



Longwood Central School District

Review of Special Education Revenues & Expenditures

2016 - 2017 School Year

Presented to the Audit Committee 10/05/2017



June 2017

Board of Education
Longwood Central School District
35 Yaphank Middle Island Road
Middle Island, NY 11953

Board of Education:

We have been retained to function as the internal auditor for the Longwood Central School District (hereinafter, "the District"). Our responsibility is to assess the internal control system in place for the accounting function within the District, and to make recommendations to improve upon certain control weaknesses or deficiencies. In doing so, we hope to provide assurance to the District's Board, management, and residents, that the fiscal operations of the District are being handled appropriately and effectively.

SECTION I - EXECUTIVE SUMMARY

1. Findings

Based on our tests and analyses performed, the District has implemented procedures to effectively track and account for expenses and revenues related to special education. We did note areas where controls can be improved. The results of our review are contained in Section II entitled "Detailed Review and Recommendations."

2. Background

One of the many issues impacting school districts has been the rising cost of special education services. The special education population as a percent of the total student population continues to rise in all districts, with special education costs being more difficult to control. Federal legislation established a mandate to provide students with appropriate services and maintenance of effort, yet State funding continues to decrease, which presents Districts with the task of using available resources in the most efficient manner possible. As such, we were requested to assess if the internal controls within the Special Education Department are sufficient to ensure that the District is properly monitoring special education costs, as well as maximizing potential revenues.

School district expenses associated with providing special education services are as follows:

- Special education services provided to Longwood students who are either serviced in-District, or are parentally placed in nonpublic schools within or outside the Longwood school district.
- Tuition charges for Longwood students placed by the special education committee in a public school outside the Longwood school district, in a State-approved private special education school, or in a Boards of Cooperative Educational Services (BOCES) school.
- Related services expenditures for students who receive services such as physical therapy, occupational therapy, and counseling.

School district revenues related to providing special education services can be obtained from:

- The System to Track and Account for Children State Aid (STAC) reimbursements from the State for special education and related services provided to Longwood students who are serviced within the District, placed in BOCES programs, and those who are placed in State-approved private schools.
- Payments from non-Longwood students who are parentally placed in nonpublic schools within the Longwood school district and receiving special education services (the District does not have any nonpublic schools within its borders).
- Payments from non-Longwood students receiving special education services within the Longwood public school (the District currently does not have any students from other school districts receiving special education within the District).
- Medicaid reimbursements for eligible in-District students.
- Federal Individuals with Disabilities Education Act (IDEA) Section 611 and Section 619 grants and Approved Special Education Programs (ASEPs).

3. Scope And Procedures Performed:

We first met with the Director of Special Education and staff to gain an understanding of the procedures in place for providing, tracking, billing, and paying special education services. We then obtained data for the 2015-2016 school year of students receiving special education services. Based on the data, we selected various samples to test that:

- Amounts input in the STAC for fiscal 2016 were properly calculated and captured all applicable costs;
- Payments for tuition for State-approved schools and BOCES were correct;
- Payments to related service providers were correctly calculated and had proper documentation to support the services provided;
- Appropriate special education costs were properly claimed and remitted to Medicaid; and
- Payments for special education services for Longwood students parentally placed in nonpublic schools outside the District or in a charter school were correctly calculated and had proper documentation to support the services provided.

SECTION II - DETAILED REVIEW AND RECOMMENDATIONS

1. System To Track And Account For Children (STAC)

Federal and State laws require districts to provide special education programs for students with disabilities. Students are referred to a district's Committee on Special Education (CSE) for special education services. The CSE arranges for an evaluation of the student's needs and decides if the student should receive special education services. An Individualized Education Program (IEP) is developed for each child determined to need special services based on his/her evaluation, identifying services to be provided. The District utilizes the software application IEP Direct to enter and maintain information about each student's IEP.

Students may receive special education services from teachers within the District, or may attend programs in other school facilities such as BOCES, a State-approved private special education school (e.g., Developmental Disabilities Institute), or in another public school. Districts may receive State aid reimbursement of approved costs per student with the New York State Education Department (NYSED) by utilizing the STAC online system. Such costs must be equal to or exceed the District's threshold amount, as determined by NYSED. Before payment is made to a district, an Automated Verified Listing (AVL) is generated with information submitted for each STAC, and the

district must verify the information on the AVL in the STAC claiming process. Therefore, it is crucial that districts have procedures in place to identify students receiving services who would exceed the threshold.

