

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## MEDICAID REIMBURSEMENTS FOR SCHOOL-BASED MEDICAL SERVICES

PUBLIC SCHOOLS OF ROBESON COUNTY

FINANCIAL RELATED AUDIT  
JULY 2015



**NC**  **OSA**  
The Taxpayers' Watchdog

# EXECUTIVE SUMMARY

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## **PURPOSE**

The Office of the State Auditor initiated this audit to ensure that Medicaid reimbursements were used to provide education and related medical services to students with disabilities in the Public Schools of Robeson County (School District).

## **BACKGROUND**

The federal Individuals with Disabilities Education Improvement Act (IDEA) requires state education agencies to provide certain education and related medical services to students who have disabilities adversely affecting their ability to obtain a free and appropriate public education.

Local education agencies (LEAs) receive Medicaid reimbursements for direct and administrative costs associated with providing medical services to Medicaid eligible students with disabilities. An interagency agreement required LEAs to use the administrative reimbursements to supplement State funding for services to students with disabilities. The agreement was silent on how direct reimbursements should have been used. During State fiscal years 2011 to 2013, the School District received approximately \$1.1 million per year in Medicaid reimbursements for direct and administrative costs.

LEAs receive State appropriations through the State's Exceptional Children Program to provide the required education and related medical services to students with disabilities.

## **KEY FINDINGS**

- \$1 million intended for special needs students spent for other purposes
- More than \$364,000 in available Medicaid funding not claimed

## **KEY RECOMMENDATIONS**

- The Department of Public Instruction should work with the NC Department of Health and Human Services to clarify the intent and use of Medicaid administrative reimbursements in the interagency agreement and communicate those requirements to the School District.
- The Department of Public Instruction should monitor the School District's spending of Medicaid administrative reimbursements to ensure its compliance with the State interagency agreement.
- The School District should establish operating procedures, provide adequate training to staff, and document the job position descriptions necessary to administer Medicaid reimbursement and cost reporting requirements.

*The key findings and recommendations in this summary may not be inclusive of all the findings and recommendations in this report.*

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



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## AUDITOR'S TRANSMITTAL

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July 27, 2015

The Honorable Pat McCrory, Governor  
Members of the North Carolina General Assembly  
The Honorable Dr. June St. Clair Atkinson, State Superintendent, Department of Public Instruction  
Mitchell Locklear, Chairman, Board of Education of Public Schools of Robeson County  
Thomas Lowry, Interim Superintendent, Public Schools of Robeson County

Ladies and Gentlemen:

We are pleased to submit this financial related audit report titled *Medicaid Reimbursements for School-Based Medical Services – Public Schools of Robeson County*. The audit objectives were to determine if 1) the Public Schools of Robeson County (School District) used Medicaid administrative reimbursements to provide required education and related medical services to students with disabilities and 2) if the School District maximized Medicaid reimbursements to provide these required services.

Mr. Thomas Lowry, School District Interim Superintendent, and Dr. June Atkinson, State Superintendent, reviewed a draft copy of this report. Their written comments are included starting on page 10.

The Office of the State Auditor initiated this audit to ensure that Medicaid reimbursements were used to provide education and related medical services to students with disabilities in the School District.

We appreciate the cooperation received from management and the employees of the School District and the Department of Public Instruction during our audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor



**Beth A. Wood, CPA  
State Auditor**

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Article V, Chapter 147 of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



# BACKGROUND

The federal Individuals with Disabilities Education Improvement Act (IDEA) requires state education agencies to provide certain education and related medical services to students who have disabilities that adversely affect their ability to obtain a free and appropriate public education.<sup>1</sup> State law<sup>2</sup> requires local educational agencies (LEAs) to provide those medical services to students with disabilities in accordance with rules adopted by the State Board of Education.

LEAs receive Medicaid reimbursements for direct and administrative costs associated with providing medical services to Medicaid eligible students with disabilities. An interagency agreement between the North Carolina Department of Health and Human Services' Division of Medical Assistance (DMA) and the Department of Public Instruction required LEAs to use the administrative reimbursement to supplement State funding for services to students with disabilities. The agreement was silent on how direct reimbursements should have been used. During State fiscal years 2011 to 2013, the Public Schools of Robeson County (School District) received approximately \$1.1 million per year in Medicaid reimbursements for direct and administrative costs.

