



MAR 11 2003

TO: Neil Donovan
Director, Audit Liaison Staff
Centers for Medicare and Medicaid Services

FROM: Dennis J. Duquette *DJ Duquette*
Deputy Inspector General
for Audit Services

SUBJECT: Review of Wisconsin Medicaid School-Based Services Program for the Year Ending June 30, 2000 (A-05-02-00023)

As part of the Office of Inspector General's self-initiated audit work, we are alerting you to the issuance within 5 business days of our final report entitled, "Review of Wisconsin Medicaid School-Based Services Program for the Year Ending June 30, 2000." A copy of the report is attached. This report is one in a series of reports in our multi-state initiative focusing on Medicaid administrative cost and direct costs claimed for Medicaid school-based health services. We suggest you share this report with the Centers for Medicare and Medicaid Services (CMS) components involved in program integrity, provider issues, and state Medicaid agency oversight, particularly the Center for Medicaid and State Operations.

The objective of our review was to determine whether the Wisconsin Medicaid School-Based Services (SBS) program was effectively and efficiently managed by the Wisconsin Department of Health and Family Services (DHFS) and the SBS providers. Specifically, we determined whether:

- The DHFS and SBS providers identified, calculated, and claimed Medicaid administrative claiming (MAC) costs that were reasonable, allowable, and adequately supported in accordance with the terms of the Medicaid state plan and applicable federal regulations.
- SBS providers furnished and billed for only SBS identified in individual education plans (IEP), properly billed on dates beneficiaries received services, maintained required supporting documentation, and ensured qualified personnel provided the services.

Our review showed the Wisconsin DHFS and SBS providers generally managed the SBS program in an effective and efficient manner. The DHFS controlled MAC costs by requiring all participating SBS providers to use a statewide time study to ensure that allocations of time and

costs were consistently charged by SBS providers. We did, however, identify some areas needing improvement:

- **Indirect Cost Rate:** We noted that the administrative cost calculation used an unrestricted indirect cost rate, which included indirect costs not necessary for the management of the Medicaid program.
- **SBS Claims:** We noted that providers did not always bill for SBS identified in IEPs, properly bill on dates beneficiaries received services, or maintain required supporting documentation, in accordance with DHFS published guidelines and instructions for implementing a SBS program.

As a result, we determined that the Wisconsin DHFS and SBS providers claimed and received at least \$315,474 in Medicaid federal financial participation (FFP) for costs not allowed or supported by adequate documentation during state fiscal year ending June 30, 2000.

In regard to the indirect cost rate issue, we recommended DHFS work with CMS to establish the appropriate indirect cost rate. Since the indirect cost rate issue affects MAC programs for all states and will need CMS action to prohibit the use of unrestricted rates, we are not making a recommendation for a refund in FFP for indirect costs.

For SBS claims, we recommended that the Wisconsin DHFS:

- Refund the projected \$315,474 in FFP for costs not allowed or supported by adequate documentation, and
- Reemphasize the Medicaid policies to providers and require them to implement effective internal controls to ensure SBS are properly provided, billed, and documented.

In a written response to our draft report, the Wisconsin DHFS stated further discussions between Wisconsin and CMS will be held regarding indirect cost rate issues. In addition, Wisconsin DHFS accepted our conclusions and recommendations regarding SBS claims. We summarized Wisconsin's comments and responded to those comments at the end of the FINDINGS AND RECOMMENDATIONS section of the report and included a copy of the comments in APPENDIX C to the report.

Any questions or comments on any aspect of this memorandum are welcome. Please address them to George M. Reeb, Assistant Inspector General for the Centers for Medicare and Medicaid Audits, at (410) 786-7104 or Paul Swanson, Regional Inspector General for Audit Services, Region V, at (312) 353-2618.

Attachment



DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF AUDIT SERVICES
233 NORTH MICHIGAN AVENUE
CHICAGO, ILLINOIS 60601

REGION V
OFFICE OF
INSPECTOR GENERAL

MAR 17 2003

Report Number: A-05-02-00023

Phyllis J. Dubé
Secretary, Department of Health and Family Services
1 West Wilson Street
Madison, Wisconsin 53707-7850

Dear Ms. Dubé:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) final report entitled, "Review of Wisconsin Medicaid School-Based Services Program for the Year Ending June 30, 2000." A copy of this report will be forwarded to the action official noted below for review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise (see 45 CFR part 5).

