

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Department of Health Care Finance



Office of the Chief Financial Officer

April 6, 2017

Yvonne Smith
Chief Utilization Manager
Non-Public Payment & Recovery Units
Strategic Operations Unit
DC Office of the State Superintendent of Education (OSSE)
810 First Street, NE, 5th Floor
Washington, DC 20002

Re: Final Notice of Program Reimbursement (FNPR) Fiscal Periods: 10/1/2013 – 9/30/2014
Provider Number: 041240500

Dear Ms. Smith:

In accordance with Sections 1309 through 1311 of Title 29 of the District of Columbia Municipal Regulations (DCMR) and the D.C. State Plan for Medical Assistance (State Plan), the Department of Health Care Finance (DHCF) has made a final determination of program reimbursement for your program for the period beginning October 1, 2013 through September 30, 2014.

Enclosed within exhibit one are the following:

- 1) Your audited cost report, which includes an audit adjustment report. The audit adjustment report included with the audited cost report reflects the individual adjustments made and includes appropriate reference to and citation of applicable law, regulation, and general program instructions, which were used as a basis for these adjustments.
- 2) Schedule of findings and recommendations. The schedule of findings and recommendations details various criteria, conditions, causes, effects, and recommendations which have been noted in the course of the audit investigation.
- 3) Report on Compliance and Internal Control over Compliance. The report summarizes deficiencies and significant deficiencies in internal control over compliance noted which might lead to a reasonable possibility of material noncompliance with a federal program compliance requirement, or other important concerns.

The final determination differs from what is shown as total amount payable to your program on your submitted cost report because, in accordance with the D.C. State Plan for Medical Assistance, adjustments resulting from the audit are incorporated in this final notice of program reimbursement.

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April 6, 2017

Based on the calculation exhibited in the audit adjustments (see exhibit one), our determination results in a total program reimbursement (amount due your program for providing services to Medicaid recipients) of \$11,363,633. After deducting payments of \$1,333,909, the Medicaid program owes your program \$10,029,724, of which \$7,020,807, of FFP is due. Since a net settlement is due to your program, our payment will be processed within forty-five (45) days of the date of this notice, provided that no other balances are owed to the D.C. Medicaid program.

You are hereby notified of your right to an administrative review of this Final Notice of Program Reimbursement. Within sixty (60) days of the date of the FNPR, a program that disagrees with the FNPR shall submit a written request or administrative review of the FNPR to:

Darrin Shaffer, Agency Fiscal Officer
Department of Health Care Finance
441 4th Street, N.W., Suite 960S
Washington, DC 20001

The written request for administrative review shall include a specific description of the audit adjustment or item to be reviewed, the reason for the request for review of the adjustment or item, the relief requested, and documentation in support of the relief requested.

The Medicaid Program shall mail a written determination relative to the administrative review to your program no later than hundred and twenty (120) days from the date of receipt of your program's written request for administrative review. Within thirty (30) days of receipt of the Medicaid Program's written determination, the provider may appeal the written determination by filing a written notice of appeal with the

DC Office of Administrative Hearings
441 4th Street, N.W., Suite 450N
Washington, DC 20001-2714

Filing an appeal with the Office of Administrative Hearings shall not stay any action to recover any overpayment to your program. Your program shall be liable immediately to the Medicaid Program for any overpayment set forth in the Medicaid Program's determination.

This determination is subject to revision during the three (3) year period following the date of this notice, if such revision is required by the discovery of an error in this determination or additional documentation and/or updated information is obtained. Where such revision is required, a new notice will be issued as soon as possible after a revised determination.

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April 6, 2017

If you have questions, you may contact me at (202) 442-9079.

Sincerely,

A handwritten signature in black ink that reads "Darrin A. Shaffer". The signature is written in a cursive, flowing style.