LEAs receive State appropriations through the State's Exceptional Children Program to provide the required medical services. LEAs receive \$3,743 per eligible student. The number of eligible students is limited to the lesser of the April 1st Office of Special Education Program handicapped student count or 12.5% of the LEA's total student population.

During State fiscal years 2011 to 2013, the School District received on average approximately \$12.5 million per year in State funding to provide services to approximately 4,000 children with disabilities.

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<sup>1</sup> Title I Part A Section 602(26)(A) defines "related services" as transportation, speech-language pathology and audiology services, interpreting services, psychological services, physical and occupational therapy, social work services, school nurse services, and counseling services.

<sup>2</sup> Article 9 of NCGS §115C.



# **OBJECTIVES, SCOPE, AND METHODOLOGY**

The audit objectives were to determine if 1) the Public Schools of Robeson County (School District) used Medicaid administrative reimbursements to provide required services to students with disabilities and 2) if the School District maximized Medicaid reimbursements to provide these required services.

The Office of the State Auditor initiated this audit to ensure that Medicaid reimbursements were used to provide education and related medical services to students with disabilities in the School District.

The audit scope included the School District's direct and administrative medical costs to provide services to students with disabilities and Medicaid reimbursements for the fiscal years 2011 to 2013. Auditors conducted the fieldwork from August 2014 to April 2015.

To determine if the School District used Medicaid administrative reimbursement funds to provide required services to students with disabilities, auditors interviewed staff at the School District, Division of Medical Assistance (DMA) and Department of Public Instruction (DPI). Auditors also reviewed laws, regulations, and contract agreements as well as the School District's accounting records.

To determine if the School District maximized Medicaid reimbursements for the costs it incurred to provide education and related services to Medicaid eligible students with disabilities, auditors interviewed staff at the School District, DMA, DPI, and the School District's Medicaid billing contract vendors. We reviewed Medicaid reimbursement claims data and reports and applied Medicaid policy for local education entities to recalculate the maximum Medicaid reimbursement amount.

Because of the test nature and other inherent limitations of an audit, together with limitations of any system of internal and management controls, this audit would not necessarily disclose all performance weaknesses or lack of compliance.

As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional auditing standards. As discussed in the standards, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

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





# **FINDINGS, RECOMMENDATIONS, AND RESPONSES**

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**1. \$1 MILLION INTENDED FOR SPECIAL NEEDS STUDENTS SPENT FOR OTHER PURPOSES**

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The Public Schools of Robeson County (School District) did not use approximately \$1 million per year in Medicaid administrative reimbursements to provide required services to students with disabilities. The School District missed this opportunity to better serve students with disabilities because it was unaware of a contractual requirement to use the Medicaid reimbursements to provide required services.

**Medicaid Reimbursements Were Not Used for Students with Disabilities**

The School District did not use all of the Medicaid administrative reimbursements towards providing required services to students with disabilities during fiscal years 2011 through 2013. The School District reported using a small portion of the Medicaid administrative reimbursements to provide services to students with disabilities through its Special Olympics Very Special Arts Program.

Over the last three years, the School District reported that it used \$26,780 out of \$3.16 million in Medicaid administrative reimbursements to provide services to students with disabilities. The amounts reportedly spent each year are as follows:

- \$ 8,969 out of \$1,010,397 (0.89%) in 2013
- \$12,043 out of \$872,299 (1.38%) in 2012
- \$ 5,768 out of \$1,278,519 (0.45%) in 2011

However, the School District could not verify that the Medicaid administrative reimbursements were directly used towards the Very Special Arts Program. Although the School District separately identified the Medicaid reimbursements from other revenues, it did not track specifically how those funds were spent.

**Missed Opportunity to Better Serve Students With Disabilities**

Had the District used the Medicaid administrative reimbursements towards providing services to students with disabilities, it could have offered them more of the required services. These required services are designed to meet the unique needs of children with disabilities and prepare them for further education, employment and independent living.

