MICHIGAN

OFFICE OF THE AUDITOR GENERAL

# AUDIT REPORT

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

## DEPARTMENT OF COMMUNITY HEALTH

October 1, 2005 through September 30, 2007

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

391-0100-08

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

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Michigan

*Office of the Auditor General*

# REPORT SUMMARY

## *Financial Audit*

*Including the Provisions of the Single Audit Act*

**Report Number:**
**391-0100-08**

## *Department of Community Health*

*October 1, 2005 through September 30, 2007*

**Released:**
**October 2008**

*A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.*

***Financial Schedules:***

**Auditor's Report Issued**

We issued an unqualified opinion on the Department of Community Health's (DCH's) financial schedules.

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

**Internal Control Over Financial Reporting**

We identified significant deficiencies in internal control over financial reporting (Findings 1 through 6). We consider Finding 1 to be a material weakness.

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**Noncompliance and Other Matters Material to the Financial Schedules**

We did not identify any instances of noncompliance or other matters applicable to the financial schedules that are required to be reported under *Government Auditing Standards*.

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

***Federal Awards:***

**Auditor's Reports Issued on Compliance**

We audited 11 programs as major programs and reported known questioned costs of $57.9 million and known and likely questioned costs totaling $57.9 million. DCH expended a total of $11.8 billion in federal awards during the two-year period ended September 30, 2007. We issued 8 unqualified opinions and 3 qualified opinions. The opinions issued by major program are identified on the back of this summary.

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

**Internal Control Over Major Programs**

We identified significant deficiencies in internal control over federal program compliance (Findings 7 through 23). We consider Findings 7, 9, and 13 to be material weaknesses.

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

**Required Reporting of Noncompliance**
We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 7 through 23).

***Systems of Accounting and Internal Control:***
We determined that DCH was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*. However, we did identify a significant deficiency (Finding 1).

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

We audited the following programs as major programs:

| ***CFDA Number*** | ***Program or Cluster Title*** | ***Compliance Opinion*** |
|---|---|---|
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children | Unqualified |
| 93.044, 93.045, and 93.053 | Aging Cluster | Unqualified |
| 93.136 | Injury Prevention and Control Research and State and Community Based Programs | Unqualified |
| 93.268 | Immunization Grants | Qualified |
| 93.283 | Centers for Disease Control and Prevention - Investigations and Technical Assistance | Unqualified |
| 93.558 | Temporary Assistance for Needy Families | Unqualified |
| 93.767 | State Children's Insurance Program | Qualified |
| 93.777 and 93.778 | Medicaid Cluster | Qualified |
| 93.779 | Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | Unqualified |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse | Unqualified |
| 93.994 | Maternal and Child Health Services Block Grant to the States | Unqualified |

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: http://audgen.michigan.gov

Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

**Thomas H. McTavish, C.P.A.**
Auditor General

**Scott M. Strong, C.P.A., C.I.A.**
Deputy Auditor General

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

October 31, 2008

Ms. Janet Olszewski, Director
Department of Community Health
Capitol View Building
Lansing, Michigan

Dear Ms. Olszewski:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Community Health (DCH) for the period October 1, 2005 through September 30, 2007.

This report contains our report summary, our independent auditor's report on the financial schedules, and the DCH financial schedules and schedule of expenditures of federal awards. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters, our independent auditor's report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133, and our schedule of findings and questioned costs. In addition, this report contains DCH's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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# INDEPENDENT AUDITOR'S REPORT AND FINANCIAL SCHEDULES

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

# Independent Auditor's Report on the Financial Schedules

Ms. Janet Olszewski, Director
Department of Community Health
Capitol View Building
Lansing, Michigan

Dear Ms. Olszewski:

We have audited the accompanying financial schedules of the Department of Community Health for the fiscal years ended September 30, 2007 and September 30, 2006, as identified in the table of contents. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial schedules present only the revenues and other financing sources and the sources and disposition of authorizations for the Department of Community Health's General Fund accounts, presented using the current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either the Department or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenues and other financing sources and the sources and disposition of authorizations of the Department of Community Health for the fiscal years ended September 30, 2007 and September 30, 2006 on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2008 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

AUDITOR GENERAL

September 15, 2008

DEPARTMENT OF COMMUNITY HEALTH
Schedule of General Fund Revenues and Other Financing Sources
Fiscal Years Ended September 30

| | 2007 | 2006 |
|---|---|---|
| REVENUES | | |
| Taxes (Notes 4 and 5) | $ 1,269,761,862 | $ 1,132,511,310 |
| From federal agencies | 5,984,799,291 | 5,591,822,437 |
| From local agencies | 40,804,389 | 35,296,001 |
| From services | 25,561,832 | 24,817,583 |
| From licenses and permits | 28,496,522 | 28,421,942 |
| Special Medicaid reimbursements (Note 3) | 102,669,690 | 93,620,632 |
| Miscellaneous | 58,974,021 | 96,226,323 |
| Total revenues | $ 7,511,067,607 | $ 7,002,716,228 |
| OTHER FINANCING SOURCES | | |
| Transfers from Compulsive Gaming Prevention Fund | $ 2,990,000 | $ 2,990,000 |
| Total revenues and other financing sources | $ 7,514,057,607 | $ 7,005,706,228 |

The accompanying notes are an integral part of the financial schedules.

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

| | 2007 | 2006 |
|---|---|---|
| SOURCES OF AUTHORIZATIONS (Note 2) | | |
| General purpose appropriations | $ 3,145,328,507 | $ 2,976,928,900 |
| Balances carried forward | 91,739,224 | 70,491,861 |
| Restricted financing sources | 7,850,905,381 | 7,319,276,021 |
| Less: Intrafund expenditure reimbursements and expenditure credits | (351,622,151) | (352,602,138) |
| Total | $ 10,736,350,961 | $ 10,014,094,644 |
| | | |
| DISPOSITION OF AUTHORIZATIONS (Note 2) | | |
| Gross expenditures and transfers out | $ 10,958,844,456 | $ 10,213,548,349 |
| Less: Intrafund expenditure reimbursements and expenditure credits | (351,622,151) | (352,602,138) |
| Net expenditures and transfers out | $ 10,607,222,305 | $ 9,860,946,211 |
| Balances carried forward: | | |
| Multi-year projects | $ | $ 20,331 |
| Encumbrances | 4,006,356 | 938,709 |
| Restricted revenues - not authorized or used | 60,936,763 | 90,780,184 |
| Total balances carried forward | $ 64,943,119 | $ 91,739,224 |
| Balances lapsed | $ 64,185,537 | $ 61,409,209 |
| Total | $ 10,736,350,961 | $ 10,014,094,644 |

The accompanying notes are an integral part of the financial schedules.

## Note 1 Significant Accounting Policies

### a. Reporting Entity

The Department of Community Health (DCH) was created by an executive order in January 1996. DCH is generally composed of the former Departments of Mental Health and Public Health; the Medical Services Administration, which was part of the Family Independence Agency (currently known as the Department of Human Services); and several programs transferred from the Department of Management and Budget. Executive Order No. 2003-18 transferred the Bureaus of Health Systems and Health Professions to DCH from the Department of Labor and Economic Growth effective April 1, 2004. DCH's mission is to protect, preserve, and promote the health and safety of the people of Michigan with particular attention to providing for the needs of vulnerable and under-served populations.

The accompanying financial schedules report the results of the financial transactions of DCH for the fiscal years ended September 30, 2007 and September 30, 2006. The financial transactions of DCH are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

This report does not include the financial statements of the Hospital Patients' Trust Fund, a private purpose trust fund. The Hospital Patients' Trust Fund receives no federal funding and is periodically audited by the Office of the Auditor General.

