a federal award to be allowable, reasonable, and allocable to the federal award in accordance with relative benefits received. Support Services – Other and General Education expenditures are not related to Medicaid services and, therefore, cannot be included in the state match expenditures.

Our review of sampled employees in Midland Public Schools' payroll disclosed:

General education funds and funds associated with playground and lunch supervision were included in the Eligible Cost/Cost Pool Summary Reports. The costs reported are unallowable expenditures and resulted in an overstatement of reported expenditures by \$207,785.

Recommendation

We recommend that Midland Public Schools report future costs in compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits.

Finding

4. Federal Funds

Midland County Educational Service Agency did not comply with the Medicaid Provider Manual regarding the inclusion of federal funds to expenditures pertaining to staff salaries and benefits. The error resulted in an overstatement of reported expenditures of \$28,693.

Noncompliance with the Medicaid Provider Manual could result in sanctions, disallowances, and/or future reductions of Medicaid awards.

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 non-federal funds that have been committed as local match for other federal or State funds or programs.

Claims for approved Medicaid School Based Service functions may not include expenditures of:

- *Federal funds received by the district directly*
- *Federal funds that have been passed through a State or local agency*
- *Non-Federal funds that have been committed as local match for other Federal or State funds or programs*

Our review of sampled employees in Midland County Educational Service Agency payroll disclosed that federal funds were included in the Eligible Cost/Cost Pool Summary Reports. Five employees had federal funds of \$28,693 included in their salary and benefits, along with appropriate earnings.

Recommendation

We recommend that Midland County Educational Service Agency report future costs in compliance with the Medicaid Provider Manual regarding the inclusion of federal funds to expenditures pertaining to staff salaries and benefits.

Finding

5. Lack of Oversight of Financial Data Reported

Midland County Educational Service Agency and Midland Public Schools did not comply with the Medicaid Provider Manual regarding the accuracy of financial data reported on the Eligible Cost/Cost Pool Summary Reports. The error resulted in an understatement of reported expenditures of (\$96,015).

Noncompliance with the Medicaid Provider Manual could result in sanctions, disallowances, and/or future reductions of Medicaid awards.

For the reporting of expenditures related to Administrative Outreach Program, the Medicaid Provider Manual, SBS Administrative Outreach Program 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' financial accounting system.

Our review of payroll costs disclosed:

Midland Public Schools reported salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The costs reported for salaries and benefits were greater than the actual expenditures in the financial accounting system and resulted in an overstatement of reported expenditures by 44,619.

Midland County Educational Service Agency reported salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The costs reported for salaries and benefits were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by (\$140,634).

Recommendation

We recommend that Midland County Educational Service Agency and Midland Public Schools report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data reported on the Eligible Cost/Cost Pool Summary Reports.

Corrective Action Plan

Finding Number: 1

Page Reference: 4

Finding: Validity of Direct Medical Claims

Recommendation: We recommend that Midland County ESA improve internal controls to ensure compliance with the Medicaid Provider Manual regarding the validity of Direct Medical Services claims.

Midland County ESA

Comments: The Midland County ESA agrees with this finding.

Corrective Action:

- The Midland County ESA did not use an electronic IEP system during the dates of this audit. Illuminate was adopted as our IEP system in the same year as the audit with training and technical assistance; not fully implemented until the following fall.
- PCG has updated our service logging wizards to include multiple narrative fields and will improve the quality and length of provider log comments.
- PCG has included a prompt to warn staff when a monthly summary has not been done while logging.
- Because we use PCG to log for all students, not just those Medicaid eligible, PCG will implement a “Do Not Bill” warning for those who are federally funded or do not have appropriate licensure to bill for Medicaid.
- The following corrective actions have also been implemented: attendance at conferences; Quality Assurance Statements are reviewed, updated, date stamped, and digitally retained; local business verify with special education directors/supervisors on all changes in personnel so that staff pools remain up to date; Random Moment in Time Study chapters (page 6-7) are reviewed with business managers; required webinars for all billing staff are viewed periodically throughout the school year.
- The Transportation Director for Midland Public Schools retired from the district. All transportation logs for the audit time period were shredded by this person as they left their position. A common logging form for transportation has been implemented and Retention & Recoupment Guidelines have also been shared with all districts.
- School psychologists were placed under Direct Service category without the proper LARA licensure. We are now aware of this error and they have been moved.
- Attendance is now taken in our Illuminate electronic system, therefore easier to track. A process is now in place to provide PCG our attendance logs before submitting services for billing.
- Improper coding of paraeducator job responsibilities was done. This is now understood.

Anticipated

Completion Date: All of these measures are already in place. A thorough review of all these findings will be communication to all staff this fall.

Corrective Action Plan

Finding Number: 2

Page Reference: 5

Finding: **MAER Medical Staff Cost Report**

Recommendation: We recommend that Midland County Educational Service Agency and Midland Public Schools report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data reported on the MAER Medical Staff Cost Report.

Midland County ESA

Comments: The Midland County ESA agrees with this finding.

Corrective Action: We are now aware of the licensing requirements in place. MDE licensure cannot be on direct staff pool list and these have been moved to the AOP list.

Anticipated

Completion Date: Already completed.

Corrective Action Plan

Finding Number: 3

Page Reference: 6

Finding: Inclusion of Unallowable Expenditures

Recommendation: We recommend that Midland Public Schools report future costs in compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits.

Midland County ESA

Comments: The Midland County ESA agrees with this finding.

Corrective Action: The ESA and Local school districts will report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data in the MAER.

Anticipated

Completion Date: A training in the early fall of 2017 will be held to educate business managers and special education local directors on the Medicaid Provider Manual.

Corrective Action Plan

Finding Number: 4

Page Reference: 7

Finding: **Federal Funds**

Recommendation: We recommend that Midland County Educational Service Agency report future costs in compliance with the Medicaid Provider Manual regarding the inclusion of federal funds to expenditures pertaining to staff salaries and benefits.

Midland County ESA

Comments: The Midland County ESA agrees with this finding.

Corrective Action:

- Federal funds offset did not include the benefit portion of the five employees involved. This was a one time error by a former business manager and a review for this type of error is currently done.
- The current finance manager will communicate this type of error to all local business managers when quarterlies are being submitted.

Anticipated

Completion Date: Already in place.

Corrective Action Plan

Finding Number: 5

Page Reference: 7

Finding: **Lack of Oversight of Financial Data Reported**

Recommendation: We recommend that Midland County Educational Service Agency and Midland Public Schools report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data reported on the Eligible Cost/Cost Pool Summary Reports.

Midland County ESA

Comments: The Midland County ESA agrees with this finding.

Corrective Action:

- An incorrect date of June 26 was used by Midland Public Schools versus a July 1 date. This appears to be an isolated incident, but will be communicated to all districts to double check date/time periods.
- For the ESA, benefits in the audit remained the same regardless of increase or decrease in salary. It appears amounts were for insurance only. This appears to be an isolated incident. Current finance director reviews ratio of benefits to salaries closely for accuracy looking for variance either too high or too low.

Anticipated

Completion Date: Already in place, but this type of error will be reviewed with all business managers this fall.