In fact, Department of Public Instruction (DPI) personnel recently expressed concerns that the State-funded Exceptional Children program was not adequately funded. Specifically, DPI's Exceptional Children Director stated that the \$3,743 per student allocation for SFY 2013 was not sufficient funding to provide students with disabilities all of the services they needed.

**School District Unaware of Spending Requirements for Medicaid Reimbursements**

DPI misinformed the School District by stating that Medicaid reimbursements were unrestricted and could be used however the School District decided. Despite this misinformation, DPI said that it encouraged the School District to use the reimbursements for needs of students with disabilities.

This misinformation was not limited to the School District. DPI did not inform any of the State's Local Education Agencies (LEA) that Medicaid administrative reimbursements should be used to provide services to students with disabilities. Consequently, there is a state-wide risk that LEAs are using about \$18 million per year<sup>3</sup> in Medicaid administrative reimbursements for purposes other than the benefit of students with disabilities. (See "Matters for Further Consideration")

### **Contract Required Reimbursements Be Used for Students with Disabilities**

The interagency agreement<sup>4</sup> between the NC Department of Health and Human Services (NC DHHS) and DPI in effect through September 30, 2014, allowed the School District to receive Medicaid administrative reimbursements as long as monies were used to provide additional funding for services to students with disabilities. The agreement was silent on how direct reimbursements should have been used.

This interagency agreement reflected Congress' and the US Department of Health and Human Services' intent that Medicaid funds be used to pay for medical services provided to Medicaid-eligible students with disabilities.<sup>5</sup> It is also consistent with federal guidance regarding Medicaid's role in school-based health services programs.<sup>6</sup>

However, terms of the interagency agreement were changed effective October 1, 2014, after initiation of this audit. One such change removed the requirement that administrative Medicaid reimbursements be used towards providing services to children with disabilities. As a result, spending requirements for the reimbursements are not clearly defined under the new interagency agreement.

### **RECOMMENDATION**

The Department of Public Instruction should work with NC DHHS to clarify the intent and use of Medicaid administrative reimbursements in the interagency agreement and communicate those requirements to the School District.

The Department of Public Instruction should monitor the School District's spending of Medicaid administrative reimbursements in order to ensure its compliance with the State interagency agreement.

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<sup>3</sup> DPI reported this amount. The Office of the State Auditor did not audit the reported amount.

<sup>4</sup> Contract# 2011-303, effective through September 30, 2014, was the interagency agreement the Center for Medicare and Medicaid Services required to be in place in order for school districts under the authority of the Department of Public Instruction (DPI) to receive Medicaid administrative reimbursements for services it provided. Section 6: Supplementation of Expenditure of Public Funds states, "The Provider [DPI] assures that funds received pursuant to this contract shall be used only to supplement, not to supplant, the total amount of federal, state and local public funds that the Provider otherwise expends for Medicaid related administrative costs of individualized education plan (IEP) services that include health care for Medicaid eligible. Funds received under this contract shall be used to provide additional public funding for such services; the funds shall not be used to reduce the Provider's total expenditure of other public funds for such services."

<sup>5</sup> Medicare Catastrophic Coverage Act of 1988 – "Testimony on Medicaid Coverage of School-Based Services by Sally Richardson," Director, Center for Medicaid and State Operations Health Care Financing Administration, US Department of Health and Human Services, Before the Senate Finance Committee, June 17, 1999.

<sup>6</sup> Medicaid School-Based Administrative Claiming Guide – Appendix A (1) – Centers for Medicare & Medicaid Services – May 2003

## SCHOOL DISTRICT RESPONSE

Based on information from DPI, the district was not required to use funding for Medicaid Reimbursement for the Exceptional Children's Department only. As a result, some of the funds for Medicaid Reimbursement was (sic) used to support Exceptional Children and other needs of the district. We have had conversation with our Finance Officer but we have not had a response from DPI as to whether all funds need to be spent on Exceptional Children alone. The directives were given us by the state and we followed those directives. Our Finance Officer needs notification from DPI and until that time, we are still in limbo as to where the funds should be dispersed.

