

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: 10/1/2014 – 9/30/2015
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, 2014 through September 30, 2015.

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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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 \$15,271,664. After deducting payments of \$1,472,578, the Medicaid program owes your program \$13,799,086, of which \$9,659,360, 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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If you have questions, you may contact me at (202) 442-9079.

Sincerely,

A handwritten signature in black ink, appearing to read "Darrin Shaffer".

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, 2015
(Together with Independent Auditor's Report)





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

Government of the District of Columbia
Department of Health Care Finance

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, 2015.

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, 2015 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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AN INDEPENDENT MEMBER OF
BDO
ALLIANCE USA

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, 2015.

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 2015-04 and 2015-05 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 2015-01 through 2015-03 and 2015-06 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.

Bera Smith & G

Washington D.C.
February 17, 2017

OFFICE OF THE STATE OF SUPERINTENDENT OF EDUCATION
SCHEDULE OF MEDICAID COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Cost Report</u>	<u>Audit Adjustments</u>	<u>Adjusted Costs</u>
<i>Transportation</i>			
Salaries and Wages and Benefits	\$ 63,888,730	\$ 250,710	\$ 64,139,440
Nonpayroll Costs	<u>9,853,030</u>	<u>(890,898)</u>	<u>8,962,132</u>
Total Direct Costs	73,741,760	(640,188)	73,101,572
Total Indirect Costs	<u>21,385,110</u>	<u>(2,709,855)</u>	<u>18,675,255</u>
Total Direct and Indirect Costs	95,126,870	(3,350,043)	91,776,827
Specialized Transportation IEP Ratio	<u>16.64%</u>	<u>-</u>	<u>16.64%</u>
Total Specialized Transportation Costs	15,829,111	-	15,271,664
Total Medicaid Claims Paid	<u>(1,461,051)</u>	<u>(11,527)</u>	<u>(1,472,578)</u>
Difference Between CPE and Claims Paid	14,368,060		13,799,086
Federal Financial Participation %	<u>70%</u>	<u>-</u>	<u>70%</u>
FFP Amount Due To/(Due From) Provider	<u>\$ 10,057,642</u>	<u>\$ -</u>	<u>\$ 9,659,360</u>

OFFICE OF THE STATE OF SUPERINTENDENT OF EDUCATION
MEDICAID ADJUSTMENT REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Adjustment No.	Description	Cost Increase (Decrease)
1	To adjust 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	\$ 250,710
2	To adjust nonpayroll costs for costs not related to Medicaid students [OMB Circular A-87, Cost Principles and Medicaid State Plan-Attachment 4.19B]	
	Nonpayroll Costs	\$ (3,399)
3	To adjust the nonpayroll costs to agree to the agency's accounting records. [OMB Circular A-87, Cost Principles and Medicaid State Plan-Attachment 4.19B]	
	Nonpayroll Costs	\$ 1,209,559
4	To calculate depreciation expense based on the agency's recorded fixed assets. Provider Reimbursement Manual [PRM-Part I: 104]	
	Nonpayroll Costs	\$ (2,097,058)
5	To adjust indirect costs based on allowable payroll, fringe benefit, and nonpayroll costs in accordance with OSSE's approved indirect cost rate agreement. [OSSE's approved Indirect Cost Rate Agreement]	
	Indirect Costs	\$ (2,709,855)
6	To adjust medicaid paid claims per the cost report to paid claims per the file received from DHCF. [Medicaid State Plan-Attachment 4.19B]	
		\$ (11,527)

APPENDIX A

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

2015-01 *Incorrect Calculation of Fringe Benefit Costs in the Cost Report (Adjustment #1)*

Finding: OSSE incorrectly calculated fringe benefit costs. It was determined that the 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 2015 was 26.86%. The recalculation resulted in an increase to fringe benefit costs of \$250,710. 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 recalculation resulted in an increase to fringe benefit costs of \$250,710. An adjustment has been made in the adjusted cost report.

Recommendation: We recommend that OSSE include only 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 is unable to provide any details on fringe benefit amounts paid by employer. Per the Education Cluster Controller, Peoplesoft is unable to produce a report which shows the total amount of fringe benefits paid for each employee. As a result, the fringe benefit cost is calculated by determining the fringe benefit rate for the DOT for the fiscal year and multiplying that amount by the allowable payroll costs.

Recommendation: OSSE DOT will calculate the fringe benefit using the formula provided.

APPENDIX A

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

2015-02

*Some Nonpayroll Costs Were Not Allowable (Adjustment #2)***Findings:**

Our testing of monthly fuel expenditures transactions revealed costs which were unallowable.

- The cost of fuel for leased vehicles was included in the cost report

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.

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 \$3,399. 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)*

2015-03 *Cost Report Expenditures Not Reconciled to Accounting Records (Adjustment #3)*

Findings: The nonpayroll (less capital expenditures) costs in the cost report did not agree to OSSE's accounting records. The cost report showed nonpayroll contract use costs of \$1,337,344. In our review of OSSE accounting records and testing of the costs, we were able to substantiate nonpayroll costs of \$2,546,903.

	<u>Cost Report</u>	<u>Accounting Records</u>	<u>Difference</u>
Nonpayroll	\$1,337,344	\$2,546,903	\$1,209,559

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 some nonpayroll contract use costs were excluded from the cost report in error. Adjustments were made in the adjusted cost report to increase the nonpayroll costs by \$1,209,559 for the differences between the cost report and the accounting records.

Recommendation: We recommend that OSSE include only those allowable costs that reconcile with its accounting records.

**Management's
Response:**

Findings: OSSE concurs with the Auditor's findings.

Recommendation: OSSE concurs with the Auditor's recommendations. OSSE DOT inadvertently excluded the cost for a major contractor providing emergency transportation services to special education students. OSSE DOT will more closely examine our submissions with multiple levels of review.

APPENDIX A

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

2015-04

Depreciation Expense Not Calculated Properly (Adjustment #4)**Finding:**

OSSE included depreciation expense of \$3,412,152 in the cost report. Based on the buses purchased in the prior and current fiscal years, the calculated depreciation expense was \$1,315,094. An adjustment was made in the adjusted cost report to decrease depreciation expense by \$2,097,058.

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 calculate depreciation expense only on those 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)*

2015-05 ***Indirect Cost Rate Used Not In Accordance With Indirect Cost Rate Agreement (Adjustment #5)***

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 29% 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 \$2,709,855 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)*

2015-06

Inaccurate Reimbursable Payments (Adjustment #6)**Finding:**

The total Medicaid claims paid amount of \$1,461,051 in the cost report did not agree with the D.C. Department of Health Care Finance's (DHCF) records of \$1,472,578.

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 \$11,527 is made in the adjusted 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.