The notes accompanying these financial schedules relate directly to DCH. The *SOMCAFR* provides more extensive disclosures regarding the State's significant accounting policies; budgeting, budgetary control, and legal compliance; common cash; pension benefits and other postemployment benefits; leases; and contingencies and commitments.

b. Measurement Focus, Basis of Accounting, and Presentation

The financial schedules contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting, as provided by accounting principles generally accepted in the United States of America. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

The accompanying financial schedules include only the revenues and other financing sources and the sources and disposition of authorizations for DCH's General Fund accounts. Accordingly, these financial schedules do not purport to, and do not, constitute a complete financial presentation of either DCH or the State's General Fund in conformity with accounting principles generally accepted in the United States of America.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

a. General purpose appropriations: Original appropriations and any supplemental appropriations that are financed by General Fund/general purpose revenues.

b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenues - authorized, and restricted revenues - not authorized or used that were not spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenues - not authorized or used.

c. Restricted financing sources: Collections of restricted revenues and restricted transfers, net of restricted intrafund expenditure

reimbursements, to finance programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenues - authorized or restricted revenues - not authorized or used.

d. Intrafund expenditure reimbursements and expenditure credits: Funding from other General Fund departments or other programs within a department to finance a program or a portion of a program that is the responsibility of the receiving department. A significant intrafund expenditure reimbursement from another General Fund department was the $29.7 million and $29.3 million for fiscal years 2006-07 and 2005-06 respectively, from the Department of Corrections for the operation of the Center for Forensic Psychiatry. Expenditure credits for fiscal years 2006-07 and 2005-06 included $139.5 million and $141.9 million, respectively, from disproportionate share hospital payments received from the State psychiatric hospitals used to help finance Medicaid; $119.9 million and $121.2 million, respectively, from the purchase of State services contract reimbursements; and $48.9 million and $50.0 million, respectively, from food rebates related to the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program).

e. Multi-year projects: Unexpended authorizations for work projects and capital outlay projects that are carried forward to subsequent fiscal years for the completion of the projects.

f. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered during the fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general-purpose appropriations.

g. Restricted revenues - not authorized or used: Revenues that, by statute, are restricted for use to a particular program or activity. Generally, the expenditure of the restricted revenues is subject to annual legislative appropriation. Significant carry-forwards of this type are the Michigan

Medicaid Benefits Trust Fund, Victim Service Fund, and the Health Professions Regulatory Fund, subfunds within the State's General Fund.

h. Balances lapsed: Authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

Note 3 Special Medicaid Reimbursements

Special Medicaid reimbursement payments to other government-owned or government-operated facilities and non-State-owned or non-State-operated public hospitals decreased because of a 2001 change in the federal upper payment limit rule that required the elimination (with a phase-out period) of some, but not all special Medicaid reimbursement payments paid by DCH. As a result, the local share of these payments, which were revenues to DCH, were eliminated. The required elimination of the special Medicaid reimbursements related to outpatient adjustor payments to public hospitals and nursing facility adjustor payments to government-owned long-term care facilities. As part of the phase-out period, DCH was required to reduce the amount of these payments in fiscal year 2004-05, which resulted in revenues being reduced to $129.8 million for the public hospitals and $334.9 million for the long-term care facilities. These payments and the associated revenues were eliminated beginning in fiscal year 2005-06.

Note 4 Quality Assurance Assessment (QAA) Tax Revenue

DCH receives a QAA tax on hospitals, nursing and long-term care facilities, and health maintenance organizations that have managed care contracts with the State and on community mental health agencies. The tax assessment structure varies by provider type and is detailed in State law.

Fiscal year 2005-06 was the first full year that DCH assessed QAA taxes on community mental health agencies (assessments began August 1, 2005), resulting in an increase in QAA tax revenue of $80.5 million. Also, effective in fiscal year 2005-06, the county long-term care providers were no longer exempt from the QAA tax previously assessed only to private long-term care providers. This resulted in an increase of QAA tax revenue of $27.7 million. These changes resulted in an overall increase in QAA tax revenue of $108.2 million in fiscal year 2005-06.

In fiscal year 2006-07, DCH implemented the hospital rate adjustment tax, which is a QAA tax assessed on health maintenance organizations. This resulted in a $114.4 million increase in the QAA tax revenue for fiscal year 2006-07.

Note 5 Tobacco Tax Revenue

The tobacco tax revenue decreased by $122.8 million in fiscal year 2005-06. According to Section 205.432(7) of the *Michigan Compiled Laws*, the amount of the tobacco tax outlined in Section 205.427(1)(e) of the *Michigan Compiled Laws* that was allocated to DCH changed from 100% to 75% effective October 1, 2005. This reduced DCH's tobacco tax revenue by $110.3 million. The other 25% of the tobacco tax is now allocated to State General Fund accounts not included in the DCH reporting entity.

Note 6 Contingencies

a. School Based Services Outreach Program

The federal Centers for Medicare and Medicaid Services (CMS) issued a financial management review dated June 16, 2000 in which they cited several inadequacies regarding the time study procedures used in allocating the expenditures to Medicaid resulting in a potential disallowance. In reference to the issue, DCH reached a settlement on May 24, 2002, with the U.S. Department of Health and Human Services which was amended on May 7, 2003 and September 30, 2003.

As a result of the settlement, DCH has developed and obtained CMS approval of revised time study codes and methodologies. Based on implementation of the results of the new methodology for four quarters covering the period beginning January 1, 2004, a retroactive adjustment has been calculated to backcast the results to the claims submitted for the period January 1, 2000 through December 31, 2003, which is the period agreed to by the settlement.

The final calculation of the backcasting was received October 22, 2007 and resulted in a request by CMS for DCH to return $89.8 million. Therefore, DCH's contingent loss is $89.8 million; however, DCH did not record a liability because the amount was not due and payable as of September 30, 2007. In fiscal year 2003-04, DCH recorded an

expenditure and corresponding liability in the amount of $20.7 million for an account payable to intermediate school districts based on a portion of their share of the total revenue received by the State but not paid, pending the backcasting results. This liability will be liquidated by payment to CMS based on the final backcasting results.

b. Non-Medicaid Nursing Home "Bed Tax" Lawsuits

Two lawsuits involving a group of eight non-Medicaid nursing homes challenged the constitutionality and legality of Section 333.20161 of the *Michigan Compiled Laws*. Originally enacted in May 2002, this provision requires DCH to assess a "bed tax" against all nongovernmental nursing homes, to use this revenue to draw down matching federal funds, and to pay the combined sum to Medicaid nursing homes as increased reimbursement. For fiscal year 2002-03, this resulted in more than $100 million in increased payments. For fiscal year 2003-04, this sum more than doubled. In November 2003, the circuit court ruled that the original version of the act violated the Michigan Constitution by not distinctly stating that the assessment is a tax. In December 2003, the Legislature corrected this misunderstanding, made it retroactive to May 2002, and increased the cap on the amount that the DCH could assess. In two subsequent rulings, the circuit court has effectively exempted the plaintiff homes from payment of the tax for two periods of time.

Effective September 30, 2005, Section 333.20161 of the *Michigan Compiled Laws* was amended to change the QAA tax on nursing homes to a tax assessable on the non-Medicare patient days rather than on the number of licensed beds, at two different payment levels/rates, depending on the size of the home. On November 4, 2005, DCH and the homes reached a settlement on the two pending lawsuits. As part of the settlement, the nursing homes released the $5.8 million held in escrow and DCH returned the sum of $2.7 million to the nursing homes in final resolution of the litigation. DCH recognized the remaining $3.1 million as QAA tax revenue in fiscal year 2005-06.