## DEPARTMENT OF PUBLIC INSTRUCTION RESPONSE

DPI agrees with the finding and recommendations based on language within the interagency agreement in place during the audit scope. The interagency agreement was updated October 1, 2014. The language within the old agreement incorrectly specified that all Medicaid reimbursements should be directly related to a student with disabilities. In reality, the expectation was that a portion of the Medicaid reimbursement be utilized specifically for students with disabilities, (fee for service) and a portion be utilized for administrative purposes (Medicaid Administrative Claiming). The language correction in 2014 helped to improve the agreement; however, DPI agrees that adding more specific language to the agreement would provide clarity.

The DPI Divisions of School Business and Exceptional Children (EC) will take corrective action to amend the interagency agreement with the Division of Medical Assistance (DMA) and add language to specify the intent and use of funds by October 1, 2015. DPI will monitor LEA compliance with the new interagency agreement during regularly scheduled EC monitoring visits.

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## 2. MORE THAN \$364,000 IN AVAILABLE MEDICAID FUNDING NOT CLAIMED

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The Public Schools of Robeson County (School District) did not meet its managerial responsibility to obtain and use available resources to provide required education and related medical services to students with disabilities. As a result of several organizational weaknesses, the School District did not claim Medicaid reimbursement for all direct and administrative expenses incurred while providing required services to Medicaid eligible students with disabilities.

### Medicaid Funding Went Unclaimed

The School District understated its reimbursable salary and benefits expenses by \$4.8 million during fiscal years 2011 to 2013 which resulted in unclaimed Medicaid reimbursements of more than \$364,000. Table 1 below shows the relationship between the understated expenses and the unclaimed reimbursements.

**Table 1**

	<b>Understated Expenses</b>	<b>Avg. Medicaid Reimbursement Rate</b>	<b>Unclaimed Reimbursement</b>	<b>Percent Unclaimed</b>
<b>2013</b>	\$2,228,418	5.99%	\$133,482	11.64%
<b>2012</b>	\$1,516,372	8.37%	\$126,920	12.70%
<b>2011</b>	\$1,092,384	9.54%	\$104,213	7.54%
<b>Total:</b>	\$4,837,175		\$364,615	10.33%

**Source:** School District records and auditor analysis

**More Funding for Services to Students with Disabilities Foregone**

The School District did not obtain over \$364,000 in available Medicaid reimbursements that could have been used to achieve the objectives of the Exceptional Children program.

The unclaimed Medicaid reimbursements could have been used to provide more services to students with disabilities. The School District could have used the reimbursements to provide the required services designed to meet the unique needs of students with disabilities.

As previously noted, DPI personnel have expressed concerns about the availability of funding to the School District to fully serve students with disabilities.

**Several Organizational Weaknesses Led To Unclaimed Funding**

The School District lacked the organizational structure necessary to claim the maximum reimbursement. Specifically, the School District did not have:

- Adequate written operating procedures for preparing Medicaid reimbursement claims with supervisory review
- Medicaid claims preparers adequately trained in Medicaid claims and reimbursement policy and School District payroll policies and procedures
- Position descriptions that identify the required knowledge, skills, and abilities required to satisfactorily perform job duties related to filing Medicaid reimbursement claims

These organizational weaknesses led to understated expenses which resulted in unclaimed reimbursements.

**Government Managers Are Responsible for Acquiring Necessary Resources**

Best practices require government managers to obtain and use available resources to achieve program objectives.

Specifically, the US Government Accountability Office states,

“Managers have fundamental responsibilities for carrying out government functions. Management is responsible for using its financial, physical, and informational resources legally, effectively, efficiently, economically, ethically, and equitable to achieve the purposes for which the resources were furnished or the program was established.”<sup>7</sup>

Furthermore, the United States Congress intended that schools would obtain and use Medicaid funds to pay for medical services provided to Medicaid-eligible students with disabilities.<sup>8</sup>

**RECOMMENDATIONS**

The School District should establish documented operating procedures for preparing and reviewing Medicaid reimbursement claims and cost reports.

The School District should provide staff adequate training to properly administer Medicaid reimbursement and cost reporting requirements.

The School District should develop documented position descriptions that identify the required knowledge, skills, and abilities required to satisfactorily perform the job duties related to filing Medicaid reimbursement claims.