Darrin Shaffer, AFO, DHCF

Enclosure(s)

cc: Wayne Turnage, Director, DHCF
Sumita Chaudhuri, Deputy Director (Medicaid Finance), DHCF
Melanie Williamson, Chief of Staff, DHCF
Claudia Schlosberg, Medicaid State Director, DHCF
Frederick L. Hoeflinger, DHCF
Pat Hinsley, DHCF
Amy Xing, DHCF
Deloras Shepherd, ACFO, DCPS

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF HEALTH CARE FINANCE
SCHEDULE OF MEDICAID COSTS
OF
OFFICE OF THE STATE OF SUPERINTENDENT OF EDUCATION
FOR THE YEAR ENDED SEPTEMBER 30, 2014
(Together with Independent Auditor's Report)





1090 Vermont Ave., NW
Suite 920
Washington, DC 20005

P.O. Box 2478
Kingshill, VI 00851

111 South Calvert St.
Suite 2700
Baltimore, MD 21202

INDEPENDENT AUDITOR'S REPORT

Report on Compliance

We have audited the Office of the State Superintendent of Education (OSSE) compliance with Medicaid laws and regulations reflected in the Provider Reimbursement Manual (PRM Pub. 15) and the District of Columbia (D.C.) State Plan applicable to the Financial and Statistical Report (cost report) for the year ended September 30, 2014.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of OSSE's management.

Auditor's Responsibility

Our responsibility is to express an opinion on OSSE's compliance based on our audit of the cost report. We have not audited the financial statements of OSSE, as of and for the year ended September 30, 2014 and accordingly, we do not express an opinion thereon.

We conducted our audit of compliance in accordance with the auditing standards generally accepted in the United States of America and the applicable standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with Medicaid laws and regulations that could have a material effect on the determination of reimbursable costs occurred. An audit includes examining, on a test basis, evidence about OSSE's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of OSSE's compliance with those requirements.

Basis for Qualified Opinion

OSSE did not comply with various Medicaid compliance requirements. These findings are fully explained in the accompanying Appendix A - Findings and Recommendations. Accordingly, certain adjustments have been proposed to the cost report based on those items of noncompliance. The details of the adjustments are on page 4 of the accompanying Medicaid Adjustment Report and their effects on expenses can be found on page 3 of the cost report. As noted above, our responsibility is to express an opinion on OSSE's compliance, based on an audit of the cost report. The ultimate disposition of the adjustments and findings is the responsibility of the Government of the District of Columbia Department of Health Care Finance.

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bsmith@bertsmithco.com



Qualified Opinion

In our opinion, except for the effects of the accompanying Medicaid Adjustment Report and the related findings referred to above, OSSE complied, in all material respects, with the requirements governing the allowability of costs eligible for reimbursement pursuant to the principles promulgated by the Provider Reimbursement Manual (PRM Pub. 15) and the applicable District of Columbia State Plan for the fiscal year ended September 30, 2014.

Internal Control over Compliance

The management of OSSE is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above applicable to allowable cost reimbursement. In planning and performing our audit, we considered OSSE's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OSSE's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in OSSE's internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in the internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

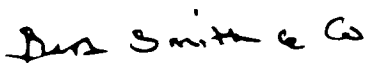
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. *A material weakness in internal control over compliance* is a deficiency or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Appendix A - Findings and Recommendations as items 2014-02, 2014-05 and 2014-06 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention. We consider the deficiencies in internal control over compliance described in the accompanying Appendix A - Findings and Recommendations as items 2014-01, 2014-03, 2014-04, 2014-07 and 2014-08 to be significant deficiencies.

OSSE's Response to Findings

OSSE's response to the findings identified in our audit are described in the accompanying Appendix A - Findings and Recommendations. We did not audit OSSE's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the District of Columbia Department of Health Care Finance and the management of OSSE, and is not intended to be and should not be used by anyone other than these specified parties.



