

Audit Report

Jackson Intermediate School District
Medicaid School Based Services Program

July 1, 2009 – June 30, 2010



Office of Audit
November 2012



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
400 S. PINE; LANSING, MI 48933

JAMES K. HAVEMAN
DIRECTOR

November 13, 2012

Ms. Lynette K. Lynch
Manager, School Medicaid Cost Recovery
Special Education Department
Jackson County Intermediate School District
6700 Browns Lake Road
Jackson, MI 49201

Dear Ms. Lynch,

Enclosed is our final report for the Michigan Department of Community Health (MDCH) Medicaid School Based Services Program audit of the Jackson Intermediate School District 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

TABLE OF CONTENTS

	Page
Description of Agency	1
Background	1
Funding Methodology	2
Purpose and Objectives	3
Scope and Methodology	3

Conclusions, Findings and Recommendations

Internal Controls

1. Validity of Direct Medical Claims	4
--	---

Financial Reporting

2. Federal Funds	6
3. Inclusion of Unallowable Expenditures	7
4. Use of Estimates of Financial Data Reported	7
5. MAER Medical Staff Cost Report	8
6. Lack of Oversight of Financial Data Reported	9

Corrective Action Plans	11
-------------------------------	----

DESCRIPTION OF AGENCY

The Jackson Intermediate School District, one of 56 intermediate school districts (ISD) in Michigan, was established in 1962. ISDs are regional service agencies that offer support services to school personnel that are best delivered regionally. The Jackson Intermediate School District is a publicly funded school district regulated by the state and federal government.

The Jackson Intermediate School District administrative offices are located in Jackson, Michigan, serving the 12 public school districts and 2 public school academies in Jackson County. The Jackson Intermediate School District's Board of Education consists of five members. Under current rules, board members are elected to overlapping terms of six years each. Board members are chosen by the twelve local school districts within Jackson 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

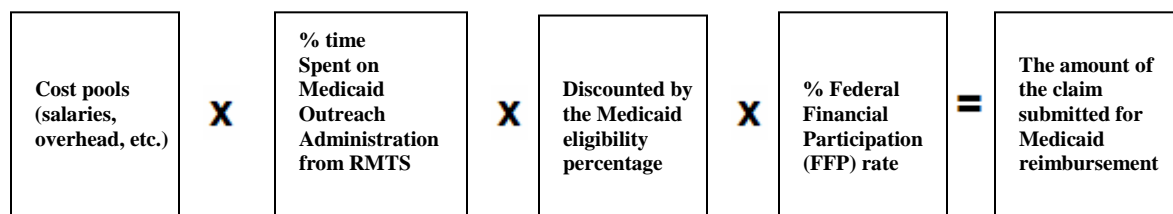
For an enrolled school district to receive reimbursement, the services provided must meet all Federal and State Medicaid regulations and provisions, including those for provider qualifications, comparability of services, and the amount, duration, and scope of services.

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

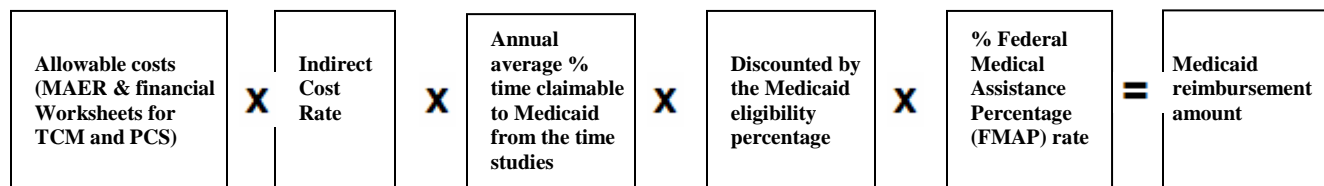
Each of the LEAs report staff salaries and related costs directly to a hired contractor, the Public Consulting Group (PCG). PCG combines the costs, applies various allocation percentages and submits the AOP claim directly to MDCH for review, processing and payment each fiscal quarter. Claim development 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 Jackson 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 the Jackson 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 Jackson Intermediate School District 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 Jackson Intermediate Schools 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 Jackson Intermediate School District and its LEAs selected for testing.