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# SUPPLEMENTAL
# FINANCIAL SCHEDULE

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2005 through September 30, 2007

| Federal Agency/Program or Cluster | *CFDA* (2) Number | Pass-Through Identification Number | For the Fiscal Year Ended September 30, 2006: Directly Expended | Distributed to Subrecipients | Total Expended and Distributed |
|---|---|---|---|---|---|
| Financial Assistance | | | | | |
| **U.S. Department of Agriculture** | | | | | |
| Food Stamps Cluster: | | | | | |
| Pass-Through Program: | | | | | |
| Michigan State University | | | | | |
| Food Stamps | 10.551 | 61-5001 | $ (11,229) | $ | $ (11,229) |
| State Administrative Matching Grants for Food Stamp Program | 10.561 | 61-4993H | | | 0 |
| State Administrative Matching Grants for Food Stamp Program | 10.561 | 61-4993G | | | 0 |
| Total Food Stamps Cluster | | | $ (11,229) | $ 0 | $ (11,229) |
| Child Nutrition Cluster: | | | | | |
| Pass-Through Programs: | | | | | |
| Michigan Department of Education | | | | | |
| School Breakfast Program | 10.553 | | $ 43,770 | $ | $ 43,770 |
| National School Lunch Program | 10.555 | | 67,722 | | 67,722 |
| Total Child Nutrition Cluster | | | $ 111,492 | $ 0 | $ 111,492 |
| Direct Programs: | | | | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | | $ 131,183,274 | $ 6,096,066 | $ 137,279,340 |
| WIC Farmers' Market Nutrition Program (FMNP) | 10.572 | | 411,654 | 680 | 412,334 |
| Senior Farmers Market Nutrition Program | 10.576 | | 72,154 | | 72,154 |
| WIC Grants to States (WGS) | 10.578 | | (2,947) | 152,832 | 149,885 |
| Total Direct Programs | | | $ 131,664,135 | $ 6,249,578 | $ 137,913,713 |
| Pass-Through Program: | | | | | |
| Michigan Department of Agriculture | | | | | |
| Plant and Animal Disease, Pest Control, and Animal Care | 10.025 | 20064104 | $ | $ | $ 0 |
| Total Plant and Animal Disease, Pest Control, and Animal Care | | | $ 0 | $ 0 | $ 0 |
| **Total U.S. Department of Agriculture** | | | **$ 131,764,398** | **$ 6,249,578** | **$ 138,013,976** |
| **U.S. Department of Housing and Urban Development** | | | | | |
| Direct Programs: | | | | | |
| Supportive Housing Program | 14.235 | | $ 16,346 | $ 980,350 | $ 996,696 |
| Shelter Plus Care | 14.238 | | (44,238) | 2,816,891 | 2,772,653 |
| Housing Opportunities for Persons with AIDS | 14.241 | | 312,816 | 690,043 | 1,002,859 |
| Lead-Based Paint Hazard Control in Privately-Owned Housing | 14.900 | | 1,167,406 | 1,425 | 1,168,831 |
| Healthy Homes Demonstration Grants | 14.901 | | 182,252 | 93,033 | 275,285 |
| **Total U.S. Department of Housing and Urban Development** | | | **$ 1,634,582** | **$ 4,581,742** | **$ 6,216,324** |
| **U.S. Department of Justice** | | | | | |
| Direct Programs: | | | | | |
| National Institute of Justice Research, Evaluation, and Development Project Grants | 16.560 | | $ | $ 299,708 | $ 299,708 |
| Crime Victim Assistance | 16.575 | | 9,412,459 | 2,138,736 | 11,551,195 |
| Crime Victim Compensation | 16.576 | | 1,396,759 | | 1,396,759 |
| Edward Byrne Memorial Formula Grant Program | 16.579 | | 1,452,897 | 2,971,775 | 4,424,672 |
| Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program | 16.580 | | 36,681 | | 36,681 |
| Local Law Enforcement Block Grants Program | 16.592 | | 596,130 | 159,179 | 755,309 |
| Residential Substance Abuse Treatment for State Prisoners | 16.593 | | 46,087 | 950,588 | 996,675 |
| Edward Byrne Memorial Justice Assistance Grant Program | 16.738 | | 4,402,579 | 2,916,506 | 7,319,085 |
| **Total U.S. Department of Justice** | | | **$ 17,343,592** | **$ 9,436,492** | **$ 26,780,084** |
| **U.S. Department of Labor** | | | | | |
| Direct Program: | | | | | |
| Senior Community Service Employment Program | 17.235 | | $ 143,377 | $ 2,521,276 | $ 2,664,653 |
| **Total U.S. Department of Labor** | | | **$ 143,377** | **$ 2,521,276** | **$ 2,664,653** |

*This schedule continued on next page.*

| For the Fiscal Year Ended September 30, 2007 | | | |
|---|---|---|---|
| Directly Expended | Distributed to Subrecipients | Total Expended and Distributed | Total Expended and Distributed for the Two-Year Period |
| $ | $ | $ 0 | $ (11,229) |
| 1,272 | 69,623 | 70,895 | 70,895 |
| 129,032 | | 129,032 | 129,032 |
| $ 130,304 | $ 69,623 | $ 199,927 | $ 188,698 |
| $ 43,039 | $ | $ 43,039 | $ 86,809 |
| 66,816 | | 66,816 | 134,538 |
| $ 109,855 | $ 0 | $ 109,855 | $ 221,347 |
| $ 124,329,358 | $ 34,006,040 | $ 158,335,398 | $ 295,614,738 |
| 396,700 | 888 | 397,588 | 809,922 |
| 73,589 | | 73,589 | 145,743 |
| (1,915) | 156,644 | 154,729 | 304,614 |
| $ 124,797,732 | $ 34,163,572 | $ 158,961,304 | $ 296,875,017 |
| $ 54,248 | $ | $ 54,248 | $ 54,248 |
| $ 54,248 | $ 0 | $ 54,248 | $ 54,248 |
| **$ 125,092,139** | **$ 34,233,195** | **$ 159,325,334** | **$ 297,339,310** |
| $ (2,046) | $ 1,220,393 | $ 1,218,347 | $ 2,215,043 |
| (117,973) | 3,469,815 | 3,351,842 | 6,124,495 |
| (66,825) | 621,976 | 555,151 | 1,558,010 |
| 847,469 | 87,000 | 934,469 | 2,103,300 |
| 237,334 | 205,719 | 443,053 | 718,338 |
| **$ 897,959** | **$ 5,604,903** | **$ 6,502,862** | **$ 12,719,186** |
| $ | $ 325,917 | $ 325,917 | $ 625,625 |
| 9,435,264 | 2,939,487 | 12,374,751 | 23,925,946 |
| 1,549,956 | | 1,549,956 | 2,946,715 |
| 277,216 | 117,175 | 394,391 | 4,819,063 |
| 302,665 | | 302,665 | 339,346 |
| | | 0 | 755,309 |
| (2,459) | 363,107 | 360,648 | 1,357,323 |
| 5,185,236 | 5,051,803 | 10,237,039 | 17,556,124 |
| **$ 16,747,878** | **$ 8,797,489** | **$ 25,545,367** | **$ 52,325,451** |
| $ 76,619 | $ 2,812,476 | $ 2,889,095 | $ 5,553,748 |
| **$ 76,619** | **$ 2,812,476** | **$ 2,889,095** | **$ 5,553,748** |

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2005 through September 30, 2007
*Continued*