Our review of the District's STAC processes are documented below.

a) In-District Students:

During our review, we noted that the District follows several steps to ensure that students are identified as those that can receive State aid through the STAC system. The District first prepares a list of all students that are in a special classroom, and notes the names of teacher and classroom assistants. They also obtain a list of the students who have a 1:1 aide. The District then prepares a spreadsheet of the salaries, and any fringe benefits for each special education teacher in a special education contained classroom, for each teacher assistant or aide assigned to the classroom, and for each 1:1 aide. The cost per student is the calculated including any other related services costs that are provided. Based on the total cost for each student, the District then determines if the costs exceed the District's threshold and completes the STAC, if applicable.

During our review, we selected 15 of the 129 students that were assigned either a 1:1 aide or who shared an aide for the 2015-2016 school year. We then recalculated the costs associated with providing special education services based on the student's IEP. If the total cost was over the District's threshold, we then compared our calculation to the amount that was input in the STAC by the District. We also verified that the students were input in the STAC for the cost of summer education and transportation if applicable. **No exceptions were noted.**

b) BOCES:

The District maintains a list of students receiving special education services at Eastern Suffolk BOCES or at State-approved private schools. BOCES is responsible for maintaining student attendance records and remitting the report cards to the District on a quarterly basis. When BOCES invoices are received, they are reviewed by the special education staff to ensure that invoiced amounts are correct and agree to what is mandated on each student's IEP.

During our review, we selected 20 of the 125 students attending BOCES during the 2015-2016 school year, and verified the costs billed to the District agreed to the contracted rates to ensure that charges for tuition and other services were correct. We then compared that the services billed were listed on the student's IEP. Finally, we verified the District included all costs when completing the online STAC, and filed a STAC for the extended school year and summer transportation, if applicable. **No exceptions were noted.**

c) State-Approved Private Schools:

The NYSED Rate Setting Unit establishes special education tuition rates for approved programs educating students with disabilities ages 3 to 21 years old who have been enrolled pursuant to articles 81 and 89 of the Education Law. The State will issue both prospective and reconciled rates for each school year. Pursuant to the contract between the private school and the District, if the private school's rates are modified upward or downward by NYSED, the parties are permitted to adjust the tuition payments so that the District will have paid in accordance with the approved rates applicable to the respective year tuition.

We selected 8 of the 36 students receiving special education services through State-approved private schools for the 2015-2016 school year. We verified that contracts were

executed with districts of locations. For each of these students, we verified that the charges for tuition during the school year as well as during the summer (if applicable) agreed with tuition rates set by NYSED. We also confirmed that the services billed were in agreement with the student IEP. We then verified that the District submitted the STAC for the correct amount. Finally, we verified that the District compared the prospective tuition rate with the reconciled rates on an annual basis, and noted that any credits due to a reduction in the rates were obtained. **No exceptions were noted.**

d) Out-of-District Public Schools:

Based on the CSE meeting, a student may be placed in another public school district to receive special education services when another district may have specific resources in place that would be more cost effective for a district to utilize rather than implementing the program in-house. The District (the district of residence) is billed by the district of location for the special education services provided. The tuition costs can be based either on the estimated rate established by the NYSED, or can be based on actual costs incurred by the district of location. The non-resident tuition rates are generally not finalized until after the end of the school year, and the district of residence will either owe if the rates are increased, or receive a credit if the rates are lowered.

We noted that the District had 2 students that were placed in another public school during the 2015-2016 school year. We verified that contracts were executed with districts of locations. We then confirmed that services billed to the District were in accordance with the student's IEP, and that the District was billed for the correct tuition rate. We also confirmed that the District properly STAC'ed for the correct amount for the school year, and the extended school year and summer transportation, if applicable. **No exceptions were noted.**

Auditor's Comment: The District has since placed these students back within the District, thereby reducing the cost to provide special education services.

2. Parentally Placed Students

a) Nonpublic Schools

The Longwood School District is billed for those students who are parentally-placed in a nonpublic (i.e., parochial) school outside the District, and receiving special education services by other educating districts. Actual costs related to the CSE administration, evaluations, and special education services provided to the student with a disability who is a nonresident may be recovered from a student's school district of residence. In addition, the proportionate share of IDEA Federal funds and applicable State aid received by the district of location should, in general, be credited to the district of residence.