The scope of our audit was generally limited to determining whether the costs reported by the Jackson Intermediate School District 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 Jackson Intermediate School District 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 Jackson Intermediate School District and to four of twelve LEAs including Jackson Public Schools, East Jackson Community Schools, Grass Lake Community Schools and Springport 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 January through April 2012.

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

INTERNAL CONTROLS

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

Conclusion: The Jackson Intermediate School District 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 Jackson 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 review of one hundred-fifty sampled claims disclosed:

- Three claims were invalid because attendance records did not support that the student was present on the day the service was provided.
- One claim was invalid because the IEP was not complete and did not contain Annual Goals as required.
- One claim was invalid as the written referral by a physician/licensed practitioner was not documented.

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

- 14 students had 74 other claims that were invalid because they were submitted for a day that the student was marked absent in the attendance records or when school was closed due to a holiday, school break or district professional development day.

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

- 44 other claims were invalid because they were submitted for a day when the school was closed due to a holiday or snow day.

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

Recommendation

We recommend that Jackson ISD 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 Jackson 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 Jackson Intermediate School District 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 and misstatement, but we identified reportable deficiencies regarding Federal Funds (Finding 2), Inclusion of Unallowable Expenditure (Finding 3), Use of Estimates in Financial Data Reported (Finding 4), MAER Medical Staff Cost Report (Finding 5) and Lack of Oversight of Financial Data Reported (Finding 6).

Finding

2. Federal Funds

Jackson Public Schools did not comply with the Medicaid Provider Manual regarding the inclusion of federally funded expenditures pertaining to staff salaries and benefits.

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 Jackson Public School's payroll costs disclosed that federally funded expenditures of \$123,801 were included in the Eligible Cost/Cost Pool Summary Reports.

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

Recommendation

We recommend that Jackson Public Schools 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

Jackson Public Schools and Springport Public Schools did not comply with federal laws and regulations regarding allowable and allocable costs related 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. General Education expenditures are not related to Medicaid School Based Services program and cannot be included in the state match expenditures in the Eligible Cost/Cost Pool Summary Reports. The collective errors noted result in an overstatement of reported expenditures of \$79,529.

Our review of sampled employees in the payroll costs disclosed:

- Springport Public Schools allowed General Education 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 \$61,626.
- Jackson 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 \$17,903.

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

Recommendation

We recommend that Jackson Public Schools and Springport Public Schools report future costs in compliance with federal laws and regulations regarding allowable, reasonable, allocable costs pertaining to staff salaries and benefits.

Finding

4. Use of Estimates in Financial Data Reported

Jackson ISD and East Jackson did not comply with the Medicaid Provider Manual regarding the use of estimates in determining financial data reported.

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:

- Jackson ISD reported estimated costs for payroll in the Eligible Cost/Cost Pool Summary Reports. The use of estimated amounts resulted in an \$89,417 overstatement of expenditures for 64 employees and a \$248,239 understatement of expenditures for 106 employees.
- East Jackson reported estimated costs for payroll for the 2009 Q3A and Q3B quarters in the Eligible Cost/Cost Pool Summary Report. The use of estimated amounts resulted in a \$5,916 overstatement of expenditures in the 2009 Q3A quarter and a \$5,916 understatement of expenditures in the 2009 Q3B quarter.

East Jackson also reported estimated costs for materials and supplies in the Eligible Cost/Cost Pool Summary Report. The estimated costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$3,941.

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

Recommendation

We recommend that Jackson ISD and East Jackson comply with the Medicaid Provider Manual regarding the use of estimates in determining financial data reported.

Finding

5. MAER Medical Staff Cost Report

Jackson ISD did not comply with the Medicaid Provider Manual regarding the accuracy of financial data reported on the MAER Medical Staff Cost Report. Calculation errors, inadvertent omissions and lack of knowledge of the program contributed to the errors noted in the review of payroll costs. The collective errors resulted in an understatement of reported expenditures of \$143,392.

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 Jackson ISD reported Registered Nurse, Physical Therapist, Occupational Therapist, Orientation & Mobility Specialist, Speech Therapist, Teacher of Students with Speech and Language Impairments, Audiologist, and 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 \$143,392.

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

Recommendation

We recommend that Jackson ISD 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

6. Lack of Oversight of Financial Data Reported

Jackson Public Schools, East Jackson and Springport did not comply with the Medicaid Provider Manual regarding the accuracy of financial data reported on the Eligible Cost/Cost Pool Summary Reports. The collective errors resulted in an understatement of reported expenditures of \$111,013.