| Federal Agency/Program or Cluster | *CFDA* (2) Number | Pass-Through Identification Number | For the Fiscal Year Ended September 30, 2006 Directly Expended | Distributed to Subrecipients | Total Expended and Distributed |
|---|---|---|---|---|---|
| **U.S. Department of Transportation** | | | | | |
| Highway Planning and Construction Cluster: | | | | | |
| Pass-Through Program: | | | | | |
| Michigan Department of Transportation | | | | | |
| Highway Planning and Construction | 20.205 | 2006-0483(2) | $ | $ | $ 0 |
| Total Highway Planning and Construction Cluster | | | $ 0 | $ 0 | $ 0 |
| Highway Safety Cluster: | | | | | |
| Pass-Through Programs: | | | | | |
| Michigan Department of State Police | | | | | |
| State and Community Highway Safety | 20.600 | PS-06-01 | $ 64,478 | $ | $ 64,478 |
| State and Community Highway Safety | 20.600 | PS-07-01 | | | 0 |
| State and Community Highway Safety | 20.600 | OP-06-03 | 185,000 | | 185,000 |
| State and Community Highway Safety | 20.600 | OP-06-02 | | | 0 |
| State and Community Highway Safety | 20.600 | EM-07-01 | | | 0 |
| State and Community Highway Safety | 20.600 | EM-07-02 | | | 0 |
| Total Highway Safety Cluster | | | $ 249,478 | $ 0 | $ 249,478 |
| Pass-Through Program: | | | | | |
| Michigan Department of State Police | | | | | |
| Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants | 20.601 | AL-07-04 | $ | $ 188,816 | $ 188,816 |
| Total Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants | | | $ 0 | $ 188,816 | $ 188,816 |
| **Total U.S. Department of Transportation** | | | **$ 249,478** | **$ 188,816** | **$ 438,294** |
| **U.S. Environmental Protection Agency** | | | | | |
| Direct Programs: | | | | | |
| Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act | 66.034 | | $ | $ | $ 0 |
| Great Lakes Program | 66.469 | | 17,821 | | 17,821 |
| TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals | 66.707 | | 336,351 | | 336,351 |
| Total Direct Programs | | | $ 354,172 | $ 0 | $ 354,172 |
| Pass-Through Programs: | | | | | |
| Wisconsin Department of Health and Family Services: | | | | | |
| Great Lakes Program | 66.469 | 20041775 | $ (3,119) | $ | $ (3,119) |
| Total Great Lakes Program | | | $ (3,119) | $ 0 | $ (3,119) |
| Michigan State University | | | | | |
| Surveys, Studies, Investigations, Demonstrations, and Special Purpose Grants | 66.606 | 610405 | $ 18,374 | $ 36,695 | $ 55,069 |
| Total Surveys, Studies, Investigations, Demonstrations, and Special Purpose Grants | | | $ 18,374 | $ 36,695 | $ 55,069 |
| Total Pass-Through Programs | | | $ 15,255 | $ 36,695 | $ 51,950 |
| **Total U.S. Environmental Protection Agency** | | | **$ 369,427** | **$ 36,695** | **$ 406,122** |
| **U.S. Department of Education** | | | | | |
| Special Education Cluster: | | | | | |
| Pass-Through Program: | | | | | |
| Michigan Department of Education | | | | | |
| Special Education - Grants to States | 84.027 | 050490-EOSD | $ (2,970) | $ | $ (2,970) |
| Special Education - Grants to States | 84.027 | 060490-EOSD | 4,020 | | 4,020 |
| Special Education - Grants to States | 84.027 | 070480-EOSD | | | 0 |
| Special Education - Grants to States | 84.027 | 050450-0405 | 39,437 | | 39,437 |
| Special Education - Grants to States | 84.027 | 060450-0506 | 16,646 | | 16,646 |
| Special Education - Grants to States | 84.027 | 070450-0607 | | | 0 |
| Special Education - Grants to States | 84.027 | 060490-TS | 30,000 | | 30,000 |
| Special Education - Grants to States | 84.027 | 070490-TS | | | 0 |
| Total Special Education Cluster | | | $ 87,133 | $ 0 | $ 87,133 |

*This schedule continued on next page.*

| For the Fiscal Year Ended September 30, 2007 | | | |
|---|---|---|---|
| Directly Expended | Distributed to Subrecipients | Total Expended and Distributed | Total Expended and Distributed for the Two-Year Period |
| $ 24,543 | $ | $ 24,543 | $ 24,543 |
| $ 24,543 | $ 0 | $ 24,543 | $ 24,543 |
| $ | $ | $ 0 | $ 64,478 |
| 74,933 | | 74,933 | 74,933 |
| | | 0 | 185,000 |
| 176,548 | | 176,548 | 176,548 |
| 17,676 | | 17,676 | 17,676 |
| | 117,321 | 117,321 | 117,321 |
| $ 269,157 | $ 117,321 | $ 386,478 | $ 635,956 |
| $ | $ 236,699 | $ 236,699 | $ 425,515 |
| $ 0 | $ 236,699 | $ 236,699 | $ 425,515 |
| **$ 293,700** | **$ 354,020** | **$ 647,720** | **$ 1,086,014** |
| $ (4,634) | $ 71,661 | $ 67,027 | $ 67,027 |
| 1,400 | | 1,400 | 19,221 |
| 349,551 | | 349,551 | 685,902 |
| $ 346,317 | $ 71,661 | $ 417,978 | $ 772,150 |
| $ | $ | $ 0 | $ (3,119) |
| $ 0 | $ 0 | $ 0 | $ (3,119) |
| $ | $ | $ 0 | $ 55,069 |
| $ 0 | $ 0 | $ 0 | $ 55,069 |
| $ 0 | $ 0 | $ 0 | $ 51,950 |
| **$ 346,317** | **$ 71,661** | **$ 417,978** | **$ 824,100** |
| $ | $ | $ 0 | $ (2,970) |
| | | 0 | 4,020 |
| 10,388 | | 10,388 | 10,388 |
| | | 0 | 39,437 |
| 43,562 | | 43,562 | 60,208 |
| 30,664 | | 30,664 | 30,664 |
| | | 0 | 30,000 |
| 30,000 | | 30,000 | 30,000 |
| $ 114,614 | $ 0 | $ 114,614 | $ 201,747 |

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2005 through September 30, 2007
*Continued*

| Federal Agency/Program or Cluster | *CFDA* (2) Number | Pass-Through Identification Number | For the Fiscal Year Ended September 30, 2006: Directly Expended | Distributed to Subrecipients | Total Expended and Distributed |
|---|---|---|---|---|---|
| Direct Program: | | | | | |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | | $ 752,947 | $ 2,586,866 | $ 3,339,813 |
| Total Safe and Drug-Free Schools and Communities - State Grants | | | $ 752,947 | $ 2,586,866 | $ 3,339,813 |
| Pass-Through Programs: | | | | | |
| Michigan Department of Education | | | | | |
| Special Education - Grants for Infants and Families with Disabilities | 84.181 | 051330/IACDCH | $ (2,916) | $ 3,187 | $ 271 |
| Special Education - Grants for Infants and Families with Disabilities | 84.181 | 061330/IACDCH | 121,470 | 11,934 | 133,404 |
| Special Education - Grants for Infants and Families with Disabilities | 84.181 | 071330/IACDCH | | | 0 |
| Special Education - Grants for Infants and Families with Disabilities | 84.181 | 7313002 | | | 0 |
| Total Special Education - Grants for Infants and Families with Disabilities | | | $ 118,554 | $ 15,121 | $ 133,675 |
| Michigan Department of Education | | | | | |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | Q186A040023 | $ 742 | $ | $ 742 |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | Q186A050023 | 275,240 | | 275,240 |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | Q186A060023 | | | 0 |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | Q186A070023 | | | 0 |
| Total Safe and Drug-Free Schools and Communities - State Grants | | | $ 275,982 | $ 0 | $ 275,982 |
| Total Pass-Through Programs | | | $ 394,536 | $ 15,121 | $ 409,657 |
| **Total U.S. Department of Education** | | | **$ 1,234,616** | **$ 2,601,987** | **$ 3,836,603** |
| **U.S. Department of Health and Human Services** | | | | | |
| Aging Cluster: | | | | | |
| Direct Programs: | | | | | |
| Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers | 93.044 | | $ 545,278 | $ 10,563,425 | $ 11,108,703 |
| Special Programs for the Aging - Title III, Part C - Nutrition Services | 93.045 | | 905,970 | 18,207,791 | 19,113,761 |
| Nutrition Services Incentive Program | 93.053 | | (2,319) | 7,035,741 | 7,033,422 |
| Total Aging Cluster | | | $ 1,448,929 | $ 35,806,957 | $ 37,255,886 |
| Child Care Cluster: | | | | | |
| Pass-Through Program: | | | | | |
| Michigan Department of Human Services | | | | | |
| Child Care and Development Block Grant | 93.575 | 05-01/20050325 | $ 34,190 | $ | $ 34,190 |
| Child Care and Development Block Grant | 93.575 | 06-03/20060658 | 43,910 | 1,334,928 | 1,378,838 |
| Child Care and Development Block Grant | 93.575 | 07-02/20071234 | | | 0 |
| Total Child Care Cluster | | | $ 78,100 | $ 1,334,928 | $ 1,413,028 |
| Medicaid Cluster: | | | | | |
| Direct Programs: | | | | | |
| State Survey and Certification of Health Care Providers and Suppliers | 93.777 | | $ 6,742,354 | $ 470,028 | $ 7,212,382 |
| Medical Assistance Program | 93.778 | (3) | 4,894,774,598 | 126,983,158 | 5,021,757,756 |
| Total Medicaid Cluster | | | $ 4,901,516,952 | $ 127,453,186 | $ 5,028,970,138 |
| Direct Programs: | | | | | |
| Public Health and Social Services Emergency Fund | 93.003 | | $ (4,496) | $ | $ (4,496) |
| State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program | 93.006 | | 140,217 | | 140,217 |
| Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation | 93.041 | | (946) | 171,497 | 170,551 |
| Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals | 93.042 | | 393,306 | 114,095 | 507,401 |
| Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services | 93.043 | | (30,172) | 726,830 | 696,658 |
| Special Programs for the Aging - Title IV - and Title II - Discretionary Projects | 93.048 | | 31,370 | | 31,370 |
| Alzheimer's Disease Demonstration Grants to States | 93.051 | | 39,932 | 179,462 | 219,394 |
| National Family Caregiver Support, Title III, Part E | 93.052 | | 94,935 | 5,057,872 | 5,152,807 |
| Public Health Emergency Preparedness | 93.069 | | | | 0 |
| Maternal and Child Health Federal Consolidated Programs | 93.110 | | 331,778 | 304,739 | 636,517 |
| Project Grants and Cooperative Agreements for Tuberculosis Control Programs | 93.116 | | 513,739 | 254,775 | 768,514 |
| Emergency Medical Services for Children | 93.127 | | 4,999 | 243,078 | 248,077 |