Washington D.C.
February 17, 2017

OFFICE OF THE STATE OF SUPERINTENDENT OF EDUCATION
SCHEDULE OF MEDICAID COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>Cost Report</u>	<u>Audit Adjustments</u>	<u>Adjusted Costs</u>
<i>Transportation</i>			
Salaries and Wages and Benefits	\$ 47,130,097	\$ 14,147,524	\$ 61,277,621
Nonpayroll Costs	20,418,112	(12,885,384)	7,532,728
Total Direct Costs	67,548,209	1,262,140	68,810,349
Total Indirect Costs	13,509,642	(1,209,118)	12,300,524
Total Direct and Indirect Costs	81,057,851	53,022	81,110,873
Specialized Transportation IEP Ratio	14.01%	-	14.01%
Total Specialized Transportation Costs	11,356,205	-	11,363,633
Total Medicaid Claims Paid	(1,342,696)	8,787	(1,333,909)
Difference Between CPE and Claims Paid	10,013,509		10,029,724
Federal Financial Participation %	70%	-	70%
FFP Amount Due To/(Due From) Provider	\$ 7,009,456	\$ -	\$ 7,020,807

OFFICE OF THE STATE OF SUPERINTENDENT OF EDUCATION
MEDICAID ADJUSTMENT REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2014

Adjustment No.	Description	Cost Increase (Decrease)
1	To adjust salaries and wages to agree to OSSE's accounting records. [OMB Circular A-87, Cost Principles and Medicaid State Plan- Attachment 4.19B]	
	Salaries and Wages and Benefits	\$ 1,280,095
2	To include OSSE's fringe benefit costs based on the agency's actual fringe benefit rate for the fiscal year. [OMB Circular A-87, Cost Principles and Provider Reimbursement Manual (PRM)-Part I: 2304.1]	
	Salaries and Wages and Benefits	\$ 12,867,429
3	To adjust nonpayroll costs to agree to OSSE's accounting records. [OMB Circular A-87, Cost Principles and Medicaid State Plan- Attachment 4.19B]	
	Non-Payroll Costs	\$ (434,389)
4	To adjust salary costs for costs that could not be supported with documentation. [OMB Circular A-87, Cost Principles and Medicaid State Plan-Attachment 4.19B]	
	Non-Payroll Costs	\$ (8,147)
5	To recalculate depreciation expense based on the agency's recorded fixed assets. Provider Reimbursement Manual (PRM)-Part I: 104]	
	Nonpayroll Costs	\$(12,442,848)
6	To adjust indirect costs based on allowable payroll, fringe benefits and nonpayroll costs in accordance with OSSE's approved indirect cost rate agreement. [OSSE's approved Indirect Cost Rate Agreement]	
	Indirect Costs	\$ (1,209,118)
7	To adjust Medicaid claims paid to agree with DCHF records. [Medicaid State Plan – Attachment 4.19B]	
	Paid Claims	\$ 8,787

APPENDIX A

**OFFICE OF THE STATE OF SUPERINTENDENT OF EDUCATION
FINDINGS AND RECOMMENDATIONS**

2014-01

Cost Report Expenditures Not Reconciled to Accounting Records (Adjustment #1 and #3)

Findings:

The payroll and nonpayroll (less capital expenditures) costs in the cost report did not agree to OSSE's accounting records. The cost report reflected payroll and nonpayroll expenditures of \$47,130,097 and \$7,053,310, respectively. In our review of OSSE's accounting records and testing of the costs, we were able to substantiate payroll costs of \$48,410,192 and nonpayroll costs of \$6,618,921.

	Cost Report	Accounting Records	Difference (Under) Over
Payroll	\$47,130,097	\$48,410,192	\$(1,280,095)
Nonpayroll	\$ 7,053,310	\$ 6,618,921	\$ 434,389

Regulation(s):

- **OMB Circular A-87, Cost Principles** states, "...to be allowable under Federal awards, costs must be adequately documented. Costs must also be necessary and reasonable for proper efficient performance and administration of Federal awards.
- **Medicaid State Plan Attachment 4.19B** – Transportation costs included on the cost report worksheet will only include those personnel and non-personnel costs associated with special education reduced by any federal payments for these costs, resulting in adjusted costs for transportation. The source of these costs will be the audited Trial Balance and supporting General Ledger, journals and source documents kept by OSSE. Costs are reported on an accrual basis.