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 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.

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:

- Jackson Public Schools did report At-Risk Funds salaries and benefits on the Eligible Cost/Cost Pool Summary Reports. The costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$107,261.
- East Jackson reported AOP salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$2,472.
- Springport reported AOP salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The costs reported were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$1,280.

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

Recommendation

We recommend that Jackson Public Schools, East Jackson and Springport 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 Jackson ISD improve internal controls to ensure compliance with the Medicaid Provider Manual regarding the validity of Direct Medical Services claims.

Jackson ISD

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

Corrective Action: The following changes have been put in place:

- 1) The Lyle Torrant Center Program staff is now taking attendance later in the day. This change allows for attendance of students who come in late which help attendance records be more accurate.
- 2) The Jackson ISD sent two newsletters to staff reminding them to be careful and accurate with their billing dates.
- 3) The Jackson ISD is now utilizing a calendar feature in the billing software to block out billing for all holidays and snow days. Furthermore, the ISD has requested a program change to the software billing program that will link the attendance program (Power School) with the claim submission software (Excent Tera). For any student who is marked absent or for whom attendance is not taken, encounters will not be extracted for reimbursement.

Anticipated

Completion Date June 30, 2013

Corrective Action Plan

Finding Number: 2

Page Reference: 6

Finding: Federal Funds

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

Jackson ISD

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

Corrective Action: Jackson Public Schools has transferred the majority of their Administrative Outreach Program staff to the Jackson County ISD. With this significant change in staffing and responsibilities now at the ISD, the Jackson Public Schools has informed DCH that it has elected to no longer participate in the Administrative Outreach program.

Anticipated

Completion Date: Not applicable

Corrective Action Plan

Finding Number: 3

Page Reference: 6

Finding: **Inclusion of Unallowable Expenditures**

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

Jackson ISD

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

Corrective Action: Jackson County ISD School Medicaid Cost Recovery section will schedule a financial reporting training with the financial personnel of Springport Public Schools to provide instruction on allowable and allocable costs related to staff salaries and benefits to help ensure accurate financial reporting going forward.

Jackson Public Schools have transferred the majority of their Administrative Outreach Program staff to the Jackson County ISD. With this significant change in staffing and responsibilities now at the ISD, the Jackson Public Schools has informed DCH that it has elected to no longer participate in the Administrative Outreach program.

Anticipated

Completion Date: June 30, 2013

Corrective Action Plan

Finding Number: 4

Page Reference: 7

Finding: Use of Estimates in Financial Data Reported

Recommendation: We recommend that Jackson ISD and East Jackson comply with the Medicaid Provider Manual regarding the use of estimates in determining financial data reported.

Jackson ISD

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

Corrective Action: Jackson County ISD School Medicaid Cost Recovery section will schedule a financial reporting training with the financial personnel of the Jackson ISD and East Jackson to provide instruction on the use of estimates in determining financial data reported to help ensure accurate financial reporting going forward.

Anticipated

Completion Date: June 30, 2013

Corrective Action Plan

Finding Number: 5

Page Reference: 8

Finding: **MAER Medical Staff Cost Report**

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

Jackson ISD

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

Corrective Action: Jackson County ISD School Medicaid Cost Recovery section will schedule a financial reporting training with the financial personnel of the Jackson ISD to provide instruction on the MAER Medical Staff Cost Report to help ensure accurate financial reporting going forward.

Anticipated

Completion Date: June 30, 2013

Corrective Action Plan

Finding Number: 6

Page Reference: 9

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

Recommendation: We recommend that Jackson Public Schools, East Jackson and Springport 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.

Jackson ISD

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

Corrective Action: Jackson County ISD School Medicaid Cost Recovery section will schedule a financial reporting training with the financial personnel of the East Jackson and Springport to provide instruction on the Eligible Cost/Cost Pool Summary Reports to help ensure accurate financial reporting going forward.

Jackson Public Schools have transferred the majority of their Administrative Outreach Program staff to the Jackson County ISD. With this significant change in staffing and responsibilities now at the ISD, the Jackson Public Schools has informed DCH that it has elected to no longer participate in the Administrative Outreach program.

Anticipated

Completion Date: June 30, 2013