

Audit Report

Berrien Regional Educational Service Agency
Medicaid School Based Services Program

July 1, 2009 – June 30, 2010



Office of Audit
January 2013



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
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JAMES K. HAVEMAN
DIRECTOR

January 15, 2013

Ms. Carol Sink
Medicaid Coordinator
Berrien Regional Education Service Agency
711 St. Joseph Avenue
Berrien Springs, Michigan 49103

Dear Ms. Sink,

Enclosed is our final report for the Michigan Department of Community Health (MDCH) Medicaid School Based Services Program audit of the Berrien Regional Education Service Agency for the period July 1, 2009 – June 30, 2010.

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, Manager
Special Audits Section
Office of Audit

Enclosure

cc: Pam Myers, Director, Office of Audit
John Lambert, Auditor, Office of Audit
Cindy Linn, Manager, Medicaid Program Policy Division
Kevin Bauer, Specialist, Medicaid Program Policy Division
Steve Ireland, Manager, Rate Review Section

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DESCRIPTION OF AGENCY

The Berrien Regional Educational Service Agency (Berrien RESA), one of 57 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. Berrien RESA is a publicly funded school district regulated by the state and federal government.

The Berrien RESA administrative offices are located in Berrien Springs, Michigan, serving the 16 public school districts and four public school academies in Berrien County. The Berrien RESA Board of Education consists of six members. Under current rules, board members are elected to overlapping terms of six years each. Board members are chosen by the 16 local school districts within Berrien County.

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 Community Health (MDCH) 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

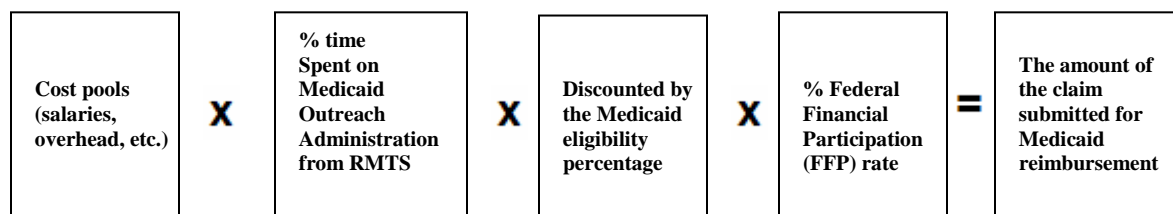
For an enrolled school district to receive reimbursement, the services provided must meet all Federal and State Medicaid regulations and provisions, including those for provider qualifications, comparability of services, and the amount, duration, and scope of services.

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

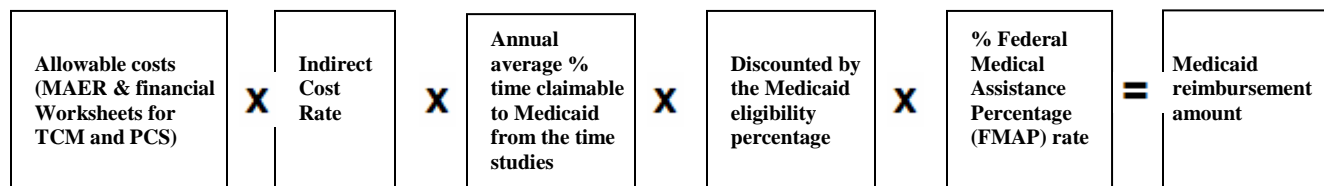
Staff salaries and related costs are reported directly to a hired contractor, the Public Consulting Group (PCG), by each of the LEAs. PCG combines the costs, applies various allocation percentages and submits the AOP claim directly to MDCH for review, processing and payment each fiscal quarter. Claim 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 Berrien Regional 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 the Berrien Regional 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 Berrien RESA and its LEAs for the year ended June 30, 2010.

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 Berrien RESA 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 Berrien RESA and its LEAs selected for testing.

The scope of our audit was generally limited to determining whether the costs reported by the Berrien RESA 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 Berrien RESA 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 Berrien Regional Educational Service Agency and to six of sixteen LEAs including Benton Harbor Area Schools, Berrien Springs Public Schools, Lakeshore Public Schools, New Buffalo Area Schools, Niles Community Schools, and St. Joseph 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 through September 2012.

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

INTERNAL CONTROLS

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

Conclusion: The Berrien Regional Educational Service Agency and its LEAs were moderately effective in establishing and implementing internal controls over the development of School Based Service Medicaid claims. We did not identify any material weaknesses, but we did identify deficiencies in internal control over Validity of Direct Medical Claims. (Finding 1)

Finding

1. Validity of Direct Medical Claims

The internal controls of Berrien RESA 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 review of one hundred-fifty sampled claims disclosed:

- Five claims were invalid because attendance records or transportation logs did not support that the student was present on the day the service was provided.
- Four claims were invalid because the services were not supported with appropriate referrals from a physician.
- Two claims were invalid because the IEP was not complete and did not contain Annual Goals as required.
- Two claims were invalid because the provider's progress notes were insufficient and did not provide proper documentation to support the claims.
- Two claims were invalid because the services did not follow the "approved plan of treatment" identified in the IEP.
- One claim was invalid as the written referral by a physician/licensed practitioner was not signed.

