

Department of Health and Human Service

**OFFICE OF
INSPECTOR GENERAL**

**MICHIGAN IMPROPERLY RECEIVED
MEDICAID REIMBURSEMENT FOR
SCHOOL-BASED HEALTH SERVICES**

*Inquiries about this report may be addressed to the Office of Public Affairs at
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A-05-13-00056

Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

Michigan received \$954,408 in Federal reimbursement for the Medicaid school-based health services program that did not comply with Federal requirements.

WHY WE DID THIS REVIEW

States are permitted to use their Medicaid programs to help pay for certain services delivered to Medicaid-eligible children in schools. States may use random moment time studies (RMTS) to ascertain (for purposes of claiming Federal reimbursement) the portion of time and activities related to the provision of Medicaid school-based health services (SBHS).

During previous Office of Inspector General reviews, we determined that the use of an RMTS allocation methodology may allow costs that are not reasonable, adequately supported, or otherwise allowable. We, therefore, have undertaken a series of reviews of the use of RMTS for the claiming of direct medical service costs, including this review of the Michigan Department of Health and Human Services (State agency).

The objective of this review was to determine whether the State agency complied with Federal and State requirements when using an RMTS to claim direct medical service costs related to Medicaid SBHS for School Fiscal Year (SFY) 2011.

BACKGROUND

The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services administers the program. The State agency administers the Medicaid program in Michigan, including the SBHS program, in accordance with a Medicaid State plan.

The State agency contracted with Public Consulting Group (the Contractor) to manage portions of the SBHS program. The Contractor worked with the State agency on the design and implementation of a process for reporting and claiming costs at both the school district and State level. The current cost reimbursement process became effective in July 2008 and includes the use of a RMTS. The cost reimbursement process includes estimated monthly interim payments and final cost report-based claims, which are reconciled in a cost settlement process.

WHAT WE FOUND

The State agency did not always comply with Federal requirements when using an RMTS to claim direct medical service costs related to Medicaid SBHS. Specifically, the RMTS methodology did not meet acceptable standards because the sample universe from which the State agency selected the sample items was incomplete. The sample universe did not contain all the job titles of the employees whose salaries and wages were allocated on the basis of the sample results. As a result, the State agency received unallowable Federal reimbursement totaling \$954,408 for services provided during SFY 2011.

WHAT WE RECOMMEND

We recommend that the State agency:

- refund \$954,408 (Federal share) to the Federal Government for unallowable SBHS costs and
- strengthen policies and procedures to monitor the SBHS program and ensure that it claims all SBHS costs in accordance with applicable Federal and State requirements.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our recommendations and provided details about corrective actions.

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INTRODUCTION

WHY WE DID THIS REVIEW

The Social Security Act (the Act) permits Medicaid payment for medical services provided to children under the Individuals with Disabilities Education Act of 2004. States are permitted to use their Medicaid programs to help pay for certain services, such as physical and speech therapy, which are delivered to Medicaid-eligible children in schools. To ascertain (for purposes of claiming Federal reimbursement) the portion of time and activities of a school-based health program that is related to the provision of Medicaid services, States may develop an allocation methodology that is approved by the Centers for Medicare & Medicaid Services (CMS). Random moment sampling, which makes use of random moment time studies (RMTS), is an allocation methodology that reflects all of the time used and activities performed (whether allocable or allowable under Medicaid) by employees participating in a school-based health program.

During previous Office of Inspector General reviews of school district administrative claiming and health services programs (Appendix A), we determined that the use of an RMTS allocation methodology may allow costs that are not reasonable, adequately supported, or otherwise allowable. We, therefore, have undertaken a series of reviews of the use of RMTS for the claiming of direct medical service costs related to Medicaid school-based health services (SBHS), including this review of the Michigan Department of Health and Human Services (State agency).

OBJECTIVE

Our objective was to determine whether the State agency complied with Federal and State requirements when using an RMTS to claim direct medical service costs related to Medicaid SBHS for School Fiscal Year (SFY) 2011.

BACKGROUND

Medicaid Program and Health-Related Services to Children

The Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, CMS administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements.

Congress amended section 1903(c) of the Act in 1988 to allow Medicaid coverage of Medicaid services included in a child's individualized education plan (IEP). The school-based health program permits Medicaid-eligible children to receive health-related services that are specified in each child's IEP, generally without having to leave school.

SBHS included in a child's IEP may be covered under Medicaid as long as (1) the services are listed in section 1905(a) of the Act and are medically necessary; (2) all other relevant Federal and State regulations are followed; and (3) the services are included in the State Medicaid plan or are available under the Early and Periodic Screening, Diagnosis, and Treatment Medicaid benefit. Similarly, school-based health services are also covered under the Children's Health Insurance Program (CHIP) as long as those services meet the requirements of section 2103 of the Act and the CHIP State plan. Covered direct medical services may include, but are not limited to, physical therapy, occupational therapy, speech pathology/therapy, psychological counseling, nursing, and specialized transportation services. Direct medical service costs are composed of salary and benefit costs for employees or contractors of the school districts¹ who provide direct medical services to students, as well as the costs of equipment, material, supplies, and purchased services relating to direct medical services provided to students.