*This schedule continued on next page.*

| For the Fiscal Year Ended September 30, 2007 | | | |
|---|---|---|---|
| Directly Expended | Distributed to Subrecipients | Total Expended and Distributed | Total Expended and Distributed for the Two-Year Period |
| $ 375,810 | $ 1,983,774 | $ 2,359,584 | $ 5,699,397 |
| $ 375,810 | $ 1,983,774 | $ 2,359,584 | $ 5,699,397 |
| $ | $ | $ 0 | $ 271 |
| 13,250 | | 13,250 | 146,654 |
| 138,690 | 10,248 | 148,938 | 148,938 |
| 10,000 | | 10,000 | 10,000 |
| $ 161,940 | $ 10,248 | $ 172,188 | $ 305,863 |
| $ | $ | $ 0 | $ 742 |
| | | 0 | 275,240 |
| 307,048 | 17,357 | 324,405 | 324,405 |
| 95,382 | | 95,382 | 95,382 |
| $ 402,430 | $ 17,357 | $ 419,787 | $ 695,769 |
| $ 564,370 | $ 27,605 | $ 591,975 | $ 1,001,632 |
| **$ 1,054,794** | **$ 2,011,379** | **$ 3,066,173** | **$ 6,902,776** |
| $ 441,554 | $ 10,851,640 | $ 11,293,194 | $ 22,401,897 |
| 820,853 | 18,416,016 | 19,236,869 | 38,350,630 |
| | 6,942,545 | 6,942,545 | 13,975,967 |
| $ 1,262,407 | $ 36,210,201 | $ 37,472,608 | $ 74,728,494 |
| $ | $ | $ | $ 34,190 |
| (28,103) | | (28,103) | 1,350,735 |
| 7,758 | 1,756,532 | 1,764,290 | 1,764,290 |
| $ (20,345) | $ 1,756,532 | $ 1,736,187 | $ 3,149,215 |
| $ 6,919,056 | $ 427,109 | $ 7,346,165 | $ 14,558,547 |
| 5,253,433,781 | 125,020,864 | 5,378,454,645 | 10,400,212,401 |
| $ 5,260,352,837 | $ 125,447,973 | $ 5,385,800,810 | $ 10,414,770,948 |
| $ (24,190) | $ | $ (24,190) | $ (28,686) |
| 172,159 | | 172,159 | 312,376 |
| | 167,759 | 167,759 | 338,310 |
| 444,506 | 37,589 | 482,095 | 989,496 |
| (33,459) | 743,375 | 709,916 | 1,406,574 |
| 116,840 | 20,200 | 137,040 | 168,410 |
| 161,331 | 94,134 | 255,465 | 474,859 |
| 103,686 | 5,202,269 | 5,305,955 | 10,458,762 |
| 558,363 | 834,369 | 1,392,732 | 1,392,732 |
| 149,192 | 249,440 | 398,632 | 1,035,149 |
| 473,921 | 290,220 | 764,141 | 1,532,655 |
| 48,147 | 37,675 | 85,822 | 333,899 |

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2005 through September 30, 2007
*Continued*

| Federal Agency/Program or Cluster | *CFDA* (2) Number | Pass-Through Identification Number | For the Fiscal Year Ended September 30, 2006 Directly Expended | Distributed to Subrecipients | Total Expended and Distributed |
|---|---|---|---|---|---|
| Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices | 93.130 | | $ 99,451 | $ 154,172 | $ 253,623 |
| Injury Prevention and Control Research and State and Community Based Programs | 93.136 | | 536,791 | 1,438,823 | 1,975,614 |
| Projects for Assistance in Transition from Homelessness (PATH) | 93.150 | | 28,196 | 1,697,172 | 1,725,368 |
| Coordinated Services and Access to Research for Women, Infants, Children, and Youth | 93.153 | | 18,154 | 1,107,788 | 1,125,942 |
| Grants to States for Loan Repayment Program | 93.165 | | 666,911 | | 666,911 |
| Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children | 93.197 | | 743,504 | 110,726 | 854,230 |
| Surveillance of Hazardous Substance Emergency Events | 93.204 | | 68,964 | 9,068 | 78,032 |
| Human Health Studies - Applied Research and Development | 93.206 | | (4,212) | | (4,212) |
| Family Planning - Services | 93.217 | | 4,271,934 | 3,958,122 | 8,230,056 |
| Traumatic Brain Injury State Demonstration Grant Program | 93.234 | | 47,038 | | 47,038 |
| Abstinence Education Program | 93.235 | | 181,407 | 1,302,430 | 1,483,837 |
| Grants for Dental Public Health Residency Training | 93.236 | | | | 0 |
| Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement | 93.238 | | 166,443 | | 166,443 |
| State Capacity Building | 93.240 | | 360,411 | | 360,411 |
| State Rural Hospital Flexibility Program | 93.241 | | 4,723 | 593,677 | 598,400 |
| Substance Abuse and Mental Health Services - Projects of Regional and National Significance | 93.243 | | 1,619,882 | 1,959,522 | 3,579,404 |
| Universal Newborn Hearing Screening | 93.251 | | 210,198 | 34,909 | 245,107 |
| State Planning Grants Health Care Access for the Uninsured | 93.256 | | 324,956 | 10,889 | 335,845 |
| Rural Access to Emergency Devices Grant | 93.259 | | 1,580 | 101,953 | 103,533 |
| Immunization Grants | 93.268 | | 6,220,623 | 969,614 | 7,190,237 |
| Centers for Disease Control and Prevention - Investigations and Technical Assistance | 93.283 | | 36,262,367 | 15,062,043 | 51,324,410 |
| Small Rural Hospital Improvement Grant Program | 93.301 | | (4,814) | 289,540 | 284,726 |
| Child Support Enforcement Demonstrations and Special Projects | 93.601 | | | 87,349 | 87,349 |
| Developmental Disabilities Basic Support and Advocacy Grants | 93.630 | | 1,138,282 | 1,850,461 | 2,988,743 |
| State Children's Insurance Program | 93.767 | | 173,834,811 | 310,938 | 174,145,749 |
| Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities | 93.768 | | 496,743 | | 496,743 |
| Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations | 93.779 | | 2,438,895 | 1,703,631 | 4,142,526 |
| State Pharmaceutical Assistance Programs | 93.786 | | | 701,793 | 701,793 |
| Medicaid Transformation Grants | 93.793 | | | | 0 |
| National Bioterrorism Hospital Preparedness Program | 93.889 | | 940,477 | 18,212,153 | 19,152,630 |
| Grants to States for Operation of Offices of Rural Health | 93.913 | | 125,409 | 80,961 | 206,370 |
| HIV Care Formula Grants | 93.917 | | 13,593,615 | 3,476,689 | 17,070,304 |
| Healthy Start Initiative | 93.926 | | 19,675 | 511,800 | 531,475 |
| HIV Prevention Activities Health Department Based | 93.940 | | 2,563,442 | 3,991,176 | 6,554,618 |
| Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance | 93.944 | | 569,151 | 2,179,045 | 2,748,196 |
| Assistance Programs for Chronic Disease Prevention and Control | 93.945 | | 48,509 | 238,052 | 286,561 |
| Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs | 93.946 | | 5,400 | 38,082 | 43,482 |
| Trauma Care Systems Planning and Development | 93.952 | | 33,780 | | 33,780 |
| Block Grants for Community Mental Health Services | 93.958 | | 387,150 | 6,934,053 | 7,321,203 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | | 42,016,634 | 18,205,783 | 60,222,417 |
| Preventive Health Services - Sexually Transmitted Diseases Control Grants | 93.977 | | 3,003,810 | 55,548 | 3,059,358 |
| Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems | 93.988 | | 699,005 | 303,447 | 1,002,452 |
| Preventive Health and Health Services Block Grant | 93.991 | | 2,533,354 | 1,354,179 | 3,887,533 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | | 10,546,048 | 8,677,299 | 19,223,347 |
| National Women's Health Week | 93.251079 (4) | | | | 0 |
| Implementation of Uniform Alcohol & Drug Abuse Data Collection System | 93.283-02-9026004 (4) | | 118,540 | | 118,540 |
| Mammography Quality Standards Act | 93.252577 (4) | | 395,359 | | 395,359 |
| Genotyping TB | 93.200-2003-02571 (4) | | 505,778 | | 505,778 |
| Social Security Administration - Birth Enumerations | 93.0600-03-60015 (4) | | 239,060 | | 239,060 |
| Social Security Administration - Death Records | 93.SS00-06-60037 (4) | | 70,283 | | 70,283 |