It appears that the payroll and nonpayroll (less capital expenditures) costs may have been based on estimates and or budgeted amounts. Adjustments were made in the adjusted cost report to increase the payroll costs by \$1,280,095 and decrease the nonpayroll costs by \$434,389 for the differences between the cost report and the accounting records.

Recommendation:

We recommend that OSSE include only those allowable costs that reconcile to its accounting records.

**Management's
Response:**

Findings: OSSE concurs with the Auditor's findings. The \$1,280,095 increase in payroll costs and the \$434,389 decrease in non-payroll expenditures resulted from the inclusion of invoices from the prior fiscal year in the cost report.

Recommendation: OSSE concurs with the Auditor's recommendations. OSSE DOT will continue to work closely with the Agency Fiscal Officer (AFO) accounting office to ensure that costs reconcile with accounting records.

APPENDIX A

OFFICE OF THE STATE OF SUPERINTENDENT OF EDUCATION
FINDINGS AND RECOMMENDATIONS *(Continued)*

2014-02

*Fringe Benefits Excluded from the Cost Report (Adjustment #2)***Finding:**

OSSE incorrectly excluded fringe benefit costs from the cost report. It was determined that OSSE's payroll system was unable to produce a report which shows the fringe benefits paid for each employee. As a result, a fringe benefit rate was calculated based on OSSE's total salaries and wages and fringe benefits incurred for the fiscal year. The fringe benefit rate calculated for 2014 was 26.58%. The recalculation resulted in an increase to fringe benefit costs of \$12,867,429. An adjustment has been made in the adjusted cost report.

Regulation(s):

- **OMB Circular A-87, Cost Principles** states, "...to be allowable under Federal awards, costs must be adequately documented. Costs must also be necessary and reasonable for proper efficient performance and administration of Federal awards.
- **Provider Reimbursement Manual (PRM)-Part I: 2304.1** – A participating provider of services must make available to its Intermediary its fiscal and other records for the purpose of determining its ongoing record keeping capability. The Intermediary's examination of such records and documents are necessary to ascertain information pertinent to the determination of the proper amount of program payments due the provider.

The calculation resulted in an increase of \$12,867,429 to fringe benefit costs. An adjustment has been made in the adjusted cost report.

Recommendation:

We recommend that OSSE calculate and include actual fringe benefit costs incurred for their employees in the cost report. If the actual fringe benefit costs cannot be determined from its accounting records, a fringe benefit rate should be calculated and applied to the allowable payroll costs.

Management's Response:

Findings: OSSE concurs with the Auditor's findings that the fringe benefit costs were inadvertently excluded from the cost report.

Recommendation: OSSE concurs with the Auditor's recommendations. Fringe benefits incurred will be included in the cost report and any problems entering data into the report will be addressed.

APPENDIX A

OFFICE OF THE STATE OF SUPERINTENDENT OF EDUCATION
FINDINGS AND RECOMMENDATIONS *(Continued)*

2014-03 *Some Fuel Costs Not Adequately Supported with Documentation (Adjustment #4)*

Findings: Our testing of monthly fuel expenditure transactions revealed that some of the fuel expenditures were not adequately documented:

- The cost of fuel for leased vehicles was included in fuel costs.
- The fuel costs for one month per the billing statement did not agree to the costs as recorded in the accounting records.

The fuel costs for leased vehicles were inadvertently included in the cost report. Leased vehicles do not transport Medicaid students and as such the costs are unallowable. In addition some fuel costs could not be substantiated with supporting documentation.