In addition to the above errors, we expanded our analysis to look at additional claims of students reviewed in the sample. We noted that:

- 42 students had 163 other claims that were invalid because they were submitted for a day that the student was marked absent in the attendance records.

Finally, we expanded our analysis even further to students outside of the sample. We noted that:

- 104 other claims were invalid because they were submitted for a day when the school was closed due to a holiday, snow day, weekend, or spring break.

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

Recommendation

We recommend that Berrien RESA 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 Berrien Regional 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 Berrien Regional Educational Service Agency and its LEAs were moderately effective in reporting costs that were reasonable, allocable, and allowable under Federal and State laws and regulations. We did not identify any instances of material noncompliance or misstatement, but we identified reportable deficiencies regarding Federal Funds (Finding 2), Inclusion of Unallowable Expenditure (Finding 3), Lack of Oversight of Financial Data Reported (Finding 4) and MAER Medical Staff Cost Report (Finding 5).

Finding

2. Federal Funds

Four LEAs did not comply with the Medicaid Provider Manual regarding the inclusion of federal funds to expenditures pertaining to staff salaries and benefits. The collective errors resulted in an overstatement of reported expenditures of \$209,968.

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 the payroll costs disclosed:

- Lakeshore Public Schools allowed federal funds to be included in the Eligible Cost/Cost Pool Summary Reports. Three employees had federal funds of \$130,602 included in their salary and benefits.

- New Buffalo Area Schools allowed federal funds to be included in the Eligible Cost/Cost Pool Summary Reports. One employee had federal funds of \$37,248 included in their salary and benefits.
- Niles Community Schools allowed federal funds to be included in the Eligible Cost/Cost Pool Summary Reports. Fourteen employees had federal funds of \$29,282 included in their salary and benefits.
- Benton Harbor Area Schools allowed federal funds to be included in the Eligible Cost/Cost Pool Summary Reports. Eighteen employees had federal funds of \$12,836 included in their salary and benefits.

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

Recommendation

We recommend that the four LEAs 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

3. Inclusion of Unallowable Expenditures

Berrien RESA and four LEAs did not comply with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits.

OMB Circular A-87 (located at 2 CFR Part 225), Appendix A, Subsection C requires costs charged to a federal award to be allowable, reasonable, and allocable to the federal award in accordance with relative benefits received. The expenditures noted in this finding are not related to Medicaid services and cannot be included in the state match expenditures. Per our review, the collective errors noted result in an overstatement of reported expenditures of \$39,232.

Our review of sampled employees in the payroll costs disclosed:

- Benton Harbor Area Schools allowed General Education and Other Support Service expenditures to be included in the Eligible Cost/Cost Pool Summary Reports. The costs reported are all unallowable expenditures and resulted in an overstatement of reported expenditures by \$13,695.
- Niles Community Schools allowed General Education and Pupil Activity/Athletic Fund expenditures to be included in the Eligible Cost/Cost Pool Summary Reports. The costs reported were all unallowable expenditures and resulted in an overstatement of reported expenditures by \$11,156.

- Berrien RESA included unallowable “Materials & Supplies” and “Travel & Training” expenditures in the Eligible Cost/Cost Pool Summary Reports. The costs reported resulted in an overstatement of reported expenditures by \$6,471.
- New Buffalo Area Schools allowed General Education and other unallowable expenditures to be included in the Eligible Cost/Cost Pool Summary Reports. The costs reported were all unallowable expenditures and resulted in an overstatement of reported expenditures by \$4,823.
- Lakeshore Public Schools allowed General Education expenditures to be included in the Eligible Cost/Cost Pool Summary Reports. The costs reported are unallowable expenditures and resulted in an overstatement of reported expenditures by \$1,248.

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

Recommendation

We recommend that Berrien RESA and the four LEAs report future costs in compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits.

Finding

4. Lack of Oversight of Financial Data Reported

Six LEAs 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 \$14,501.

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 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:

- Lakeshore Public Schools reported salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The total 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 \$36,654.

- St. Joseph Public Schools reported salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The total 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 \$2,923.
- Niles Community Schools reported salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The total 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 \$1,938.
- Benton Harbor Area Schools reported salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The total 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 \$9,471.
- Berrien Springs Public Schools reported salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The total 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 \$9,614.
- New Buffalo Area Schools reported salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The total costs reported for salaries and benefits were greater than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$7,929.

