

**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, 2013
*(Together with Independent Auditor's Report)***

INDEPENDENT AUDITOR'S REPORT

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Government of the District of Columbia
Department of Health Care Finance

Compliance

We have audited the Office of the State of Superintendent of Education (OSSE) compliance with the 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 accompanying Schedule of Medicaid Costs (cost report) for the year ended September 30, 2013.

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.

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 incurred. 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. In addition, certain adjustments were required to be made 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 accompanying Schedule of Medicaid Costs.

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 Medicaid allowable cost reimbursement for the year ended September 30, 2013.

Report on 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 of compliance, 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.

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. *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 by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section was not designed to identify all deficiencies in 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. We identified certain deficiencies in internal control over compliance described in the accompanying Appendix A - Findings and Recommendations as items 2013-01 through 2013-06 be material weaknesses.

OSSE's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. OSSE's response was not subjected to the auditing procedures applied in the audit of the cost report and, accordingly, we express no opinion on it.

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.

A handwritten signature in black ink, appearing to read "Bert Smith", followed by a small mark resembling a stylized "S" or a flourish.

Washington, D.C.
February 25, 2016

CE OF THE STATE OF SUPERINTENDENT OF EDUCATION
SCHEDULE OF MEDICAID COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>Cost Report</u>	<u>Audit Adjustments</u>	<u>Adjusted Costs</u>
Salaries and Wages and Benefits	\$ 54,858,523	\$ 9,475,511	\$ 64,334,034
Nonpayroll Costs	9,373,830	(256,018)	9,117,812
Total Direct Costs	64,232,353	9,219,493	73,451,846
Indirect Costs	12,043,566	6,940,836	18,984,402
Total Direct and Indirect Costs	76,275,919	16,160,329	92,436,248
Specialized Transportation IEP Ratio	10.42%	-	10.42%
Total Specialized Transportation Costs	7,944,576	-	9,627,767
Total Medicaid Claims Paid	(1,228,461)	-	(1,228,461)
Difference Between CPE and Claims Paid	6,716,115	-	8,399,306
Federal Financial Participation %	70%	-	70%
FFP Amount Due To/(Due From) Provider	\$ 4,701,280	\$ -	\$ 5,879,514

**OFFICE OF THE STATE OF SUPERINTENDENT OF EDUCATION
MEDICAID ADJUSTMENT REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Adjustment No.	Description	Cost Increase (Decrease)
1	To adjust salary costs for costs that could not be supported with documentation. [OMB Circular A-87, Cost Principles and Provider Reimbursement Manual (PRM)-Part I: 2304.1]	
	Salaries and Wages and Benefits	(7,559,276)
2	To adjust OSSE' fringe benefit costs based on the agency's actual fringe benefit rate for the fiscal year. [OMB Circular A-87, Cost Principles and PRM-Part I: 2304.1]	
	Salaries and Wages and Benefits	13,745,032
3	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	3,289,755
4	To adjust nonpayroll costs to agree to OSSE's accounting records. [OMB Circular A-87, Cost Principles and Medicaid State Plan-Attachment 4.19B]	
	Nonpayroll Costs	(551,875)
5	To adjust nonpayroll costs for depreciation expense that was not calculated properly. [PRM-Part I: 104]	
	Nonpayroll Costs	295,857
6	To adjust indirect costs in accordance with OSSE's approved indirect cost agreement. [OSSE's approved Indirect Cost Rate Agreement]	
	Indirect Costs	6,940,836

APPENDIX A

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

2013-01 ***Some Payroll Costs Not Adequately Supported with Documentation (Adjustment 1)***

Findings: Our testing of sixty (60) payroll transactions revealed that some of the payroll costs were not supported with adequate documentation.

- The earning statement did not agree with the payroll register for one employee.
- The paid rate did not agree with the pay rate in the personnel action form for seven employees.

Since the payroll costs could not be substantiated with supporting documentation, the payroll costs are considered unallowable under the Medicaid program.

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 payroll transactions tested were statistically selected based on a 95% confidence level and zero expected deviation rate. The projected error rate and related disallowance from our sample was 13% and \$7,559,276, respectively. An adjustment has been made in the cost report for the disallowance.

Recommendation: We recommend that OSSE improve its retention of its cost documentation.

**Management's
Response:**

Findings:

OSSE concurs with the Auditor's findings. In regards to the employees in question, the PRF did not exist when the transportation department was a division under the District of Columbia Public Schools (DCPS). As a result, OSSE could not create retroactive PRFs for that timeframe.

Recommendations:

OSSE concurs with the Auditor's recommendation and believe that OSSE has already taken steps to maintain cost documentation. OSSE HR completed an audit of the Department of Transportation (DOT) human resource and cost data. As a result, all historical data have been corrected and OSSE has a process in place to maintain accurate documentation.

APPENDIX A

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

2013-02***Fringe Benefits Based on Employee Paid Portion (Adjustment 2)*****Finding:**

OSSE included fringe benefit costs in the cost report that reflected the amounts paid by the employees instead of by the school system. It was determined that OSSE's payroll system was unable to produce a report which showed the fringe benefits paid for each employee. As a result, a fringe benefit rate was calculated based on the school's total salaries and wages and fringe benefits incurred for the fiscal year. The fringe benefit rate calculated for 2013 was 27.17%. The recalculation resulted in an increase to fringe benefit costs of \$13,745,032.