To report actual Medicaid expenditures for each quarter, States use the standard Form CMS-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64 report). CMS uses the CMS-64 report to reimburse States for the Federal share of Medicaid expenditures. The amounts that States report on the CMS-64 must be actual expenditures with supporting documentation.

Michigan School-Based Health Services Program

The State agency administers the Medicaid program in Michigan, including the SBHS program, in accordance with a CMS-approved State plan. SBHS include the following direct medical services: occupational therapy; physical therapy; speech language and hearing; psychological; physician; nursing; transportation; personal care; and targeted case management.

The State agency contracted with the Public Consulting Group (the Contractor) to manage portions of the SBHS program. The Contractor worked with the State agency on the design and implementation of a process for reporting and claiming costs at both the school district and State level. The current cost reimbursement process became effective in July 2008. It includes estimated monthly interim payments and final cost report-based claims, which are reconciled in a cost settlement process.

Interim Claims and Payments

On an ongoing basis, the State calculates interim payments based on an estimated monthly cost formula. The monthly cost formula utilizes prior year costs plus any inflation or program changes to calculate a monthly interim reimbursement amount. The State agency claimed Federal reimbursement for these interim payments on its quarterly CMS-64 report.

¹ School districts providing SBHS are defined in the State plan as Medicaid enrolled providers that are also an intermediate school district, local school district as defined in Section 5 of Act 451 of 1976, as amended, or Michigan School for the Deaf and Blind.

Michigan School-Based Medicaid Random Moment Time Study Methodology

The State's CMS-approved RMTS methodology uses a technique of polling employees at random moments over a given time period and tallying the results of the polling over that period. The State defines the sampling period as the three-month period comprising each quarter of the SFY, except for the abbreviated sample period used in the summer quarter (July – September).

The Contractor uses software to produce random moments concurrent with the entire reporting period which are then paired with randomly selected participants of the statewide designated staff pool. The sampling provides each participant in the pool with an equal opportunity or chance to be included in each sample moment.

The RMTS results identify the percentage of claimable time applied to the allowable correlating cost pool.

Cost Settlement

On an annual basis, the State agency subtracts each school district's total interim payments for dates of service within the SFY from the Medicaid-allowable direct medical service costs derived through the cost reporting process. The reconciliation process is referred to as cost settlement. The reimbursement resulting from the cost settlement process is the final reimbursement to the school district for that fiscal year.

HOW WE CONDUCTED THIS REVIEW

We reviewed Medicaid direct medical service costs claimed by the State agency for SBHS provided by 59 participating school districts during SFY 2011 (July 1, 2010, through June 30, 2011). The State agency claimed a total of \$273,747,017 (\$200,136,445 Federal share) for the period, which included \$189,726,474 (\$138,572,242 Federal share) for interim payments and \$84,020,543 (\$61,564,203 Federal share) as a result of the cost settlement process.

We reviewed the sections of the CMS-64 report pertaining to SBHS direct medical services. In addition, we reviewed the cost settlement process at the State agency, including a review of the interim payments to each school district.

We reviewed all 7,108 RMTS responses that were coded as direct medical services to determine whether the Contractor had coded these moments appropriately.² Additionally, we selected a statistical sample of 100 of those responses to determine whether an employee was on leave during their RMTS moment.

We performed an in-depth review of the cost reports filed by the Ingham Intermediate School District (Ingham) and Wayne Regional Educational Service Agency (Wayne) school districts. We selected these districts on the basis of the costs claimed. Of the Statewide claim of

² The 7,108 moments reviewed were coded as direct service (5,049), personal care (1,401), and targeted case management (658).

\$273,747,017 (\$200,136,445 Federal share) mentioned above, Ingham claimed \$11,294,086 (\$8,257,108 Federal share) and Wayne claimed \$30,184,455 (\$22,067,857 Federal share).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B contains the details of our audit scope and methodology.

FINDING

The State agency did not always comply with Federal requirements when using an RMTS to claim direct medical service costs related to Medicaid SBHS. Specifically, the RMTS methodology did not meet acceptable standards because the sample universe from which the State agency selected the sample items was incomplete. The sample universe did not contain all the job titles of the employees whose salaries and wages were allocated on the basis of the sample results. As a result, the State agency received unallowable Federal reimbursement totaling \$954,408 for services provided during SFY 2011.

Federal cost principles (2 CFR part 225, Appendix B, section 8.h.(6)), state: “Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports Such systems may include ... random moment sampling.” Section 8.h.(6)(a)(i) states that sampling methods used to allocate salaries to Federal awards must meet acceptable statistical sampling standards, including the sampling universe must include all of the employees whose salaries and wages are to be allocated on the basis of the sample results.