To facilitate identification, please refer to report number A-05-02-00023 in all correspondence relating to this report.

Sincerely,

A handwritten signature in cursive script that reads "Paul Swanson".

Paul Swanson
Regional Inspector General
for Audit Services

Enclosures – as stated

Page 2 – Ms. Phyllis J. Dubé

Direct Reply to HHS Action Official:

Ms. Cheryl Harris
Associate Regional Administrator
Division of Medicaid and Children's Health
Centers for Medicare and Medicaid Services
Department of Health and Human Services
233 North Michigan Avenue, Suite 600
Chicago, Illinois 60601-5519

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF WISCONSIN MEDICAID
SCHOOL-BASED SERVICES PROGRAM
FOR THE YEAR ENDING
JUNE 30, 2000**



JANET REHNQUIST
Inspector General

March 2003
A-05-02-00023

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC at <http://oig.hhs.gov>

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

OAS FINDINGS AND OPINIONS

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



EXECUTIVE SUMMARY

OBJECTIVE

The overall objective of our review was to determine whether the Wisconsin Medicaid School-Based Services (SBS) program was effectively and efficiently managed by the Wisconsin Department of Health and Family Services (DHFS) and the SBS providers. Specifically, for state fiscal year ending June 30, 2000 (SFY 2000), we determined whether:

- The DHFS and SBS providers identified, calculated, and claimed Medicaid administrative claiming (MAC) costs that were reasonable, allowable, and adequately supported in accordance with the terms of the state Medicaid plan and applicable federal regulations.
- SBS providers furnished and billed for only SBS identified in individual education plans (IEP), properly billed on dates beneficiaries received services, maintained required supporting documentation, and ensured qualified personnel provided the services.

FINDINGS

Our review showed that the Wisconsin DHFS and SBS providers generally managed the SBS program in an effective and efficient manner. The DHFS effectively controlled MAC costs by requiring all participating SBS providers to use a statewide time study to ensure time study information and costs were consistent among all SBS providers. Using this statewide time study information, the DHFS calculated and prepared individual provider claims for MAC costs based on the Wisconsin Department of Public Instruction salary and benefits cost data. We did identify the following areas in need of improvement:

- **Indirect Cost Rate:** We noted that the administrative cost calculation used an unrestricted indirect cost rate, which included indirect costs not necessary for the management of the Medicaid program.
- **SBS Claims:** We noted that providers did not always bill for SBS identified in IEPs, properly bill on dates beneficiaries received services, or maintain required supporting documentation, in accordance with DHFS published guidelines and instructions for implementing a SBS program.

As a result, we determined that the Wisconsin DHFS and SBS providers claimed and received at least \$315,474 in Medicaid federal financial participation (FFP) for costs not allowed or supported by adequate documentation.

We attribute these problems to a lack of clear and precise Centers for Medicare and Medicaid Services (CMS) guidance in regard to the use of the unrestricted indirect cost rate in the MAC cost calculations and to ineffectively implemented provider internal controls. Although CMS had been reviewing its policies relating to indirect cost rates, CMS policy continues to allow

states to utilize the unrestricted indirect cost rate. In addition, providers did not develop or implement effective internal controls to reconcile SBS provided (and billed for) to IEPs, student attendance records, and other billing documentation.

Since the indirect cost rate issue affects MAC programs for all states and will need CMS action to prohibit the use of unrestricted rates, we are not making a recommendation for a refund in FFP for indirect costs.

RECOMMENDATIONS

For indirect cost calculations, we recommended the Wisconsin DHFS:

- Work with CMS to establish the appropriate indirect cost rate.

For SBS claims, we recommended the Wisconsin DHFS:

- Refund the \$315,474 in FFP for costs not allowed or supported by adequate documentation, and
- Reemphasize the Medicaid policies to providers and require them to implement effective internal controls to ensure SBS are properly provided, billed, and documented.

AUDITEE'S COMMENTS

In its written response to our draft report, the Wisconsin DHFS stated further discussions will be held with CMS regarding indirect cost rate issues. Regarding SBS claims, the Wisconsin DHFS accepted our conclusions and recommendations.