*This schedule continued on next page.*

| For the Fiscal Year Ended September 30, 2007 | | | |
|---|---|---|---|
| Directly Expended | Distributed to Subrecipients | Total Expended and Distributed | Total Expended and Distributed for the Two-Year Period |
| $ 132,954 | $ 125,297 | $ 258,251 | $ 511,874 |
| 235,472 | 1,295,655 | 1,531,127 | 3,506,741 |
| 29,337 | 1,817,973 | 1,847,310 | 3,572,678 |
| 46,807 | 1,354,694 | 1,401,501 | 2,527,443 |
| 792,986 | | 792,986 | 1,459,897 |
| 636,712 | 244,512 | 881,224 | 1,735,454 |
| 87,801 | 3,000 | 90,801 | 168,833 |
| | | 0 | (4,212) |
| 982,708 | 6,786,408 | 7,769,116 | 15,999,172 |
| 99,137 | | 99,137 | 146,175 |
| 382,796 | 1,021,461 | 1,404,257 | 2,888,094 |
| 2,552 | 113,213 | 115,765 | 115,765 |
| 203,143 | 5,000 | 208,143 | 374,586 |
| 337,650 | | 337,650 | 698,061 |
| (31,073) | 703,434 | 672,361 | 1,270,761 |
| 668,030 | 1,492,189 | 2,160,219 | 5,739,623 |
| 119,237 | 24,212 | 143,449 | 388,556 |
| 125,117 | 942 | 126,059 | 461,904 |
| (366) | | (366) | 103,167 |
| 1,795,955 | 5,838,597 | 7,634,552 | 14,824,789 |
| 15,018,003 | 29,621,626 | 44,639,629 | 95,964,039 |
| | 357,360 | 357,360 | 642,086 |
| 28,413 | | 28,413 | 115,762 |
| 1,093,396 | 2,114,475 | 3,207,871 | 6,196,614 |
| 176,425,616 | 1,049,154 | 177,474,770 | 351,620,519 |
| 493,685 | | 493,685 | 990,428 |
| 1,897,330 | 1,139,964 | 3,037,294 | 7,179,820 |
| | | 0 | 701,793 |
| 56,948 | 520,632 | 577,580 | 577,580 |
| 509,312 | 14,632,599 | 15,141,911 | 34,294,541 |
| 70,537 | 88,384 | 158,921 | 365,291 |
| 10,238,708 | 3,425,684 | 13,664,392 | 30,734,696 |
| 63,436 | 511,800 | 575,236 | 1,106,711 |
| 513,204 | 5,529,558 | 6,042,762 | 12,597,380 |
| 296,899 | 1,923,659 | 2,220,558 | 4,968,754 |
| 137,499 | 26,000 | 163,499 | 450,060 |
| 50,960 | 126,188 | 177,148 | 220,630 |
| | | 0 | 33,780 |
| 147,490 | 10,312,690 | 10,460,180 | 17,781,383 |
| 23,439,875 | 34,935,164 | 58,375,039 | 118,597,456 |
| 2,835,202 | 448,716 | 3,283,918 | 6,343,276 |
| 808,116 | 360,492 | 1,168,608 | 2,171,060 |
| 2,377,028 | 1,301,298 | 3,678,326 | 7,565,859 |
| 9,494,640 | 9,823,160 | 19,317,800 | 38,541,147 |
| 2,500 | | 2,500 | 2,500 |
| 259,768 | | 259,768 | 378,308 |
| 421,820 | | 421,820 | 817,179 |
| 551,521 | | 551,521 | 1,057,299 |
| 200,925 | | 200,925 | 439,985 |
| 51,603 | | 51,603 | 121,886 |

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2005 through September 30, 2007
*Continued*

| Federal Agency/Program or Cluster | *CFDA* (2) Number | Pass-Through Identification Number | For the Fiscal Year Ended September 30, 2006: Directly Expended | Distributed to Subrecipients | Total Expended and Distributed |
|---|---|---|---|---|---|
| Vital Statistics Cooperative Agreement | 93.200-2000-07222 (4) | | $ 506,114 | $ | $ 506,114 |
| National Death Index | 93.200-2006-15537 (4) | | 45,060 | | 45,060 |
| Healthy Start, Grow Smart | 93.HHSM-500-2004-0004C (4) | | 12,824 | | 12,824 |
| Social Security Administration - Electronic Death Registration | 93.SS00-05-60090 (4) | | 80,000 | | 80,000 |
| Child Maltreatment/RTI International | 93.2-312-209772 (4) | | | | 0 |
| Total Direct Programs | | | $ 310,306,377 | $ 104,765,235 | $ 415,071,612 |
| Pass-Through Programs: | | | | | |
| Emory University | | | | | |
| Environmental Health | 93.113 | 20031906 | $ 114,356 | $ | $ 114,356 |
| Michigan State University | | | | | |
| Occupational Safety and Health Program | 93.262 | 610405 | $ 58,240 | $ 53,127 | $ 111,367 |
| Shiga Toxin E. Coli (S.T.E.C.) | 93.NO1-AI-30058 (3) | 4000012 | $ 137,055 | $ | $ 137,055 |
| MSU Food and Waterborne Diseases | 93.NO1-AI-30058 (3) | | $ | $ | $ 0 |
| Wisconsin Department of Health and Family Services: | | | | | |
| Drug Abuse and Addiction Research Programs | 93.279 | X424852 | $ | $ | $ 0 |
| Association of State and Territorial Health Officials (ASTHO) | | | | | |
| Centers for Disease Control and Prevention - Investigations and Technical Assistance | 93.283 | 8220-07AST9.1 | $ | $ | $ 0 |
| Michigan Department of Human Services | | | | | |
| Temporary Assistance for Needy Families | 93.558 | | $ (29,150) | $ | $ (29,150) |
| Temporary Assistance for Needy Families | 93.558 | 06-04/20060004 | 17,722,123 | 3,250 | 17,725,373 |
| Temporary Assistance for Needy Families | 93.558 | 07-09/20071594 | | | 0 |
| Temporary Assistance for Needy Families | 93.558 | 07431 008 | | | 0 |
| Total Temporary Assistance for Needy Families | | | $ 17,692,973 | $ 3,250 | $ 17,696,223 |
| Michigan Department of Human Services | | | | | |
| Child Abuse and Neglect State Grants | 93.669 | 07431 008 | $ | $ | $ 0 |
| Michigan Department of Education | | | | | |
| Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems Program | 93.938 | 052770 | $ 4,368 | $ | $ 4,368 |
| Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems Program | 93.938 | 062770 | 7,268 | 111,717 | 118,985 |
| Total Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems | | | $ 11,636 | $ 111,717 | $ 123,353 |
| Research Triangle Institute (RTI) International | | | | | |
| RTI International Subcontract | 93.8-321-0209825 (3) | 8-321-0209825 | $ 77,654 | $ | $ 77,654 |
| Wayne State University | | | | | |
| Surveillance, Epidemiology and End Results (SEER) Data | 93.NO1-PC-35145 (3) | Y-286871 | $ (13,387) | $ 144,483 | $ 131,096 |
| Total Pass-Through Programs | | | $ 18,078,527 | $ 312,577 | $ 18,391,104 |
| **Total U.S. Department of Health and Human Services** | | | **$ 5,231,428,885** | **$ 269,672,883** | **$ 5,501,101,768** |
| Total Financial Assistance | | | $ 5,384,168,355 | $ 295,289,469 | $ 5,679,457,824 |