We selected 4 school districts that billed Longwood in fiscal 2016 for students who were parentally-placed in a nonpublic school outside the District. We noted that the District ensured the student was a Longwood resident, and the detailed bills were reviewed by clerical personnel in the Special Education Department prior to the District processing payment. We also verified that contracts were executed with the District. From the four schools selected, we then selected 14 students listed on the invoices to evaluate whether the costs charged were based on the services listed on the student's IEP, that supporting documentation (e.g., attendance sheets, notes, etc.) was attached to the invoices, and that Longwood was properly credited for any proportionate share of Federal funds and/or State aid for such students. **No exceptions were noted.**

b) Charter Schools

The Longwood School District is billed for tuition for those students who are parentally-placed in a charter school. The NYSED Rate Setting Unit establishes the tuition rates that charter schools can charge (similar to a private special education school). The District has students that are enrolled in Riverhead Charter School, and the District is responsible for providing any special education services for Longwood students who have been classified. The District had contracted with the vendor, Complete Rehab, for providing occupational therapy (OT) and physical therapy (PT) services as needed for students attending the charter school.

We noted that the District had 7 students who were classified as needing special education services that attended Riverhead Charter School during the 2015-2016 school year. For those students requiring OT or PT, we confirmed that the services billed by Complete Rehab agreed with the services listed on the student's IEP. **No exceptions were noted.**

We then verified that the tuition amount charged per student that attended the Riverhead Charter School in the 2015-2016 school year agreed with the rate set by the State. **No exceptions were noted.**

Auditor's Comment: We noted that Riverhead Charter School does not provide attendance sheets along with the tuition invoices. The District has in the past requested this information to be provided but the charter school has not complied. The attendance sheets would allow the District to confirm that the student has indeed attended the school, and ensure that the District is being billed appropriately for both tuition and related services (see issue #1 below).

3. Related Service Expenditures

Related services includes speech therapy, occupational therapy, physical therapy, and rehabilitation counseling, as well as other services to enhance a student's ability to function in an education program. Related services may be among those services that are recommended for a student at a CSE meeting. Once recommended, related services are documented on a student's IEP, and the District may provide those services to the student through District employees or through contracted providers. If related services are provided by outside vendors, the District executes contract with the vendors; however, it is the District's responsibility to ensure that mandated services, as noted on a student's IEP, are being provided.

We selected 5 vendors who provided related services during the 2015-2016 school year. A total of 33 expenses were selected from the various vendor invoices. We verified that the rates for services charged agreed to the rates listed in the vendor's contract. We also verified that the invoices were mathematically accurate, and supporting documentation (e.g., attendance sheets, notes, etc.) was attached to the invoices. We also confirmed that the services provided were in agreement with the student's IEP. We noted the following:

Issue #1: The rates charged by one of the vendors (Complete Rehab) did not agree with the rates indicated in the agreed-upon contract. Furthermore, this vendor does not provide attendance sheets for students who attend Riverhead Charter School and receive related services.

Level: Moderate

Risk: The District may be paying for services not provided and/or for students who are not residents of the District.

Recommendation: We recommend that the District ensure rates charged by the vendor agree with rates stated in the contract with the vendor. To further strengthen the internal controls over the review of related service provider invoices, we recommend that the District develop a tracking system to verify the services provided are in agreement with the services listed in the student's IEP. The tracking system will also enable the District to better budget for anticipated costs. We are aware that Riverhead Charter School has attendance cards signed by service providers each time a service is provided and has a system that tracks when a student is not present. Therefore, we also recommend the District work with Complete Rehab to request and obtain such supporting documentation from the charter school. We are aware the subsequent to our testing the District followed our recommendation and will be receiving both a negative attendance report from the charter school to confirm the District was not billed for any dates in which the student was marked absent and receive the sign-in cards which are filled out by the outside agency (e.g. Complete Rehab) providing services to a charter school from the charter school to compare to the outside agency's bill. In addition, the District has met with the Complete Rehab to discuss the format of the bill and the agency has agreed to adjust the format of the bill to display the individual cost for the service and/or session.