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INTRODUCTION

BACKGROUND

Medicaid Coverage for Wisconsin SBS

In 1965, title XIX of the Social Security Act established a federal-state matching entitlement program, known as Medicaid, to provide medical assistance to certain low-income individuals. Within broad federal guidelines, the federal and state governments jointly fund the Medicaid program. Each state describes its program in a state plan, and the Centers for Medicare and Medicaid Services (CMS) is responsible for reviewing each state's proposed plan for conformity with federal requirements.

With the passage of the Individuals with Disabilities Education Act (IDEA), states were required to provide appropriate special education and related services (e.g., school-based services (SBS)) to children with disabilities or special needs. Passed in 1988, section 1903 of title XIX allowed states to supplement allocated state funds for special education and health-related services with Medicaid dollars. The July 1995 Wisconsin Act 27 established the Wisconsin SBS program, giving educational agencies easier access to medical assistance funding to meet special education requirements.

Medicaid Administrative Claiming for SBS

Providers claim federal financial participation (FFP) for administrative costs necessary for the proper and efficient administration of the Medicaid state plan. The Department of Health and Family Services (DHFS) established the Wisconsin Medicaid administrative claiming (MAC) cost allocation plan to capture and calculate these costs and prepare reimbursement claims for all participating Wisconsin SBS providers. The DHFS categorized school positions as high or low intensity based on the extent that a position's activities related to Medicaid. All participating SBS providers identified their time spent on Medicaid-related activities through the use of a statewide time study.

The MAC cost allocation plan categorized time study administrative activities to identify those entirely Medicaid-related, proportionally Medicaid-related, or entirely unrelated to Medicaid. The DHFS used the time study information to make generalizations about a position's intensity or the percent of time spent on Medicaid-related activities. Using these generalizations, the DHFS calculated each participating provider's MAC costs. Federal Medicaid funds reimbursed 50 percent of the state Medicaid costs claimed.¹ Participating providers were reimbursed 90 percent of the FFP reimbursements, with the state of Wisconsin retaining the remaining 10 percent.

¹ Federal Medicaid administrative claiming allowed an enhanced FFP rate of 75 percent for skilled professional medical personnel, but the DHFS did not incorporate this allowance in the cost allocation plan.

For state fiscal year ending June 30, 2000 (SFY 2000), the DHFS received approximately \$3.2 million in FFP for MAC program costs and distributed about \$2.9 million to 178 school districts and 9 cooperative educational service agencies (CESA).

School-Based Service Claims

Wisconsin Act 27, Laws of 1995, established the SBS benefit and allowed education agencies (providers) to bill Wisconsin Medicaid for medically necessary services, provided to Medicaid-eligible children under the age of 21 or for any school term that the individual became 21 years old. The Wisconsin DHFS established procedures to implement the Act by publishing the *Wisconsin Medicaid Provider Handbook, Part X, for School-Based Services* during June 1996. Specific Medicaid-covered services included: speech, language, audiology, and hearing; occupational therapy; physical therapy; nursing; psychological, counseling, and social work; developmental testing and assessments; individual education plan (IEP) development for health-related services; durable medical equipment; and special transportation.

To receive Medicaid reimbursement for SBS costs, providers bill Medicaid using a fee for service payment system, based on the number of units of service provided at a fixed fee per unit of service. The health-related service must be identified in the beneficiary's IEP. Furthermore, providers should report and bill for only time spent providing SBS face-to-face with a beneficiary. In order for SBS providers to bill Wisconsin Medicaid, they must document certain service information and retain that documentation for at least 5 years.

For SFY 2000, the FFP rate for Medicaid reimbursement was 58.78 percent of the Wisconsin Medicaid SBS costs claimed. The DHFS reimbursed participating providers 60 percent of the federal funds and retained the remaining 40 percent.² For SFY 2000, the DHFS received approximately \$25.2 million in FFP for SBS claims and distributed about \$15.1 million to 164 school districts and 9 CESAs.³

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective. The overall objective of our review was to determine whether the Wisconsin DHFS and SBS providers effectively and efficiently managed the SBS program. Specifically, for SFY 2000, we evaluated whether:

- The DHFS and SBS providers identified, calculated, and claimed MAC costs that were reasonable, allowable, and adequately supported in accordance with the terms of the Medicaid state plan and applicable federal regulations.

