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DEPARTMENT OF HEALTH & HUMAN SERVICES
BUREAU OF AUDIT, REIMBURSEMENT AND QUALITY ASSURANCE
CAPITOL COMMONS CENTER • 400 SOUTH PINE • LANSING, MICHIGAN 48933

NICK LYON
DIRECTOR

March 23, 2018

Mr. Jamie Carnes
Ms. Renee Thelen
Ionia Intermediate School District
2191 Harwood Road
Ionia, Michigan 48846

Dear Mr. Carnes and Ms. Thelen:

Enclosed is our final report for the Michigan Department of Health and Human Services (MDHHS) Medicaid School Based Services Program audit of the Ionia Intermediate School District for the period July 1, 2012 – June 30, 2013.

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,

A handwritten signature in black ink, appearing to read "Timothy J. Kubu".

Timothy J. Kubu, CIA, CISA
Manager, Audit Division - Audit & Review Section
Bureau of Audit, Reimbursement & Quality Assurance

Enclosure

cc: Deb Hallenbeck, Director, Audit Division
Scott Werner, Director, Audit Support Division
John Lambert, Audit Specialist, Appeals
Cindy Linn, Manager, Medicaid Program Policy Division
Kevin Bauer, Specialist, Medicaid Program Policy Division
Steve Ireland, Manager, Rate Review Section

Audit Report

Ionia Intermediate School District
Medicaid School Based Services Program

July 1, 2012 – June 30, 2013



Michigan Department of Health & Human Services

Bureau of Audit, Reimbursement, & Quality Assurance

Audit Division

March 2018

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DESCRIPTION OF AGENCY

The Ionia Intermediate School District (Ionia ISD), 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. Ionia ISD is a publicly funded school district regulated by the state and federal government.

The Ionia ISD administrative offices are located in Ionia, Michigan, serving the five public school districts primarily in Ionia County. The Ionia ISD Board of Education consists of five 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

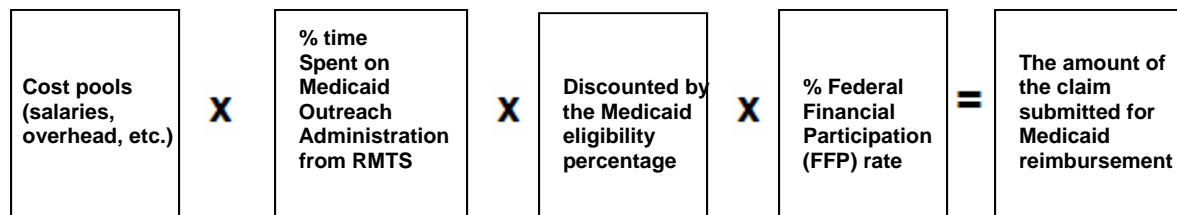
For an enrolled school district to receive reimbursement, the services provided must meet all Federal and State Medicaid regulations and provisions, including those for provider qualifications, comparability of services, and the amount, duration, and scope of services.

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

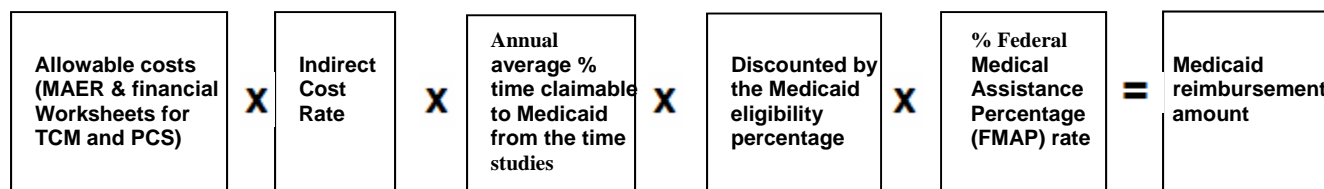
Staff salaries and related costs are reported directly to a hired contractor, the Public Consulting Group (PCG), by each of the LEAs. PCG combines the costs, applies various allocation percentages and submits the AOP claim directly to MDHHS for review, processing and payment each fiscal quarter. Claim 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 Ionia Intermediate School District 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 Ionia Intermediate School District 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 Ionia ISD and its LEAs for the year ended June 30, 2013.

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 Ionia ISD 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 Ionia ISD and its LEAs selected for testing.

The scope of our audit was generally limited to determining whether the costs reported by the Ionia ISD 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 Ionia ISD 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 Ionia Intermediate School District and to one of five LEAs including Ionia 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 May to August 2017.

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

INTERNAL CONTROLS

Objective: To assess whether the Ionia Intermediate School District and its LEAs effectively established and implemented internal controls over the development of School Based Service Medicaid claims.