5. Medicaid

The Medicaid claims reimbursement process is a complex process with a myriad of ever-changing regulations which all districts must adhere to. The process requires monitoring changes in regulations and effective communication of such changes to staff to ensure that correct procedures are followed to claim Medicaid reimbursements. Requirements for submitting a Medicaid reimbursement claim include having a signed parental consent form to bill Medicaid, medical prescriptions establishing medical necessity, and contemporaneous session notes from providers, with information detailing Current Procedural Terminology (CPT) codes and session start and end times.

School districts receive Medicaid reimbursement for certain health support services provided to eligible students with disabilities who have an IEP. Reimbursable services include, but are not limited to, physical therapy, occupational therapy, and speech therapy services. The New York State Department of Health (DOH) has developed a monthly fee schedule for such services. Districts receive reimbursement based on the approved amounts, with the State withholding its share from a district's State aid.

The District uses Medicaid Direct which interfaces with IEP Direct, and requires the student's records to have the parental consent, the CPT codes for any prescriptions, and the session notes entered before creating a Medicaid billing file. Any missing items will be flagged and reported. Medicaid Direct also verifies that the services being billed are included in the student's IEP or it will be rejected. Unless all the necessary criteria are met, a Medicaid claim will not be processed for a particular student.

We obtained a report of students that were eligible to receive Medicaid benefits in the 2015-2016 school year. From the report, we selected 25 students, and performed tests to determine if the District properly billed Medicaid. Of the 25 students, we noted only 6 students met the criteria to bill Medicaid (i.e., received related services and had session notes to support services provided, had a valid prescription, had parental consent, and their provider(s) had a valid license and was not on the exclusion list). We then verified that the amount billed to Medicaid for the 6 students was correct. **No exceptions were noted.**

Issue #2: There were 2 instances where the District did not bill for psychological counseling/evaluation services provided to Medicaid eligible students because the providers lacked proper licensure.

Level: Moderate

Risk: The District may be losing reimbursement for services provided to Medicaid eligible students.

Recommendation: Currently, the District is unable to claim reimbursement through the School Supportive Health Services Program and Preschool Supportive Health Services Program (SSHSP) for Medicaid eligible students receiving psychological services (e.g. evaluations, counseling, etc.) in-district as the District does not have licensed psychologists. However, the District is able to receive reimbursement for those Medicaid eligible students receiving psychological services through BOCES as BOCES ensures Medicaid licensed psychologists are providing services to Medicaid eligible students. We recommend that the District ensure licensed psychologists provide services to Medicaid eligible students. We are aware that the District plans to have licensed psychologists providing services in-district during the 2017-2018 school year, which will allow the District to request reimbursement from the SSHSP.

Auditor's Comment: Through our review, we were informed that the District is working to add a Medicaid Plan to District policy. In addition, through our testing, we noted that the District was unable to bill for speech therapy services provided for 9 of the 25 students selected as a result of District contractual restrictions surrounding session notes. We are aware that the District has since addressed the terms of the contracts and is able to bill for speech therapy services subsequent to the 2015-2016 school year. We commend the District for its efforts in strengthening its controls surrounding special education.

6. Federal Idea Grants & ASEPS

The District receives Federal funding under Part B of the IDEA Section 611 and Section 619 to assist with the excess costs of providing special education to children with disabilities. Funds may be used to supplement state, local, and other Federal funds, but not supplant those funds. Districts must apply for these grants by submitting budgets, and they must also ensure that expenditures of grant funds adhere to the purpose of the IDEA. In addition, Districts may disburse Section 611 and Section 619 funds to Approved Special Education Programs (ASEPs) which serve one or more students with disabilities placed by the District. In order to be eligible for these "flow-through" funds, ASEPs are currently submitting Special Education Data Collection, Analysis and Reporting (SEDCAR) forms to the District, entering into contracts with the District, and providing final expenditure reports supporting how vendor funds were spent.

During our discussions with the District, it was noted they are properly monitoring flow-through funds to ASEPs by receiving proposed budgets and final expenditure reports from the ASEPs. We also noted that the grant contains costs for services that cannot be STAC'ed. **No exceptions were noted.**

We would like to thank the District for the cooperation and professionalism extended during our testing.

We understand the fiduciary duty of the Board of Education, as well as the role of the internal auditor in ensuring that the proper control systems are in place and functioning consistently with the Board's policies and procedures.

Should you have any questions regarding anything included in our report, please do not hesitate to contact us at (631) 582-1600.

Sincerely,

Cerini & Associates LLP

Cerini & Associates, LLP
Internal Auditor