The State requires the school districts to provide a complete listing of all employees and their job title, whose salaries and wages are allocated based on the sample results, to be placed in the sample universe for selection. The State calculates cost based on the total allowable salaries and wages regardless of whether a school district may or may not list an employee within the sample universe for a particular job title. Thirteen of the 59 school districts overstated salary amounts in the cost settlement documents when there were no corresponding job titles of employees within the sample universe. For example, one school district listed a salary cost of \$177,444 for 1 full-time psychologist where no employee with that title was listed within in the sample universe. After the allocation, the State reimbursed the school district for an unallowable Medicaid reimbursement of \$92,439 (\$67,583 Federal share).

RECOMMENDATIONS

We recommend that the State agency:

- refund \$954,408 (Federal share) to the Federal Government for unallowable SBHS costs and
- strengthen policies and procedures to monitor the SBHS program and ensure that it claims all SBHS costs in accordance with applicable Federal and State requirements.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our recommendations and provided details about corrective actions. The State agency's comments are included in their entirety as Appendix C.

APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Report Title	Report Number	Date Issued
<i>Review of Colorado Direct Medical Service and Specialized Transportation Costs for the Medicaid School Health Services Program for State Fiscal Year 2008</i>	A-07-11-04185	April 2012
<i>Review of Kansas Medicaid Payments for the School District Administrative Claiming Program during the Period April 1, 2006, Through March 31, 2009</i>	A-07-10-04168	October 2012
<i>Arizona Improperly Claimed Federal Reimbursement for Medicaid School-Based Administrative Costs</i>	A-09-11-02020	January 2013
<i>Kansas Improperly Received Medicaid Reimbursement for Medicaid School-Based Health Services</i>	A-07-13-04207	August 2014
<i>Massachusetts Generally Complied with Medicaid Requirements when Claiming Reimbursement for School-Based Health Services</i>	A-01-14-00003	September 2015

APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed Medicaid direct medical service costs claimed by the State agency for SBHS during SFY 2011 (July 1, 2010, through June 30, 2011). For this period, the State agency received \$200,136,445 in Federal reimbursement for Medicaid direct medical service costs claimed by 59 participating school districts in Michigan.

We performed an in-depth review of the cost reports filed by the Ingham and Wayne school districts. We selected these districts on the basis of the amounts that the State agency claimed on their behalf for SBHS provided during SFY 2011. Of the \$200,136,445 in Federal reimbursement mentioned above, Ingham claimed \$8,257,108 and Wayne claimed \$22,067,857. We did not review Medicaid direct medical service costs at the remaining 57 participating school districts in Michigan.

We did not perform a detailed review of the State agency's internal controls because our objective did not require us to do so. We limited our internal control review to obtaining an understanding of the State agency's policies and procedures for the claiming of direct medical service costs related to Medicaid SBHS.

We conducted our fieldwork from October 2013 through February 2016.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal and State requirements;
- reviewed the State agency's policies and procedures for school districts to claim SBHS expenditures, which included the State agency's monitoring and oversight procedures;
- interviewed State agency employees to understand how they administered the SBHS program statewide;
- reviewed the sections of the CMS-64 report pertaining to SBHS direct medical services for the quarter ending September 30, 2010, through the quarter ending June 30, 2011;
- reconciled cost report-based claims on the CMS-64 report with the State agency's supporting schedules;
- reviewed the cost settlement process at the State agency, including a review of the interim payments to each school district; and
- shared the results of this review, including the details of our recommended adjustments, with State agency officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C: STATE AGENCY COMMENTS



STATE OF MICHIGAN
DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

RICK SNYDER
GOVERNOR

NICK LYON
DIRECTOR

September 12, 2016

Ms. Sheri L. Fulcher
Regional Inspector General for Audit Services
Office of Inspector General
Office of Audit Services, Region V
233 North Michigan Avenue
Suite 1360
Chicago, IL 60601

Re: Report Number A-05-13-00056

Dear Ms. Fulcher:

Enclosed is the Michigan Department of Health and Human Services response to the draft report entitled "Michigan Improperly Received Medicaid Reimbursement for School-Based Health Services" for School Fiscal Year Ending June 30, 2011.

We appreciate the opportunity to review and comment on the report before it is released. If you have any questions regarding this response, please refer them to Pam Myers at Myersp3@Michigan.gov or (517) 373-1508.

Sincerely,

/Nick Lyon/

NL:kk

Enclosure

c: Farah Hanley
Chris Priest
Pam Myers

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MDHHS agrees that it did not always comply with Federal requirements in SFY 2011 when using an RMTS to claim direct medical service costs related to Medicaid SBHS.

MDHHS strengthened policies and procedures to monitor the SBHS program to ensure that future claims of SBHS costs are in accordance with applicable Federal and State Requirements including:

- The MDHHS Rate Review Section works with the RMTS contractor to conduct ongoing reviews to ensure that eligible employees match the employees listed on the annual cost report.
- The MDHHS Special Audit Section performs ongoing risk-based audits of the school districts and specifically reviews annual cost reports for unallowable Federal Reimbursement.
- Ongoing annual trainings are provided to school districts to ensure that Federal and State requirements are clearly communicated. The RMTS contractor provides annual training via teleconference and the MDHHS SBHS Policy section provides annual in-person training regarding proper reporting of the annual cost report.

MDHHS will return the federal share of any unallowable SBHS costs to the federal government.