**SCHOOL DISTRICT RESPONSE**

Initially, we were told that Info-Handler would be able to manage all claims for Medicaid Reimbursement for this district; therefore we felt we were following procedures for Medicaid claims and costs. As a result of this audit we are going to make sure that proper training for the staff involved takes place at the beginning of the School Year (July 2015.) The training will continue all year for the staff.

We will be reaching out to DPI and State Auditor's Office to help with Staff Development for Medicaid Reimbursement understanding that this is a Public School Organization and not a system that has knowledge of Medicaid Reimbursement. This data for Staff Development will start July 1, and will continue throughout the year.

Assistant Superintendents, Directors, Finance Officer and Administrative Assistants will work together to make sure that the corrective action in this plan are put into place. Correction Action Plan will be fully implemented by October 1, 2015.

July 1,2015	Implementation of Action Plan
October 1,2015	Review of Action Plan
January 4, 2016	Review and Evaluate Action Plan
April 4, 2016	Review and Evaluate Action Plan
June 30, 2016	Review and Evaluate Action Plan

<sup>7</sup> US Government Accountability Office by the Comptroller General of the United States, Government Auditing Standards – 2011 Revision, Section A1.08.a.

<sup>8</sup> Medicare Catastrophic Coverage Act of 1988 – “Testimony on Medicaid Coverage of School-Based Services by Sally Richardson,” Director, Center for Medicaid and State Operations Health Care Financing Administration, US Department of Health and Human Services, Before the Senate Finance Committee, June 17, 1999.

**METHODS NEEDED TO ENSURE THAT \$29 MILLION IN MEDICAID REIMBURSEMENTS ARE USED FOR SPECIAL NEEDS STUDENTS AS INTENDED**

The Department of Public Instruction (DPI) should issue a directive and consider methods to ensure that all local education authorities (LEAs) use the cumulative \$29 million<sup>9</sup> (approximately) per year in Medicaid reimbursements that they receive to provide medical and related services to students with disabilities.

Ensuring that all LEAs appropriately use the Medicaid reimbursements to provide additional services can help fill part of the funding gap for LEAs whose special needs student population exceeds the population cap<sup>10</sup> for which the State will allocate State appropriations.

For example, approximately \$1.1 million in Medicaid reimbursements that the Public Schools of Robeson County (School District) received in fiscal year 2013 could have been used to reduce the School District's underfunding from about \$4 million to about \$2.9 million.

According to the State's methodology for allocating funding to Exceptional Students, the School District was underfunded by almost \$4 million for fiscal year 2013 as calculated below:

Total School District Student Population	24,023
State Funding Population Cap Percentage for Students with Disabilities	<u>12.5%</u>
Maximum Number of Students with Disabilities Allowed State Funding	3,003
School District's April 1, 2012 OSEP Count	<u>4,065</u>
School District's Students with Disabilities Not Allowed State Funding	(1,062)
State Allotment for Students with Disabilities <sup>10</sup>	<u>\$ 3,743</u>
Amount of District's Underfunding for Students with Disabilities	<u>\$ 3,975,066</u>

DPI personnel have voiced concerns about inadequate program funding. The State's Exceptional Children Director stated the \$3,743 per student allocation for SFY 2013 was not sufficient funding to provide students with disabilities all the services designed to meet their unique needs and prepare them for further education, employment, and independent living.

<sup>9</sup> DPI reported that Local Education Agencies received approximately \$18 million in Medicaid administrative reimbursements and \$11 million in Medicaid direct service reimbursements, equaling \$29 million in total Medicaid reimbursements, during fiscal year end June 30, 2013. The Office of the State Auditor did not audit the reported amounts.

<sup>10</sup> According to "Highlights of the North Carolina Public School Budget – February 2013," the State will provide an LEA \$3,743 per funded child count, with the child count being the lesser of the April 1 Office of Special Education Program (OSEP) handicapped child count or 12.5% of the LEAs total student population.