² The remaining 40 percent of the FFP was deposited in the State General Fund to cover the state's contribution to special education in public schools.

³ In addition, 1999 Wisconsin Act 9, directed Wisconsin Medicaid to reimburse SBS providers 90 percent of federal funding in excess of \$16.1 million. Consequently, an additional \$3.8 million was distributed to SBS providers based on the amount they received for SBS claims reimbursed during SFY 2000.

- SBS providers furnished and billed for only SBS identified in IEPs, properly billed on dates beneficiaries received services, maintained required supporting documentation, and ensured qualified personnel provided the services.

Scope. To accomplish these objectives, we reviewed costs claimed and matching FFP reimbursement for the Wisconsin MAC and SBS programs during SFY 2000.

Our audit was conducted in accordance with generally accepted government auditing standards. Our review of internal controls was limited to reviewing the Wisconsin MAC process, including time studies, training, claims calculations, approvals, and payments. For the SBS claiming process, we reviewed provider internal controls including billing for only required services, maintaining documentation, and ensuring providers met qualification requirements.

Methodology. For the MAC cost objectives, we judgmentally selected the four school districts with the highest MAC costs (Milwaukee, Madison, Kenosha, and Waukesha). For these sampled school districts, we reviewed time study procedures and policies and reconciled Wisconsin Department of Public Instruction (DPI) salary and fringe benefit cost data, indirect costs, and training costs to the Wisconsin MAC cost calculation and reimbursement for SFY 2000.

For the SBS claim objective, we statistically selected a sample of 340 beneficiary months with claims from four strata, totaling \$124,949. The four strata comprised the three school districts receiving the highest reimbursement for SBS costs (Milwaukee, Green Bay, and Madison) and a “rest of state” sample. For each selected beneficiary month, we reviewed all paid claims within that month and compared the costs claimed to supporting SBS documentation. We determined whether billed services were identified in the beneficiary’s IEP, billed services were actually provided, students were present or otherwise in attendance on the date of services, billed services were provided face-to-face with the beneficiary, and paid claims were supported by billing sheets and other SBS required documentation. Finally, we validated that school personnel billing for SBS met required state and federal health licensing requirements.

We performed fieldwork at the DHFS office in Madison, Wisconsin, and at the school districts of Milwaukee, Green Bay, Madison, Waukesha, and Kenosha during the period October 2001 through June 2002. The SBS claims documentation was also obtained from the “rest of state” sample totaling 28 school districts and 6 CESAs.⁴ The DHFS’s relevant comments are summarized after each finding, while written comments are included as APPENDIX C.

⁴ The 34 school districts and CESAs in the SBS “rest of state” statewide sample included: Appleton Area, Chippewa Falls Area, Clintonville, D.C. Everest Area, Eau Claire Area, Franklin Public, Kaukauna Area, Kenosha, Kettle Moraine, Marinette, Menominee Indian, Muskego-Norway, Neenah, New Berlin, Pewaukee, Platteville, Port Washington-Saukville, Portage Community, Pulaski Community, Racine, Reedsburg, Sheboygan Area, Southern Door, Stevens Point Area, Tomah Area, Watertown, Wauwatosa, Wisconsin Rapids, CESA 1, CESA 3, CESA 6, CESA 8, CESA 10, and CESA 11.

FINDINGS AND RECOMMENDATIONS

INDIRECT COST RATE

Wisconsin MAC calculations used an indirect cost rate that included costs not necessary for the administration of the Medicaid state plan.

The Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, defined indirect costs as those:

... (a) incurred for a common or joint purpose benefiting more than one cost objective and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. In some instances, a single indirect cost rate for all activities of a grantee department may not be appropriate. For example, a single indirect cost rate may not take into account different factors that may substantially affect the indirect costs applicable to a particular program. The factors may include the physical location of the work, the level of administrative support required, the nature of the facilities, the organizational arrangements used, or a combination thereof....