*This schedule continued on next page.*

| For the Fiscal Year Ended September 30, 2007 | | | |
|---|---|---|---|
| Directly Expended | Distributed to Subrecipients | Total Expended and Distributed | Total Expended and Distributed for the Two-Year Period |
| $ 514,950 | $ | $ 514,950 | $ 1,021,064 |
| 39,971 | | 39,971 | 85,031 |
| 45,424 | | 45,424 | 58,248 |
| 131,706 | 50,794 | 182,500 | 262,500 |
| 12,639 | 34,377 | 47,016 | 47,016 |
| $ 257,046,575 | $ 146,837,391 | $ 403,883,966 | $ 818,955,578 |
| $ 88,654 | $ | $ 88,654 | $ 203,010 |
| $ 143,541 | $ | $ 143,541 | $ 254,908 |
| $ | $ | $ 0 | $ 137,055 |
| $ 20,614 | $ | $ 20,614 | $ 20,614 |
| $ 26,926 | $ 5,000 | $ 31,926 | $ 31,926 |
| $ 19,093 | $ | $ 19,093 | $ 19,093 |
| $ (520) | $ | $ (520) | $ (29,670) |
| (30,852) | | (30,852) | 17,694,521 |
| 17,976,054 | | 17,976,054 | 17,976,054 |
| 25,000 | | 25,000 | 25,000 |
| $ 17,969,682 | $ 0 | $ 17,969,682 | $ 35,665,905 |
| $ 50,000 | $ | $ 50,000 | $ 50,000 |
| $ | $ | $ 0 | $ 4,368 |
| 87,009 | | 87,009 | 205,994 |
| $ 87,009 | $ 0 | $ 87,009 | $ 210,362 |
| $ 330,724 | $ | $ 330,724 | $ 408,378 |
| $ (44,446) | $ 75,267 | $ 30,821 | $ 161,917 |
| $ 18,691,797 | $ 80,267 | $ 18,772,064 | $ 37,163,168 |
| **$ 5,537,333,271** | **$ 310,332,364** | **$ 5,847,665,635** | **$ 11,348,767,403** |
| $ 5,681,842,677 | $ 364,217,487 | $ 6,046,060,164 | $ 11,725,517,988 |

DEPARTMENT OF COMMUNITY HEALTH
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 2005 through September 30, 2007
*Continued*

| Federal Agency/Program or Cluster | *CFDA* (2) Number | Pass-Through Identification Number | For the Fiscal Year Ended September 30, 2006 Directly Expended | Distributed to Subrecipients | Total Expended and Distributed |
|---|---|---|---|---|---|
| Nonfinancial Assistance | | | | | |
| **U.S. Department of Agriculture** | | | | | |
| Direct Program: | | | | | |
| Food Donation | 10.550 | | $ 21,042 | $ | $ 21,042 |
| **Total U.S. Department of Agriculture** | | | **$ 21,042** | **$ 0** | **$ 21,042** |
| **U.S. Department of Health and Human Services** | | | | | |
| Direct Programs: | | | | | |
| Immunization Grants | 93.268 | | $ 43,116,520 | $ | $ 43,116,520 |
| Centers for Disease Control and Prevention - Investigations and Technical Assistance | 93.283 | | 418,201 | | 418,201 |
| Preventive Health Services - Sexually Transmitted Diseases Control Grants | 93.977 | | 283,749 | | 283,749 |
| Preventive Health and Health Services Block Grant | 93.991 | | 70,472 | | 70,472 |
| **Total U.S. Department of Health and Human Services** | | | **$ 43,888,942** | **$ 0** | **$ 43,888,942** |
| Total Nonfinancial Assistance (5) | | | $ 43,909,984 | $ 0 | $ 43,909,984 |
| Total Expenditures of Federal Awards | | | $ 5,428,078,339 | $ 295,289,469 | $ 5,723,367,808 |

(1) Basis of Presentation: This schedule presents the federal grant activity of the Department of Community Health on the modified accrual basis of accounting and in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the financial schedules.

(2) *CFDA* is defined as *Catalog of Federal Domestic Assistance.*

(3) The expenditures reported for *CFDA* 93.778 represent the federal share of expenditures reported for Medicaid programs plus related year-end accruals. The expenditures include $162.8 million that, although reported to CMS and funded by CMS, was not directly expended by the Department of Community Health.

(4) *CFDA* number is not available. Number derived from federal agency number and federal contract or grant number.

(5) Basis of Nonfinancial Assistance:

| *CFDA* Number | |
|---|---|
| 10.550 | USDA Food Distribution Recipient Entitlement Balance Report for each school year, which is obtained from the Michigan Department of Education Web site under Food Distribution program |
| 93.268 | Notice of Grant Award and Centers for Disease Control and Prevention's National Immunization Program Vaccine System |
| 93.283 | Notice of Grant Award |
| 93.777 | Notice of Grant Award |
| 93.991 | Notice of Grant Award |

| For the Fiscal Year Ended September 30, 2007 | | | |
|---|---|---|---|
| Directly Expended | Distributed to Subrecipients | Total Expended and Distributed | Total Expended and Distributed for the Two-Year Period |
| $ 6,154 | $ | $ 6,154 | $ 27,196 |
| **$ 6,154** | **$ 0** | **$ 6,154** | **$ 27,196** |
| $ 69,647,171 | $ | $ 69,647,171 | $ 112,763,691 |
| 129,293 | | 129,293 | 547,494 |
| 107,288 | | 107,288 | 391,037 |
| 94,692 | | 94,692 | 165,164 |
| **$ 69,978,444** | **$ 0** | **$ 69,978,444** | **$ 113,867,386** |
| $ 69,984,598 | $ 0 | $ 69,984,598 | $ 113,894,582 |
| $ 5,751,827,275 | $ 364,217,487 | $ 6,116,044,762 | $ 11,839,412,570 |

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# INDEPENDENT AUDITOR'S REPORTS ON INTERNAL CONTROL AND COMPLIANCE

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

# Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Ms. Janet Olszewski, Director
Department of Community Health
Capitol View Building
Lansing, Michigan

Dear Ms. Olszewski:

We have audited the financial schedules of the Department of Community Health for the fiscal years ended September 30, 2007 and September 30, 2006, as identified in the table of contents, and have issued our report thereon dated September 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the next paragraph, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with

generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in Findings 1 through 6 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the third paragraph of this section, we consider Finding 1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

The Department's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the Department, the Legislature, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

September 15, 2008

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

Ms. Janet Olszewski, Director
Department of Community Health
Capitol View Building
Lansing, Michigan

Dear Ms. Olszewski:

Compliance

We have audited the compliance of the Department of Community Health with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each major federal program for the two-year period ended September 30, 2007. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

As described in Findings 9, 13, and 14 through 20 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding special tests and provisions, allowable costs/cost principles, reporting, and subrecipient monitoring that are applicable to its Immunization Grants, State Children's Insurance Program, and Medicaid Cluster. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the previous paragraph, the Department of Community Health complied, in all material respects, with the requirements referred to in the first paragraph that are applicable to each of its major federal programs for the two-year period ended September 30, 2007. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB

Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 7, 8, 10 through 12, and 21 through 23.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Department's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 7 through 23 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the preceding paragraph, we consider Findings 7, 9, and 13 to be material weaknesses.