The interagency agreement<sup>11</sup> between the NC Department of Health and Human Services and DPI in effect through September 30, 2014, allowed the School District to receive Medicaid administrative reimbursements as long as monies are used to provide additional funding for services to students with disabilities. The agreement was silent on how direct reimbursements should have been used. The interagency agreement reflected Congress' and the US Department of Health and Human Services' intent that Medicaid funds be used to pay for medical services provided to Medicaid-eligible students with disabilities.<sup>12</sup>

Terms of the interagency agreement were changed effective October 1, 2014, after initiation of this audit. One such change removed the requirement that administrative Medicaid reimbursements be used towards providing services to children with disabilities. However, spending requirements for the reimbursements remain unclear under the new interagency agreement.

## DEPARTMENT OF PUBLIC INSTRUCTION RESPONSE

DPI agrees that costs resulting from fee for service (FFS) claims (totaling approximately \$11 million in FY 2013) should be reinvested in Exceptional Children (EC) programs upon reimbursement, and that corrective action should be implemented to ensure LEAs use the FFS reimbursements only for students with disabilities as intended. FFS reimbursements are claims for which a local school district is reimbursed at a set rate for educationally related medical services it provides to students, only if the service is described in the student's Individualized Education Program (IEP) and is covered by the State Medicaid Plan. An IEP is a customized education plan, which documents the current level of performance, progress tracking, and defines goals in order to meet the unique needs of a student with disabilities. Unlike FFS, Medicaid Administrative Claiming (MAC) expenses (totaling approximately \$18 million in FY13) are incurred across LEA programs and are intended to benefit all students, not solely those students with disabilities. Accordingly, LEAs should not be required to use MAC reimbursements solely to provide medical and related services to students with disabilities. The planned amendments for the interagency agreement will clarify the difference between FFS and MAC funding and allowable use for each type of Medicaid reimbursement.

Corrective action will include issuance of a directive that all LEAs use FFS reimbursements solely for students with disabilities, given these expenditures derive almost exclusively from EC program budgets. NCDPI will issue a memo by July 31, 2015, to all NC LEAs, including charter schools and state-run programs, indicating FFS funds recouped from NC Medicaid must be routed to programs for students with disabilities. DPI will monitor LEA compliance with the directive during regularly scheduled EC monitoring visits.

<sup>11</sup> Contract# 2011-303, effective through September 30, 2014, was the interagency agreement the Center for Medicare and Medicaid Services required to be in place in order for school districts under the authority of the Department of Public Instruction (DPI) to receive Medicaid administrative reimbursements for services it provided. Section 6: Supplementation of Expenditure of Public Funds states, "The Provider [DPI] assures that funds received pursuant to this contract shall be used only to supplement, not to supplant, the total amount of federal, state and local public funds that the Provider otherwise expends for Medicaid related administrative costs of individualized education plan (IEP) services that include health care for Medicaid eligible. Funds received under this contract shall be used to provide additional public funding for such services; the funds shall not be used to reduce the Provider's total expenditure of other public funds for such services."

<sup>12</sup> Medicare Catastrophic Coverage Act of 1988 – "Testimony on Medicaid Coverage of School-Based Services by Sally Richardson," Director, Center for Medicare and State Operations Health Care Financing Administration, US Department of Health and Human Services, Before the Senate Finance Committee, June 17, 1999.





**Public Schools of Robeson County**

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Office of the Superintendent

July 8, 2015

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 Audit Supervisor  
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Carla Jacobs:

In reference to the Audit Findings, Medicaid Reimbursements for School Based-Medical Services, The Public Schools of Robeson County provide the corrective action plans to address these findings.

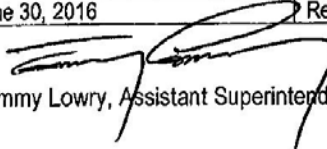
- 1) Based on information from DPI, the district was not required to use funding for Medicaid Reimbursement for the Exceptional Children's Department only. As a result, some of the funds for Medicaid Reimbursement was used to support Exceptional Children and other needs of the district. We have had conversation with our Finance Officer but we have not had a response from DPI as to whether all funds need to be spent on Exceptional Children alone. The directives were given us by the state and we followed those directives. Our Finance Officer needs notification from DPI and until that time, we are still in limbo as to where the funds should be dispersed.

