

# Audit Report

## Mason-Lake Intermediate School District Medicaid School Based Services Program

July 1, 2010 – June 30, 2011



Office of Audit  
July 2014



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GOVERNOR

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**DEPARTMENT OF COMMUNITY HEALTH**  
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DIRECTOR

June 30, 2014

Mr. Bradley Shoemaker  
Mr. Bill Mueller  
West Shore Educational Service District  
2130 West US-10  
Ludington, Michigan 49431

Dear Mr. Shoemaker and Mr. Mueller:

Enclosed is our final report for the Michigan Department of Community Health (MDCH) Medicaid School Based Services Program audit of the Mason-Lake Intermediate School District for the period July 1, 2010 – June 30, 2011.

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

The Mason-Lake ISD administrative offices were located in Ludington, Michigan, serving the six public school districts primarily in Mason and Lake County for the year ended June 30, 2011. The Mason-Lake ISD Board of Education consisted of nine members.

Effective July 1, 2012, Mason-Lake Intermediate Schools District and Oceana Intermediate School District merged to form West Shore Educational Service District. Our audit included reviews of the claims development process and the costs claimed by Mason-Lake ISD and its LEAs for the year ended June 30, 2011.

## **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

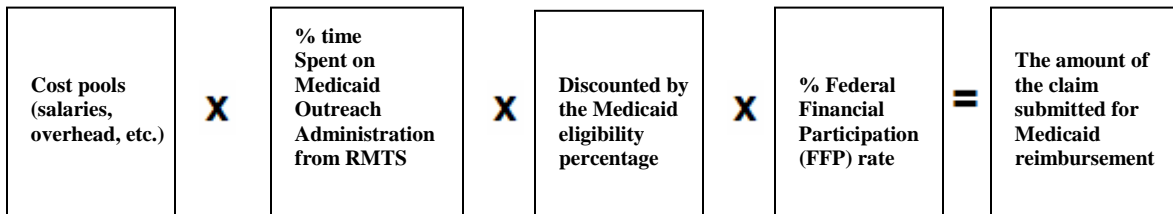
For an enrolled school district to receive reimbursement, the services provided must meet all Federal and State Medicaid regulations and provisions, including those for provider qualifications, comparability of services, and the amount, duration, and scope of services.

## 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

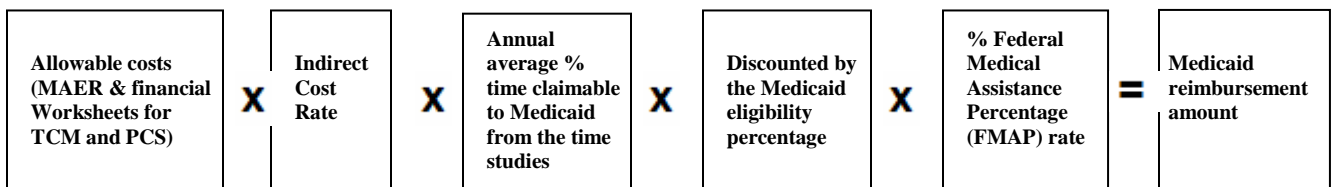
Staff salaries and related costs are reported directly to a hired contractor, the Public Consulting Group (PCG), by each of the LEAs. PCG combines the costs, applies various allocation percentages and submits the AOP claim directly to MDCH for review, processing and payment each fiscal quarter. Claim 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 Mason-Lake 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 Mason-Lake 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**

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 Mason-Lake 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 Mason-Lake and its LEAs selected for testing.

The scope of our audit was generally limited to determining whether the costs reported by the Mason-Lake 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 Mason-Lake 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 Mason-Lake Intermediate School District and to two of six LEAs including Ludington Area School District and Mason County Central 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 to July 2013.

## **CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS**

### **INTERNAL CONTROLS**

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

**Conclusion:** The Mason-Lake Intermediate School District and its LEAs were generally 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 Mason-Lake 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 six (12%) invalid claims in the 50 sampled claims we reviewed including:

- Three claims were invalid because the services were not supported with appropriate referrals.
- One claim was invalid because the IEP was not complete and did not contain Annual Goals as required.
- One claim was invalid because the service was not supported with a personal care services log.
- One claim was invalid because the service was not supported with provider supervision.

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

### **Recommendation**

We recommend that Mason-Lake 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 Mason-Lake 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 Mason-Lake 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 Federal Funds (Finding 2), Inclusion of Unallowable Expenditure (Finding 3), MAER Medical Staff Cost Report (Finding 4), and Lack of Oversight of Financial Data Reported (Finding 5).

### **Finding**

#### **2. Federal Funds**

Ludington Area School District and Mason-Lake ISD did not comply with the Medicaid Provider Manual regarding the inclusion of federal funds to expenditures pertaining to staff salaries and benefits. The error resulted in an overstatement of reported expenditures of \$56,398.

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:

- Ludington Area School District allowed federal funds to be included in the Eligible Cost/Cost Pool Summary Reports. One employee had federal funds of \$55,034 included in their salary and benefits.
- Mason-Lake ISD allowed federal funds to be included in the Eligible Cost/Cost Pool Summary Reports. Four employees had federal funds of \$1,364 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 Ludington Area School District and Mason-Lake ISD 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**

Ludington Area School District 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 \$5,538.

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.

Our review of sampled employees in the payroll costs disclosed:

- Ludington Area Schools reported “Athletic Activities” in the Eligible Cost/Cost Pool Summary Reports. “Athletic Activities” are not related to Medicaid services and

cannot be included in the state match expenditures. This resulted in an overstatement of reported expenditures by \$3,091.