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.
- **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 \$13,745,032, which has been made in the cost report.

Recommendation:

We recommend that OSSE only include fringe benefit costs incurred by the school system 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. The fringe benefit costs will be included in future cost reports. OSSE DOT will work closely with the Agency Fiscal Officer (AFO) on this and other information submitted in the cost reports.

Recommendations:

OSSE concurs with the Auditor's recommendation. The fringe benefit costs will be included in future cost reports. OSSE DOT will work closely with the agency AFO on this and other information submitted in the cost reports.

APPENDIX A

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

2013-03

Cost Report Expenditures Not Reconciled to Accounting Records (Adjustment 3 and 4)

Findings:

The payroll and nonpayroll (less depreciation expense) costs in the cost report did not agree to OSSE's accounting records. The cost report showed payroll and nonpayroll expenditures of \$54,858,523 and \$9,230,183, respectively. However, in our review of OSSE's accounting records and testing of the costs, we were able to substantiate payroll costs of \$58,148,278 and nonpayroll costs of \$8,678,308.

	Cost Report	Accounting Records	Difference (Under) Over
Payroll	\$54,858,523	\$58,148,278	\$(3,289,755)
Nonpayroll	\$ 9,230,183	\$ 8,678,308	\$ 551,875

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 costs may have been based on estimates or budgeted amounts. Adjustments were made in the cost report to increase the payroll costs by \$3,289,755 and decrease the nonpayroll costs by \$561,875 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. OSSE DOT will work closely with the agency AFO accounting office to ensure that costs reconcile with accounting records.

Recommendations:

OSSE concurs with the Auditor's recommendation. OSSE DOT will work closely with the agency 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)

2013-04

Depreciation Expense not Calculated Properly (Adjustment 5)**Finding:**

OSSE only included depreciation expense of \$143,647 in the cost report. Based on the buses purchased in the prior and current fiscal years, the estimated depreciation expense should have been \$439,504. An adjustment was made in the cost report to increase depreciation expense by \$295,857.

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 properly calculate depreciation expense on all depreciable assets used to provide transportation services under the Medicaid program.

**Management's
Response:***Findings:*

OSSE concurs with the Auditor's findings. OSSE DOT will work closely with the agency AFO regarding depreciation expense of all depreciable assets that are used to provide health related services under the Medicaid program to ensure more accurate reporting.

Recommendations:

OSSE concurs with the Auditor's recommendation. OSSE DOT will work closely with the agency AFO regarding depreciation expense of all depreciable assets that are used to provide health related services under the Medicaid program to ensure more accurate reporting.

APPENDIX A

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

2013-05 ***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 subawards up to \$25,000. OSSE applied indirect costs to the Medicaid program using an 18.75% rate instead of its approved rate of 29%.

It also did not apply the indirect costs to only subawards up to \$25,000. Indirect costs were calculated on the entire non payroll expenditure population.

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 recalculation of indirect costs using the 29% approved rate resulted in an increase of \$6,940,836 in indirect costs. An adjustment has been made in the cost report.

Recommendation: We recommend 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. OSSE DOT will work closely with the agency AFO regarding the allocation of indirect costs to the Medicaid program in accordance with its approved indirect cost rate agreement.

Recommendations:

OSSE concurs with the Auditor's recommendation. OSSE DOT will work closely with the agency AFO regarding the allocation of indirect costs to the Medicaid program in accordance with its approved indirect cost rate agreement.

APPENDIX A

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

2013-06***Some Claims Not Supported with Adequate Documentation*****Finding:**

OSSE received reimbursement for claims submitted for transportation provided to Medicaid eligible students who received health related services during fiscal year 2013 totaling \$1,021,844. Our testing of sixty (60) reimbursable claims shows that some of the claims could not be substantiated with adequate documentation.

- A transportation claim was submitted for one student who did not have transportation authorized in its Individualized Education Plan (IEP).
- The Individualized Education Plans (IEP) provided for nine (9) students did not have any signatures from the IEP team to substantiate that these were the correct IEPs.

Regulation(s):

- **42 CFR §431.17 and 433.32** requires that service claimed for Federal Medicaid funding be documented. Federal regulations pertaining to documentation require providers to maintain information about all specific services, and that supporting documentation be made available when a claim is filed.
- **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.

The claims tested were statistically selected based on a 95% confidence level and zero expected deviation rate. The claims paid to OSSE do not have a cost reimbursable effect. However, claims not adequately supported with documentation are considered unallowable under the Medicaid program.

Recommendation:

We recommend OSSE properly retain all documentation supporting its claims for reimbursements for transportation services provided to Medicaid eligible students.

APPENDIX A

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

**Management's
Response:**

Findings:

OSSE does not concur with the Auditor's findings. OSSE advised DHCF of OSSE's IEP signature requirements. As a result, DHCF has agreed to review the SBHS SPA.

Recommendations:

OSSE does not concur with the Auditor's recommendation. OSSE has processes in place for the proper retention of all supporting documentation.

Auditor's Response:

OSSE does not concur with the Auditor's response. Documentation was provided to the Auditor on several occasions.

**Auditor's
Response:**

We requested OSSE provide the documentation that showed the required signatures on the IEPs so that portion of the finding could be removed. However, OSSE did not provide any additional documentation that showed the signatures.