Regulation(s):

- **OMB Circular A-87, Cost Principles** states, "...to be allowable under Federal awards, costs must be adequately documented. Costs must also be necessary and reasonable for proper efficient performance and administration of Federal awards.
- **Medicaid State Plan Attachment 4.19B** states that transportation to and from school may be claimed as a Medicaid service when the following conditions are met:
 - a. Transportation is specifically listed in the IEP as a required service.
 - b. The child requiring transportation in a vehicle with personnel specifically trained to serve the needs of an individual with a disability.
 - c. A medical service is provided on the day that specialized transportation is billed; and
 - d. The service billed only represents a one-way trip.

Our testing resulted in a decrease to fuel costs of \$8,147. An adjustment has been made in the adjusted cost report for the disallowance.

Recommendation: We recommend that OSSE adjusts costs that are unallowable and cannot be supported during cost report preparation.

**Management's
Response:**

Findings: OSSE concurs with the Auditor's findings.

Recommendation: OSSE concurs with the Auditor's recommendations. OSSE DOT will continue to work closely with the Agency Fiscal Officer (AFO) accounting office to ensure that costs reconcile with accounting records. Additionally, any fuel charges related to vehicles that do not transport Medicaid eligible students will not be included in the cost report.

APPENDIX A

OFFICE OF THE STATE OF SUPERINTENDENT OF EDUCATION
FINDINGS AND RECOMMENDATIONS *(Continued)*

2014-04

*Depreciation Expense Not Calculated Properly (Adjustment #5)***Finding:**

OSSE included depreciation expense of \$13,364,802 in the cost report. Based on the buses purchased in the prior and current fiscal years, the calculated depreciation expense should have been \$921,954. An adjustment was made in the adjusted cost report to decrease depreciation expense by \$12,442,848.

Regulation(s):

- **PRM-Part I: 104 – Depreciable Assets**---Assets that a provider has an economic interest in through ownership (regardless of the manner in which they were acquired) are subject to depreciation. Depreciation is that amount which represents a portion of the depreciable asset's cost or other basis which is allocable to a period of operation. The amount of depreciation is determined by the provider's method of depreciation accounting.

Recommendation:

We recommend that OSSE calculates depreciation expense only on recorded depreciable assets used to provide transportation services under the Medicaid program.

Management's
Response:

Findings: OSSE concurs with the Auditor's findings.

Recommendation: OSSE concurs with the Auditor's recommendations. OSSE DOT will continue to work closely with the Agency Fiscal Officer (AFO) accounting office to ensure that depreciation expense is calculated for all depreciable assets used to provide transportation services under the Medicaid program and that the amounts included in the cost report reconcile to accounting records for depreciation expense for the period covered in the cost report.

APPENDIX A

OFFICE OF THE STATE OF SUPERINTENDENT OF EDUCATION
FINDINGS AND RECOMMENDATIONS *(Continued)*

2014-05 *Indirect Cost Rate Used Not In Accordance With Indirect Cost Rate Agreement (Adjustment #6)*

Finding: OSSE has an approved indirect cost agreement which allows the agency to charge indirect costs to federal programs. Under the agreement, indirect costs can only be applied to sub-awards up to \$25,000.

It appears that OSSE applied the approved 20% indirect costs rate to the entire nonpayroll expenditure population instead of applying the rate to subawards up to \$25,000.

Regulation(s):

- **OSSE Approved Indirect Cost Rate Agreement** – Under the indirect cost rate agreement, the base for calculating indirect costs is the direct costs less items of equipment, alterations and renovations, flow-through funds and that portion of each sub-award in excess of \$25,000.

The net effect to the cost report was a decrease of \$1,209,118 in indirect costs. An adjustment has been made in the adjusted cost report.

Recommendation: We recommend that OSSE allocate indirect costs to the Medicaid program in accordance with its approved indirect cost rate agreement.

**Management's
Response:**

Findings: OSSE concurs with the Auditor's findings.