The February 2000 CMS *Medicaid School-Based Administrative Claiming Guide* (Draft) stated that a provider's (school district's) indirect costs were only allowable when the entity had:

... an approved indirect cost rate issued by the cognizant agency⁵ and costs were claimed in accordance with the rate....

The Wisconsin DPI established restricted and unrestricted indirect cost rates. The two rates differed, as the unrestricted rate included operations⁶ and maintenance⁷ costs not related to

⁵ The Wisconsin DPI was the cognizant authority for setting indirect cost rates within educational agencies such as school districts and CESAs.

⁶ According to the *Wisconsin Elementary and Secondary School Accounting System Handbook (WESSAS)*, operations costs were associated with keeping the physical plant open, comfortable, and safe for use. Specific examples of operations costs included: (a) directing, managing, and supervising school plant facilities operations; (b) lawn mowing, care of shrubs, trees, and flowers, and snow removal; (c) keeping the physical plant clean and ready for daily use, including heat, lighting, and ventilation systems; (d) servicing and renting equipment, furniture, machines and moveable equipment; (e) cleaning, painting, greasing, fueling, and inspecting vehicles not used to transport pupils; (f) purchasing vehicles; and (g) maintaining order and safety in school buildings, on the grounds, and in the vicinity of schools.

⁷ According to the *WESSAS*, maintenance costs were associated with keeping the grounds, buildings, and equipment in effective working condition and state of repair. Specific examples of maintenance costs included: (a) directing, managing, and supervising the school plant facilities maintenance; (b) repairing sites, such as reseeding and resodding, blacktop repairs, eroded slopes, and playground equipment; (c) repair of building and building components; (d) maintaining furniture, machines, and moveable equipment; (e) maintaining general purpose vehicles such as trucks, tractors, graders, and staff vehicles; and (f) purchasing vehicles used for maintenance.

the Medicaid program, while the restricted rate did not. Since the CMS guidance did not specify whether a restricted or unrestricted rate should be used, the Wisconsin MAC cost allocation plan used the unrestricted indirect cost rate. The CMS did not specifically approve an indirect cost rate or clarify which rate should be used.

Difference in Claims Between Unrestricted and Restricted Rates

By using the unrestricted rate, the DHFS claimed \$289,817 (\$144,909 in FFP) more in indirect operations and maintenance costs for the four sampled school districts than were necessary for the Medicaid program. The following chart summarizes the FFP reimbursement difference in applying the unrestricted and restricted indirect cost rates for our sample. (See APPENDIX A for details concerning indirect cost rates and calculations for the sampled school districts.)

Indirect Cost Rate Comparison

School District	Total Indirect Costs Claimed (unrestricted)	Audit Calculated Indirect Costs (restricted)	Indirect Costs Difference	50 Percent Matching FFP
Milwaukee	\$260,985	\$95,008	\$165,977	\$82,989
Madison	76,620	19,403	57,217	28,609
Kenosha	50,101	11,090	39,011	19,505
Waukesha	31,638	4,026	27,612	13,806
Total	\$419,344	\$129,527	\$289,817	\$144,909

Since CMS guidance did not specifically state which indirect cost rate to use, we are not making a recommendation for the DHFS to refund the \$144,909 in FFP. This issue affects MAC programs for all states and will need CMS action to require the use of restricted rates.

Although CMS had been reviewing its policies relating to indirect cost rates, CMS did not specify which indirect cost rate was appropriate and allowed the state to utilize the unrestricted indirect cost rate in the MAC calculation. We believe that the restricted rate more appropriately captured indirect costs related to the implementation of the Medicaid state plan. The restricted rate did not include operations and maintenance costs associated with the primarily educational purposes of the SBS providers. These costs would have been incurred regardless of the existence of the SBS program and should not be charged to Medicaid.

Recommendations

We recommended that the Wisconsin DHFS work with CMS to establish the appropriate indirect cost rate.

Auditee's Comments

DHFS personnel believed OMB Circular A-87 entitled SBS providers to full recovery of indirect costs and believed the unrestricted rate achieved this result. The DHFS personnel contended that they consulted with CMS officials in the past and received verbal permission to claim indirect costs using the unrestricted rate. In written response to our draft report, the Wisconsin DHFS stated that further discussions between DHFS and CMS will be held regarding indirect cost rate issues. A copy of the response is included as APPENDIX C.