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

Recommendation

We recommend that the six LEAs 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

5. MAER Medical Staff Cost Report

Three LEAs did not comply with the Medicaid Provider Manual regarding the accuracy of financial data reported on the MAER Medical Staff Cost Report. Calculation errors contributed to the errors noted in the review of payroll costs.

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:

- Benton Harbor Area Schools reported Social Worker and Speech Therapist payroll expenditures in the MAER Medical Staff Costs Report. The costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$114,498.
- Lakeshore Public Schools reported Speech Therapists payroll expenditures in the MAER Medical Staff Costs Report. The costs reported for Speech Therapists were greater than the actual expenditures in the financial accounting system and resulted in an overstatement of reported expenditures by \$10,409.
- Niles Community Schools reported Social Worker payroll expenditures in the MAER Medical Staff Costs Report. The costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$2,381.

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

Recommendation

We recommend that the three LEAs report future costs in compliance with the Medicaid Provider Manual to ensure accuracy of financial data reported on the MAER Medical Staff Cost Report.

Corrective Action Plan

Finding Number: 1

Page Reference: 4

Finding: **Validity of Direct Medical Claims**

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

Berrien RESA

Comments: Berrien RESA agrees with the finding and recommendation.

Corrective Action: The following changes will be made:

- a) The Berrien RESA has requested a program change to the software billing program linking student information management – attendance (Power School) with the claim submission software (Illuminate). For any student who is marked absent or for whom attendance is not taken, encounters will not be extracted for reimbursement.
- b) Berrien RESA will send newsletters to staff reminding them to be careful and accurate with their billing dates and billable services.
- c) Berrien RESA will revise billing procedures so that all services submitted for reimbursement are supported with appropriate referrals from a physician.
- d) Berrien RESA will revise training materials to include the importance of development and implementation of “approved plan of treatment” identified in the IEP.
- e) Berrien RESA will revise procedures and forward any incomplete IEPs to the Berrien RESA Compliance Monitor as a rule violation and direct through the Monitor’s Office State Mandated Corrective Action.

**Anticipated
Completion Date:** April 1, 2013

Corrective Action Plan

Finding Number: 2

Page Reference: 6

Finding: **Federal Funds**

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

Berrien RESA

Comments: Berrien RESA agrees with finding and recommendation.

Corrective Action: a) Berrien RESA will increase and improve training for all districts participating in the program to assure LEAs understand requirements of the Medicaid School Based Service.
b) Berrien RESA will require a second review prior to submission.

Anticipated

Completion Date: Corrective action results to be discussed and further training to be completed at the Berrien School Business Officials meeting on January 25, 2013.

Corrective Action Plan

Finding Number: 3

Page Reference: 7

Finding: **Inclusion of Unallowable Expenditures**

Recommendation: We recommend that Berrien RESA and the four LEAs report future costs in compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits.

Berrien RESA

Comments: Berrien RESA agrees with finding and recommendation.

Corrective Action:

- a) Berrien RESA will increase and improve training for all participating districts in the program to assure LEAs understand program policies of completing the Quarterly Financial Report. Berrien RESA will provide training in Medicaid allowable costs. LEAs will be required to attend this mandatory annual training at the Berrien School Business Officials meeting prior to receiving Medicaid revenues.
- b) Berrien RESA will require LEAs to participate in a mandatory facilitated monitoring by Berrien RESA to ensure the Quarterly Financial Report is accurately completed.

Anticipated

Completion Date: June 30, 2013

Corrective Action Plan

Finding Number: 4

Page Reference: 8

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

Recommendation: We recommend that the six LEAs 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.

Berrien RESA

Comments: Berrien RESA agrees with finding and recommendation.

Corrective Action: a) Berrien RESA will increase and improve training for all districts participating in the program to assure LEAs understand requirements of the Medicaid School Based Service.
b) Berrien RESA will require a second review prior to submission.

Anticipated

Completion Date: Corrective action results to be discussed and further training to be completed at the Berrien School Business Officials meeting on January 25, 2013.

Corrective Action Plan

Finding Number: 5

Page Reference: 9

Finding: **MAER Medical Staff Cost Report**

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

Berrien RESA

Comments: Berrien RESA agrees with finding and recommendation.

Corrective Action:

- a) Berrien RESA will increase and improve training for all participating districts in the program to assure LEAs understand program policies of completing the MAER Medical Staff Cost Report. Berrien RESA will provide training in Medicaid allowable costs. LEAs will be required to attend this mandatory annual training at the Berrien School Business Officials meeting prior to receiving Medicaid revenues.
- b) Berrien RESA will require LEAs to participate in a mandatory facilitated monitoring by Berrien RESA to ensure the MAER Cost Report is accurately completed.

Anticipated

Completion Date: June 30, 2013