Recommendation: OSSE concurs with the Auditor's recommendations. Medicaid is a reimbursement of expenses incurred by OSSE DOT for transporting Medicaid eligible students. However, they are federal funds and subject to applicable indirect cost rate per the Agency Fiscal Office.

APPENDIX A

OFFICE OF THE STATE OF SUPERINTENDENT OF EDUCATION
FINDINGS AND RECOMMENDATIONS *(Continued)*

2014-06

*Inaccurate Reimbursable Payments (Adjustment #7)***Finding:**

The total Medicaid paid claims paid amount of \$1,342,696 in the cost report did not agree with the D.C. Department of Health Care Finance's (DHCF) records of \$1,333,909.

Regulation(s):

- **Medicaid State Plan - Attachment 4.19B** – The cost reconciliation process must be completed with twenty-four months of the end of reporting period covered by the annual cost report. The total CMS-approved, Medicaid allowable scope of costs based on CMS-approved cost allocation methodology procedures are compared to the provider's Medicaid interim payments for school based health services delivered during the reporting period as documented in the Medicaid Management Information System (MMIS) resulting in cost reconciliation.

An adjustment of \$8,787 was made in the cost report to agree with DHCF's records.

Recommendation:

We recommend that OSSE reconcile their paid claims records to DHCF and include this figure in their cost report.

**Management's
Response:**

Findings: OSSE does not concur with the Auditor's findings. OSSE reports what has been actually paid out by DHCF at the time of cost reporting. OSSE has no knowledge of the process DCHF utilizes to determine this figure. It would be beneficial for DHCF to explain their calculation for this field.

Recommendation: OSSE concurs with the Auditor's recommendation if DCHF will provide the figure and agree to explain the method utilized to determine the calculation for this field.

APPENDIX A

OFFICE OF THE STATE OF SUPERINTENDENT OF EDUCATION
FINDINGS AND RECOMMENDATIONS *(Continued)*

2014-08

*Some Pay Rates Not Supported with Adequate Documentation***Finding:**

Of sixty (60) payroll transactions reviewed, the pay rate for thirty transactions did not agree to the Personnel Action Form (PAF) forms reviewed. We reviewed the earnings statements and timesheets supporting the hours worked and determined that the costs appear reasonable and consistent with adjusted salary bases. No adjustment to the cost report has been proposed for this item. We have noted this finding as a deficiency in internal control over compliance.

Regulation(s):

- **OMB Circular A-87, Cost Principles** states, "...to be allowable under Federal awards, costs must be adequately documented. Costs must also be necessary and reasonable for proper efficient performance and administration of Federal awards.
- **Provider Reimbursement Manual (PRM)-Part I: 2304.1** – A participating provider of services must make available to its Intermediary its fiscal and other records for the purpose of determining its ongoing record keeping capability. The Intermediary's examination of such records and documents are necessary to ascertain information pertinent to the determination of the proper amount of program payments due the provider.

Recommendation:

We understand that the pay rates resulting from AFSCME wage negotiations were retroactively changed as a result of personnel negotiations. The former existing record of the pay rates were overridden by the changes. OSSE should have provided a crosswalk between the prior salary bases and the newly enacted base which resulted from the Union Agreement. All documentation supporting claims for reimbursements for health related services provided for Medicaid eligible students need to be maintained. OSSE should work with the Office of Pay and Retirement Services to ensure that a document trail is created for all pay adjustments.

Management's Response:

Findings: OSSE concurs with the Auditor's findings.

Recommendation: OSSE concurs with the Auditor's recommendations. OSSE's Human Resources department will continue to work closely with the Office of Pay and Retirement Services (OPRS) to ensure that a new payroll transaction is entered for any and all pay rate changes. Entering a new payroll transaction will create a separate Personnel Action Form (PAF) for record keeping purposes, eliminating the issue of pre-existing pay rate data being erased.