



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
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 20, 2018

Ms. Cindy Latta-Larsen
Ms. Carol VanDenBerg
Barry Intermediate School District
535 W. Woodlawn Avenue
Hastings, MI 49058

Dear Ms. Latta-Larsen & Ms. VanDenBerg:

Enclosed is our final report for the Michigan Department of Health and Human Services (MDHHS) Medicaid School Based Services Program audit of the Barry 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 "Tim Kubu".

Tim Kubu, 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

Barry Intermediate School District
Medicaid School Based Services Program

July 1, 2012 – June 30, 2013



Bureau of Audit, Reimbursement, & Quality Assurance
Audit Division
March 2018

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DESCRIPTION OF AGENCY

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

The Barry ISD administrative offices are located in Hastings, Michigan, serving the two public school districts primarily in Barry County. The Barry 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

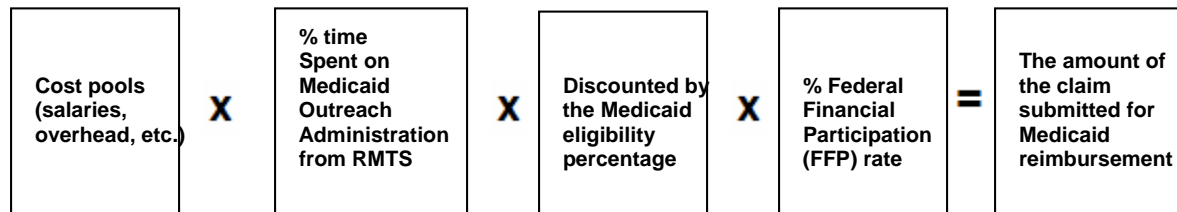
For an enrolled school district to receive reimbursement, the services provided must meet all Federal and State Medicaid regulations and provisions, including those for provider qualifications, comparability of services, and the amount, duration, and scope of services.

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

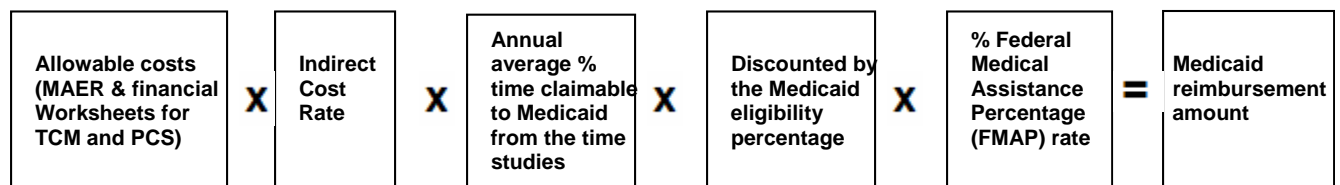
Staff salaries and related costs are reported directly to a hired contractor, the Public Consulting Group (PCG), by each of the LEAs. PCG combines the costs, applies various allocation percentages and submits the AOP claim directly to MDHHS for review, processing and payment each fiscal quarter. Claim 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 Barry 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 Barry 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 Barry 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 Barry 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 Barry ISD and its LEAs selected for testing.

The scope of our audit was generally limited to determining whether the costs reported by the Barry 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 Barry 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 Barry Intermediate School District and to one of two LEAs including Hastings Area School System.

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 July to October 2017.

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

INTERNAL CONTROLS

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

Conclusion: The Barry 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 Barry 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 (15%) invalid claims in the 75 sampled claims we reviewed including:

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

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

Recommendation

We recommend that Barry 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 Barry 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 Barry 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), Lack of Oversight of Financial Data Reported (Finding 3), and Reporting of Expenditures – Time Period (Finding 4).

Finding

2. MAER Medical Staff Cost Report

Barry 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 \$15,000.

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 medical staff costs in Barry Intermediate School District disclosed:

Barry ISD included expenditures for Psychologists not in the DS Staff Pool Listing in the MAER Medical Staff Cost Report. In addition, Barry ISD included unallowable object codes in the MAER Medical Staff Cost Report. The combined errors resulted in an overstatement of these reported expenditures by \$15,000.

Recommendation

We recommend that Barry 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. Lack of Oversight of Financial Data Reported

Hastings Area School System 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 overstatement of reported expenditures of \$1069.

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:

Hastings Area School System 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 \$1,069.

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

Recommendation

We recommend that Hastings Area School System 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.

Finding

4. Reporting of Expenditures – Time Period

Barry Intermediate School District 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 neither an overstatement nor understatement.

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:

Barry Intermediate School District reported salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The costs reported in the 2013 Quarter 2 for salaries and benefits were greater than the actual expenditures in the financial

accounting system and resulted in an overstatement of reported expenditures by \$294,950. The costs reported in the 2013 Q3A for salaries and benefits were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by (\$294,950).

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

Recommendation

We recommend that Barry Intermediate School District 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: 5

Finding: **Validity of Direct Medical Claims**

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

Barry ISD

Comments: **Barry ISD agrees with the findings and recommendations.**

Corrective Action: Barry ISD has developed professional development and internal monitoring to ensure service providers understand requirements for monitoring of student attendance, appropriate provider referrals, adequate provider notes and appropriate short-term and long-term goals.

Anticipated

Completion Date: This action has been completed.

Corrective Action Plan

Finding Number: 2

Page Reference: 6

Finding: **MAER Medical Staff Cost Report**

Recommendation: We recommend that Barry 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.

Barry ISD

Comments: **Barry ISD agrees with these findings and recommendations.**

Corrective Action: Barry ISD will program reporting worksheets to preclude expenses as outlined in the Medicaid Provider Manual.

Anticipated

Completion Date: This action has been completed.

Corrective Action Plan

Finding Number: 3

Page Reference: 6

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

Recommendation: We recommend that Hastings Area School System 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.

Barry ISD

Comments: **Barry ISD agrees with these findings and recommendations.**

Corrective Action: Barry ISD will provide trainings for all districts participating in the program to ensure that LEAs understand reporting requirements in the Medicaid Provider Manual to ensure accuracy of financial data reported on the Eligible Cost/Cost Pool summary reports.

Anticipated

Completion Date: **Trainings will be scheduled and will be ongoing with LEAs.**

Corrective Action Plan

Finding Number: 4

Page Reference: 7

Finding: **Reporting of Expenditures – Time Period**

Recommendation: We recommend that Barry Intermediate School District 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.

Barry ISD

Comments: **Barry ISD agrees with these findings and recommendations.**

Corrective Action: Barry ISD will program reporting worksheets to alter reporting times for cash basis only.

Anticipated

Completion Date: **Corrective action will take place during the 2017-2018 school year and will be completed by the end of the 2018 school year.**