Office of Inspector General's Response

In our draft report, we recommended that the Wisconsin DHFS follow CMS guidance regarding the future use of indirect cost rates. We continue to believe that the use of the unrestricted indirect cost rate permits reimbursement for costs not necessary for the administration of the Medicaid program. We believe that the restricted indirect cost rate should be used to calculate indirect costs.

SBS CLAIMS

While the DHFS published effective guidelines and instructions for implementing a SBS program and the SBS providers ensured qualified personnel furnished required services, the providers did not always bill for SBS identified in IEPs, properly bill on dates beneficiaries received services, or maintain required supporting documentation.

Wisconsin's Requirements

Wisconsin SBS guidance authorized providers to claim reimbursement for SBS identified in an IEP and provided (i) in a face-to-face setting, (ii) to a beneficiary in school on the date of service, and (iii) by a qualified individual. Providers were required to maintain SBS records for 5 years.

Results of Statistical Sample

A review of a stratified statistical sample of 340 beneficiary months showed 61 of the months included a total of 64 payment errors. The providers:

- Billed for SBS on dates when students were absent (30 errors). For example, providers billed for services on non-school dates (Saturdays), on days that students had excused and unexcused absences, or on days that students were truant.
- Did not maintain documentation supporting that SBS were actually provided (12 errors). For example, SBS documentation certifying that the services were provided was not retained, as required by state Medicaid regulations.

- Billed for SBS not identified in IEPs (10 errors). For example, providers billed for services that were not required and documented in students' IEPs such as transportation, physical therapy, speech therapy, and nursing services.
- Did not retain IEP documentation for the required 5 years (seven errors).
- Did not maintain documentation supporting that the service was provided in a face-to-face setting with the beneficiary (three errors). For example, a provider billed for consultations where documentation indicated a direct service was not provided to the student.
- Did not bill a beneficiary's health insurance carrier or assume the cost for services that would be the responsibility of the health insurance carrier before billing Medicaid (two errors).

Based on the statistical testing, we project that providers claimed and received reimbursement totaling at least \$536,703 (\$315,474 in FFP) for SBS not provided, identified in IEPs, or supported by required documentation. This projection is based on the lower limit of the 90 percent confidence level. (See APPENDIX B for specific sampling universe data, methodology, and results.)

Internal Controls and Oversight

We attribute this condition to ineffective SBS provider internal controls for billing and program oversight processes. Providers did not implement procedures to reconcile IEP documentation to SBS provided and billed. In some cases, providers used school special education computer systems to bill Medicaid by simply identifying that a student was Medicaid-eligible and received a school-based health service during a billing period. Thus, the provider automatically billed Medicaid for a provided SBS, whether identified in an IEP or not. In other cases, when special education personnel changed IEP requirements, school personnel did not update billing data and the school district billing system billed for services no longer required by an IEP. Finally, providers did not ensure that students were in attendance on dates SBS were billed and did not retain supporting documentation in accordance with Wisconsin Medicaid requirements.

Recommendations

We recommended that the Wisconsin DHFS:

- Refund the projected \$315,474 in FFP payments for SBS claims not provided or billed in accordance with IEP and Medicaid requirements or supported by IEP or attendance documentation.

- Reemphasize the requirements that SBS providers implement internal controls to ensure that Medicaid is only billed for SBS (i) identified in IEPs, (ii) provided and billed when the student is present (includes a face-to-face contact), and (iii) supported by documentation retained for 5 years.

Auditee's Comments

In written response to our draft report, Wisconsin DHFS agreed with our conclusion and recommendations. A copy of the response is included as APPENDIX C.

APPENDICES

APPENDIX A

INDIRECT COST CALCULATIONS

The following tables compare the calculation of MAC costs, using the unrestricted versus the restricted indirect cost rate. The MAC salary, fringe, and training costs were multiplied by indirect cost rates obtained from the Wisconsin DPI to calculate indirect costs. Total MAC costs were calculated by summing the indirect costs and direct costs. Total MAC costs were reimbursed based on a 50 percent matching FFP rate.