Initially, we were told that Info-Handler would be able to manage all claims for Medicaid Reimbursement for this district, therefore we felt we were following procedures for Medicaid claims and costs. As a result of this audit we are going to make sure that proper training for the staff involved take place at the beginning of the School Year (July 2015.) The training will continue all year for the staff.

- 2) We will be reaching out to DPI and State Auditor's Office to help with Staff Development for Medicaid Reimbursement understanding that this is a Public School Organization and not a system that has a knowledge of Medicaid Reimbursement. This data for Staff Development will start July 1, and will continue throughout the year.

Assistant Superintendents, Directors, Finance Officer and Administrative Assistants will work together to make sure that the corrective action in this plan are put into place. Correction Action Plan will be fully implemented by October 1, 2015.

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 Tommy Lowry, Assistant Superintendent



**PUBLIC SCHOOLS OF NORTH CAROLINA**

DEPARTMENT OF PUBLIC INSTRUCTION | June St. Clair Atkinson, Ed.D., *State Superintendent*

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July 10, 2015

The Honorable Beth A. Wood, State Auditor  
 Office of State Auditor  
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The Department of Public Instruction (DPI) thanks the Office of State Auditor for the financial-related audit titled *Medicaid Reimbursements for School-Based Medical Services*. Although the Public Schools of Robeson County was the primary focus of this audit, some of the recommendations relate to the Department of Public Instruction. We understand that the objective of the audit was to determine if Medicaid reimbursements were used to provide education and related medical services to students with disabilities within the school district. This letter serves as our response to information contained in the audit report.

**FINDING 1: \$1 MILLION INTENDED FOR SPECIAL NEEDS STUDENTS SPENT ON OTHER PURPOSES**

*Recommendation:* The Department of Public Instruction should work with NC DHHS to clarify the intent and use of Medicaid administrative reimbursements in the interagency agreement and communicate those requirements to the School District.

*Recommendation:* The Department of Public Instruction should monitor the School District’s spending of Medicaid administrative reimbursements in order to ensure its compliance with the state interagency agreement.

DPI agrees with the finding and recommendations based on language within the interagency agreement in place during the audit scope. The interagency agreement was updated October 1, 2014. The language within the old agreement incorrectly specified that all Medicaid reimbursements should be directly related to a student with disabilities. In reality, the expectation was that a portion of the Medicaid reimbursement be utilized specifically for students with disabilities, (fee for service) and a portion be utilized for administrative purposes (Medicaid Administrative Claiming). The language correction in 2014 helped to improve the agreement; however, DPI agrees that adding more specific language to the agreement would provide clarity.

*Medicaid School-based Administrative Claiming Guide (2003)* distinguishes between the use of funds for direct services and the use of funds for administrative outreach as follows:

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AN EQUAL OPPORTUNITY/AFFIRMATIVE ACTION EMPLOYER

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“expenditures for direct school-based health services that are within the scope of Medicaid coverage and furnished to Medicaid eligible children may be claimed as “medical assistance” and are not within the scope of the administrative claims.” In other words, the Medicaid Administrative Claiming (MAC) program expects to reimburse Local Education Agencies (LEAs) for outreach services, but not direct, medically necessary services for students with disabilities. Further, based on the Centers’ Medicare and Medicaid Services letter SMD#14-006, released in December of 2014, Medicaid administrative activities in support of services for all Medicaid children (not just those students with disabilities) are now Medicaid coverable, whether or not these services are provided free of charge to non-Medicaid children.

MAC supports Medicaid outreach activities provided by LEA personnel who identify and enroll students who are potential Medicaid beneficiaries, as well as those who ensure administration of appropriate health services to existing beneficiaries, regardless of the student’s eligibility for Exceptional Children (EC) programs.

The following is a list of examples of services that would be eligible for MAC reimbursement:

- outreach services for *all* students
- facilitation of Medicaid eligibility determinations
- medical/Medicaid related training
- general administration

Some LEA employees providing administrative outreach services are service providers in EC programs, but many (such as social workers, school nurses, school administrators, and school psychologists) are not funded through EC program budgets. As such, LEA administrative outreach expenditures are distributed across LEA programs/budget lines and reimbursements should be distributed in the same manner. MAC reimbursements should be appropriately allocated to provide additional public funding for outreach services for all students, not just those students with disabilities.