Conclusion: The Ionia Intermediate School District 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 Ionia ISD 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 (17%) invalid claims in the 78 sampled claims we reviewed including:

- Four claims were invalid because the beneficiary was not in attendance on the date of service.
- Three claims were invalid because the treatment plan did not contain the service selected or short-term and long-term goals.
- Three claims were invalid because the prescription/referral/authorization was not provided or was unallowable.
- Two claims were invalid because the provider notes were insufficient.
- One claim was invalid because the provider did not have appropriate licensure.

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

Recommendation

We recommend that Ionia Intermediate School District 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 Ionia Intermediate School District 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 Ionia Intermediate School District 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 reportable

deficiencies regarding MAER Medical Staff Cost Report (Finding 2), Inclusion of Unallowable Expenditure (Finding 3), and MAER Transportation Cost Report (Finding 4).

Finding

2. MAER Medical Staff Cost Report

Ionia Intermediate School District 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 \$68,781.

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:

Ionia Intermediate School District included reported unallowable expenditures for direct medical services employees on the MAER Medical Staff Cost Report. Calculation errors resulted in an overstatement of these reported expenditures by \$68,781.

Recommendation

We recommend that Ionia Intermediate School District 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

Ionia 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 \$56,584.

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 Ionia Public Schools' payroll disclosed:

Athletic funds 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 \$56,584.

Recommendation

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

Finding

4. MAER Transportation Cost Report

Ionia Public Schools did not comply with the Medicaid Provider Manual regarding the accuracy of financial data reported on the MAER Transportation Cost Report. Calculation errors contributed to the errors noted in the review of transportation costs. The combined errors resulted in an overstatement of \$2,002 to the costs reported in the MAER Transportation Cost Report.

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 transportation costs in Ionia Public Schools disclosed:

The costs reported under the "Bus Driver" and "Supplies/Repair" included unallowable expenditures. The errors resulted in an overstatement of reported expenditures by \$2,002.

Recommendation

We recommend that Ionia Public Schools report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data reported on the MAER Transportation Cost Report.

Corrective Action Plan

Finding Number: 1

Page Reference: 5

Finding: Validity of Direct Medical Claims

Recommendation: We recommend that Ionia Intermediate School District improve internal controls to ensure compliance with the Medicaid Provider Manual regarding the validity of Direct Medical Services claims.

Ionia ISD

Comments: Ionia County ISD agrees with the finding and recommendation.

Corrective Action: a) Since the school year targeted for the audit, Illuminate software has now provided the ability to verify that the prescription/referral authorization has been obtained prior to submission. Illuminate software also now has provided the ability to verify school calendar dates prior to submission.

b) Ionia ISD will develop professional development and internal monitoring to ensure service providers understand the requirements for adequate documentation for services provided.

Anticipated

Completion Date: a) This action has been completed.

b) January 1, 2018

Corrective Action Plan

Finding Number: 2

Page Reference: 6

Finding: MAER Medical Staff Cost Report

Recommendation: We recommend that Ionia Intermediate School District report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data reported on the MAER Medical Staff Cost Report.

Ionia ISD

Comments: Ionia County ISD agrees with the finding and recommendation.

Corrective Action: a) Ionia ISD will report actual expenditures that align to the general ledger. The ISD will not use estimates to report costs.

Anticipated

Completion Date: a) Effective immediately, this corrective action has already been implemented.

Corrective Action Plan

Finding Number: 3

Page Reference: 7

Finding: **Inclusion of Unallowable Expenditures**

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

Ionia ISD

Comments: Ionia County ISD and Ionia Public Schools agree with the finding and recommendation.

Corrective Action: a) Ionia ISD will implement training for all participating districts in the program to ensure LEAs understand program policies of completing the Quarterly Financial Report and that all reported expenditures are allowable and in compliance with federal laws and regulations.

b) Ionia Public Schools will ensure that costs associated with athletics are not reported on the quarterly financial reports.

Anticipated

Completion Date: a) January 1, 2018

b) Effective immediately

Corrective Action Plan

Finding Number: 4

Page Reference: 7

Finding: **MAER Transportation Cost Report**

Recommendation: We recommend that Ionia Public Schools report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data reported on the MAER Transportation Cost Report.

Ionia ISD

Comments: Ionia County ISD and Ionia Public Schools agrees with the finding and recommendation.

Corrective Action: a) Ionia County ISD will review the Medicaid Provider Manual with the LEAs for future compliance.

b) Ionia Public Schools will ensure that special education transportation costs are reported in compliance with the Medicaid Provider Manual and MDE transportation allowable expenditure guidance.

Anticipated

Completion Date: a) January 1, 2018

b) Effective immediately