Table 1. Indirect Costs Calculation (Unrestricted Indirect Cost Rate)

School Districts	Direct Cost (Salary, Fringe, and Training) (A)	Unrestricted Indirect Cost Rate (B)	Unrestricted Indirect Costs (A * B) (C)	Total MAC Costs - Unrestricted Rate (A + C)	50% Matching FFP
Milwaukee	\$1,907,788	0.1368	\$260,985	\$2,168,773	\$1,084,387
Madison	619,903	0.1236	76,620	696,523	348,262
Kenosha	354,318	0.1414	50,101	404,419	202,209
Waukesha	227,450	0.1391	31,638	259,088	129,544
Total	\$3,109,459		\$419,344	\$3,528,803	\$1,764,402

Table 2. Audit MAC Indirect Costs Calculation (Restricted Indirect Cost Rate)

School Districts	Direct Cost (Salary, Fringe, and Training) (A)	Restricted Indirect Cost Rate (B)	Restricted Indirect Costs (A * B) (C)	Total MAC Costs - Restricted Rate (A + C)	50% Matching FFP
Milwaukee	\$1,907,788	0.0498	\$95,008	\$2,002,796	\$1,001,398
Madison	619,903	0.0313	19,403	639,306	319,653
Kenosha	354,318	0.0313	11,090	365,408	182,704
Waukesha	227,450	0.0177	4,026	231,476	115,738
Total	\$3,109,459		\$129,527	\$3,238,986	\$1,619,493

Difference in Applying Unrestricted vs. Restricted Indirect Cost Rates	\$289,817	\$144,909
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SAMPLING METHODOLOGY

A stratified random sample with four strata was used for this review. The first three strata included the three districts receiving the highest total reimbursement for school-based services, while the fourth stratum including all other participating SBS providers within Wisconsin for SFY 2000.

The point estimate of the sample appraisal was \$2,330,281 with a lower limit of \$315,474 at the 90 percent confidence level.

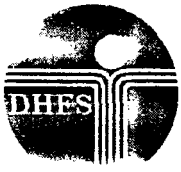
Table 1. School-Based Service Claims Sampling Data

Strata	School District	Universe	Sample Size	Number of Errors	Population Value	Sample Errors Value
1	Madison	4,977	100	21	\$580,756	\$1,733.92
2	Milwaukee	36,825	100	16	\$2,808,520	\$1,157.95
3	Green Bay	4,344	100	18	\$762,406	\$629.98
4	Rest of State	79,885	40	6	\$10,998,995	\$896.39
Totals		126,031	340	61	\$15,150,677	\$4,418.24

Table 2. Type and Frequency of Errors

Type of Error	Madison	Milwaukee	Green Bay	Rest of State	Total
Student not in attendance on date of service	4	11	12	3	30
No supporting documentation that service was provided	6	0	4	2	12
Service not authorized in IEP	7	2	0	1	10
IEP destroyed or not on file	3	4	0	0	7
No direct contact with student	3	0	0	0	3
Insurance not billed prior to Medicaid billing	0	0	2	0	2
Totals	23	17	18	6	64*

* Beneficiary months may contain more than one type of error. As a result, total errors by type in this table will be greater than Table 1 above.



State of Wisconsin
Department of Health and Family Services

Scott McCallum, Governor
Phyllis J. Dubé, Secretary

November 25, 002

Paul Swanson
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Audit Services
233 North Michigan Avenue
Chicago, IL 60601

Dear Mr. Swanson:

Thank you for the opportunity to review the Office of the Inspector General (OIG) findings of Wisconsin Medicaid's School-Based Services benefit. Below are our comments.

This section of the auditee comments was deleted since it addressed a draft finding that was not included in the final report.

This section of the auditee comments was deleted since it addressed a draft finding that was not included in the final report.

Indirect Cost Rate

We have no comments on the indirect cost rate. We will discuss the indirect cost rate further with CMS.

Paul Swanson
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School-Based Services

Thank you for the opportunity to review your audit findings on Wisconsin's School-Based Services benefit. Based on our review of your findings, we accept and will not contest the School-Based Services portion of the audit.

If you have any questions regarding our response, please do not hesitate to contact us.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas E. Alt". The signature is written in a cursive style with a large initial "T" and "A".

Thomas E. Alt
Deputy Secretary