The DPI Divisions of School Business and Exceptional Children will take corrective action to amend the interagency agreement with the Division of Medical Assistance (DMA) and add language to specify the intent and use of funds by October 1, 2015. DPI will monitor LEA compliance with the new interagency agreement during regularly scheduled EC monitoring visits.

**OTHER MATTERS FOR CONSIDERATION: METHODS NEEDED TO ENSURE THAT \$18 MILLION DOLLARS IN MEDICAID REIMBURSEMENTS ARE USED FOR SPECIAL NEEDS STUDENTS AS INTENDED**

*Recommendation:* The Department of Public Instruction (DPI) should issue a directive and consider methods to ensure that all local education authorities (LEAs) use the cumulative \$29 million (approximately) per year in Medicaid administrative reimbursements that they receive to provide medical and related services to students with disabilities.

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DPI agrees that costs resulting from fee for service (FFS) claims (totaling approximately \$11 million in FY 2013) should be reinvested in EC programs upon reimbursement, and that corrective action should be implemented to ensure LEAs use the FFS reimbursements only for students with disabilities as intended. FFS reimbursements are claims for which a local school district is reimbursed at a set rate for educationally related medical services it provides to students, only if the service is described in the student's Individualized Education Program (IEP) and is covered by the State Medicaid Plan. An IEP is a customized education plan, which documents the current level of performance, progress tracking, and defines goals in order to meet the unique needs of a student with disabilities. Unlike FFS, MAC expenses (totaling approximately \$18 million in FY13) are incurred across LEA programs and are intended to benefit all students, not solely those students with disabilities. Accordingly, LEAs should not be required to use MAC reimbursements solely to provide medical and related services to students with disabilities. The planned amendments for the interagency agreement will clarify the difference between FFS and MAC funding and allowable use for each type of Medicaid reimbursement.

Corrective action will include issuance of a directive that all LEAs use FFS reimbursements solely for students with disabilities, given these expenditures derive almost exclusively from EC program budgets. NCDPI will issue a memo by July 31, 2015, to all NC LEAs, including charter schools and state-run programs, indicating FFS funds recouped from NC Medicaid must be routed to programs for students with disabilities. DPI will monitor LEA compliance with the directive during regularly scheduled EC monitoring visits.

#### **NOTABLE ISSUES OUTSIDE THE AUDIT SCOPE**

DPI would also like to take the opportunity to note that this audit was limited to one NC LEA and did not address other pressing priorities for Medicaid reimbursement to NC LEAs, including:

- Medicaid reimbursement rates for services provided by LEAs are markedly lower than rates paid in other settings, despite identical credentialing and documentation standards across provider types
- Legislative freeze on NC Medicaid rates
- Poor reimbursement rates make LEA Medicaid reimbursements inefficient and can result in net loss
- Restrictions on LEA Medicaid utilization due to unnecessary and unwarranted obstructions imposed by DMA policies for other provider types
- State mandated extrapolation procedures applying unattainable error standards
- Exclusion of potentially reimbursable services (i.e., transportation and mental health services) for LEAs from the related DMA policy (Policy 10-C)

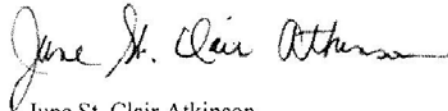
If these barriers were addressed, the FFS reimbursements for NC LEAs would result in notable, expanded benefits to students with disabilities.

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**CONCLUSION**

DPI feels that the stated plans for corrective action will be sufficient to mitigate the issues raised in the audit report. We appreciate the assistance provided in pointing out areas for improvement within the school-based Medicaid reimbursement process.

Sincerely,



June St. Clair Atkinson

c: Rebecca Garland, Deputy State Superintendent  
Tracy Weeks, Chief Academic and Digital Learning Officer  
Philip Price, Chief Financial Officer  
Bill Hussey, Director of Exceptional Children  
Jeni Allen, Director of Internal Audit

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