- Ludington Area Schools reported “General Education Funds” in the Eligible Cost/Cost Pool Summary Reports. “General Education Funds” are not related to Medicaid services and cannot be included in the state match expenditures. This resulted in an overstatement of reported expenditures by \$2,447.

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

### **Recommendation**

We recommend that Ludington Area School District report future costs in compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits.

### **Finding**

#### **4. MAER Medical Staff Cost Report**

Mason-Lake ISD 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 \$3,411.

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:

- Mason-Lake ISD reported purchased services expenditures for RN-LPN in the MAER Medical Staff Cost Report. Staff pool listing errors resulted in an overstatement of these reported expenditures by \$3,411.

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

## **Recommendation**

We recommend that Mason-Lake 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**

### **5. Lack of Oversight of Financial Data Reported**

Mason County Central, Ludington Area School District, and Mason-Lake ISD did not comply with the Medicaid Provider Manual regarding the accuracy of financial data reported on the Eligible Cost/Cost Pool Summary Reports. The error resulted in an understatement of reported expenditures of \$34,806.

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:

- Mason County Central 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 \$24,631.
- Mason-Lake ISD reported salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The costs reported for salaries and benefits were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$16,280.
- Ludington Area School District reported contracted staff costs in the Eligible Cost/Cost Pool Summary Reports. The costs reported for contracted staff were greater than the actual expenditures in the financial accounting system and resulted in an overstatement of reported expenditures by \$3,000.
- Ludington Area School District reported salaries and benefits in the Eligible Cost/Cost Pool Summary Reports. The costs reported for salaries and benefits were less than the actual expenditures in the financial accounting system and resulted in an understatement of reported expenditures by \$46,157

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

**Recommendation**

We recommend that Mason County Central, Ludington Area School District, and Mason-Lake ISD 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 Mason-Lake ISD improve internal controls to ensure compliance with the Medicaid Provider Manual regarding the validity of Direct Medical Services claims.

### **Mason-Lake ISD**

**Comments:** Mason-Lake ISD (WSESD) agrees with these findings and recommendation.

**Corrective Action:** Illuminate billing software has provided the ability to verify a Referral/Script has been obtained prior to billing being submitted. This software also requires Provider Supervision be completed prior to the submission of encounters.

Mason-Lake ISD has developed professional development and internal monitoring to ensure service providers' understand requirements for Annual Goals, IEP Completion, and adequate documentation. In addition, a centralized storage of clinical and personal care notes will be maintained for easy access.

### **Anticipated**

**Completion Date:** This action has been completed.

## Correction Action Plan

**Finding Number:** 2

**Page Reference:** 5

**Finding:** **Federal Funds**

**Recommendation:** We recommend that Mason-Lake ISD and Ludington Area School District report future costs in compliance with the Medicaid Provider Manual regarding the inclusion of federal funds to expenditures pertaining to staff salaries and benefits.

### **Mason-Lake ISD**

**Comments:** Mason-Lake ISD and Ludington Area School District agree with the findings and recommendation.

**Corrective Action:** a) Mason-Lake ISD will provide training for all districts that participate in the program to ensure LEAs understand program policies that are in effect before completion of the quarterly AOP submissions.

b) Mason-Lake ISD will require a second review prior to submission.

Ludington has developed a new method of tabulating expenses and will review each staff's expense allocations manually, instead of solely relying on canned payroll reports.

### **Anticipated**

**Completion Date:** All of these procedures are in place and will be ongoing.

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 6

**Finding:** **Inclusion of Unallowable Expenditures**

**Recommendation:** We recommend that Ludington Area School District report future costs in compliance with federal laws and regulations regarding allocable costs pertaining to staff salaries and benefits.

### **Mason-Lake ISD**

**Comments:** Mason-Lake ISD and Ludington Area School District agree with the findings and recommendation.

**Corrective Action:** Mason-Lake 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.

Ludington has developed a new method of tabulating expenses and will review each staff's expense allocations manually, instead of solely relying on canned payroll reports.

### **Anticipated**

**Completion Date:** All of these procedures are in place and will be ongoing.

## Corrective Action Plan

**Finding Number:** 4

**Page Reference:** 7

**Finding:** **MAER Medical Staff Cost Report**

**Recommendation:** We recommend that Mason-Lake 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.

**Mason-Lake ISD**

**Comments:** Mason-Lake ISD agrees with the findings and recommendation.

**Corrective Action:** Mason-Lake ISD has implemented additional review procedures of the MAER report by the Business Services Manager and/or the Director of Business Services.

**Anticipated**

**Completion Date:** These procedures are in place and ongoing.



## Corrective Action Plan

**Finding Number:** 5

**Page Reference:** 8

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

**Recommendation:** We recommend that Mason County Central, Ludington Area School District, and Mason-Lake ISD 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.

### **Mason-Lake ISD**

**Comments:** Mason-Lake ISD, Mason County Central Schools and Ludington Area School District agree with the findings and recommendation.

**Corrective Action:** Mason-Lake ISD will provide training for all districts participating in the program to ensure that LEAs understand program policies in that are in effect before completion of the quarterly AOP submission.

Mason County Central will review the Medicaid Provider Manual to ensure proper reporting in the future. MCC will also perform a second review prior to submission.

Ludington has developed a new method of tabulating expenses and will review each staff's expense allocations manually, instead of solely relying on canned payroll reports.

### **Anticipated**

**Completion Date:** All of these procedures are in place and will be ongoing.