The Department's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the Department, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

September 15, 2008

# SCHEDULE OF FINDINGS
# AND QUESTIONED COSTS

## Section I: Summary of Auditor's Results

### Financial Schedules

| | |
|---|---|
| Type of auditor's report issued: | Unqualified* |
| Internal control* over financial reporting: | |
| Material weaknesses* identified? | Yes |
| Significant deficiencies* identified that are not considered to be material weaknesses? | Yes |
| Noncompliance or other matters material to the financial schedules? | No |

### Federal Awards

| | |
|---|---|
| Internal control over major programs: | |
| Material weaknesses* identified? | Yes |
| Significant deficiencies* identified that are not considered to be material weaknesses? | Yes |

Type of auditor's report issued on compliance for major programs:

Unqualified for all major programs except for Immunization Grants, State Children's Insurance Program, and Medicaid Cluster, which are qualified*.

| | |
|---|---|
| Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)? | Yes |

Identification of major programs:

| *CFDA* Number | Name of Federal Program or Cluster |
|---|---|
| 10.557 | Special Supplemental Nutrition Program for Women, Infants, and Children |
| 93.044, 93.045, and 93.053 | Aging Cluster |
| 93.136 | Injury Prevention and Control Research and State and Community Based Programs |
| 93.268 | Immunization Grants |

* *See glossary at end of report for definition.*

| | |
|---|---|
| 93.283 | Centers for Disease Control and Prevention - Investigations and Technical Assistance |
| 93.558 | Temporary Assistance for Needy Families |
| 93.767 | State Children's Insurance Program |
| 93.777 and 93.778 | Medicaid Cluster |
| 93.779 | Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse |
| 93.994 | Maternal and Child Health Services Block Grant to the States |

Dollar threshold used to distinguish between type A and type B programs: $30,000,000

Auditee qualified as a low-risk auditee*? No

## Section II: Findings Related to the Financial Schedules

### FINDING (3910801)

1. Internal Control

The Department of Community Health's (DCH's) internal control was not sufficient to ensure the accuracy of its financial accounting and reporting and its compliance with direct and material federal requirements. Also, DCH did not effectively use its biennial internal control evaluation (ICE) process to monitor its system of internal control. As a result, we identified significant deficiencies in internal control over financial reporting and federal program compliance for 10 of 11 major programs audited as part of this Single Audit*.

Internal control is a process that is designed to provide reasonable assurance regarding the achievement of reliable financial reporting, effective and efficient operations, and compliance with applicable requirements. Internal control is made up of the control environment, risk assessment, policies and procedures,

* *See glossary at end of report for definition.*

information and communication, and monitoring. The ICE process is an important component of monitoring. Section 18.1485 of the *Michigan Compiled Laws* requires the head of each principal department to establish and maintain an internal accounting and administrative control system.

Our review disclosed:

a. DCH's internal control over financial reporting and federal program compliance needs improvement.

   Findings 1 through 6 of this audit report identify DCH's need to improve internal control over its accounting and financial reporting, cash management, prepaid inpatient health plan (PIHP) and community mental health services program (CMHSP) contract payments, advance payments, and Receivables System (RS) database.

   Findings 7 through 23 of this audit report identify DCH's need to improve internal control over federal program compliance. Findings 7 through 23 present significant deficiencies related to 10 of 11 major programs audited during this Single Audit. Findings 7, 9, and 13 represent internal control deficiencies that were material to their respective programs. The internal control deficiencies resulted in qualified opinions on DCH's compliance with federal requirements for 3 of the 11 major programs.

b. DCH's efforts to monitor the effectiveness of its system of internal control using the biennial ICE needs improvement. Properly completed, the ICE can be an important tool in DCH's monitoring and assessing of the effectiveness of its system of internal control.

   Section 18.1485 of the *Michigan Compiled Laws* requires the head of each principal department to provide a biennial report on the evaluation (which is known as an ICE) of the department's internal accounting and administrative control system. Section 18.1485 of the *Michigan Compiled Laws* also requires the ICE to include a description of any material weakness discovered in connection with the evaluation of the department's controls and the plans and a time schedule for correcting the weakness.

The State Budget Director developed guidance, entitled *Evaluation of Internal Controls - A General Framework and System of Reporting* (Framework), for use by the principal departments in preparing the ICE. The Framework provides guidance on how to identify assessable units within a department. The Framework also describes how the assessable units can identify and assess weaknesses and material weaknesses within their internal control systems. Using an evaluation work sheet, DCH's assessable units report their self-evaluations to the designated senior official (DSO), who coordinates and prepares the ICE as part of DCH's efforts to monitor its internal control. DCH's biennial report was due on May 1, 2007 and was to be based on an evaluation of the system as of October 1, 2006. The Framework holds the DSO responsible for ensuring that adequate documentation is maintained to support conclusions reached in the evaluation process.

Our review of DCH's ICE that DCH management used to monitor the effectiveness of its internal control as of October 1, 2006 disclosed:

(1) DCH did not require its assessable units to assess the materiality of the weaknesses identified by their evaluation work sheets, which the DSO used to prepare the ICE.

The assessable units have the most accurate perspective of the materiality of weaknesses they identify. Therefore, to ensure that their perspective is appropriately considered in the preparation of the ICE, it is important that the evaluation work sheets provide the assessable units with an opportunity to assess the materiality of weaknesses they noted.

For example, the ICE stated that the Bureau of Medicaid Financial Management and Administrative Services, Medicaid Services Administration, identified a weakness regarding security in receiving and maintaining medical and sensitive records; however, the Bureau was not required to conclude (and did not conclude) whether it considered the weakness to be material.

If the Bureau considered weak security over medical and sensitive records to be material and indicated that conclusion to the DSO, a corrective action plan could be implemented to remedy the weakness. Without the Bureau's indication that the weakness was material, the DSO

might not perceive the weakness to be material and, as a result, the weakness might not receive the benefit of a corrective action plan. In this example, DCH did not implement a corrective action plan to remedy the identified weakness pertaining to medical and sensitive records.

(2) DCH did not have a process in place to document the DSO's disposition of material weaknesses identified by external sources (e.g., Office of the Auditor General reports). As a result, DCH could not support its reasons for concluding that reported material weaknesses were not material. Also, DCH could not support that it considered each weakness identified by external sources.

(3) DCH did not submit its most recent ICE on a timely basis. DCH submitted the ICE, which was due on May 1, 2007, on July 18, 2007. DCH's delay in completing the ICE resulted in a disclaimed opinion on critical components of the ICE process by DCH's Office of Audit because it could not review the information provided.

## RECOMMENDATIONS

We recommend that DCH improve its internal control to ensure the accuracy of its financial accounting and reporting and its compliance with direct and material federal requirements.

We also recommend that DCH improve its efforts to monitor the effectiveness of its internal control using the ICE.

## FINDING (3910802)

2. Accounting and Financial Reporting

DCH's internal control did not prevent and detect certain accounting and reporting errors. As a result, errors occurred in DCH's financial schedules and schedule of expenditures of federal awards (SEFA).

Sections 18.1141 and 18.1485 of the *Michigan Compiled Laws* require each department to establish a comprehensive system of internal control in the management of the State's financial affairs. This includes maintaining an internal accounting and administrative control system of recordkeeping procedures to

control assets, liabilities, revenues, and expenditures and to record transactions in accordance with generally accepted accounting principles (GAAP) and as required by State law.

We reviewed DCH's internal control over accounting and financial reporting:

a. Our review of DCH's internal control over accounting disclosed:

(1) DCH needs to improve internal control over disproportionate share hospital (DSH) payments (see Finding 16). DCH incorrectly used outdated cost information for one hospital in its calculation of the eligible hospitals' DSH ceilings. Also, DCH failed to include ancillary costs and charges in its fiscal year 2005-06 cost-to-charge ratio in the DSH payment calculation. Although the total amount of these DSH payments did not change because of DCH's failure to include ancillary costs and charges, the amounts paid to each individual hospital were incorrect. In addition, DCH made DSH payments of $51.2 million to one hospital in fiscal year 2006-07 from its indigent care agreement (ICA) DSH pool, although an approved ICA was not in place until two months after the payments were made.

(2) DCH needs to improve its internal control over pharmacy rebates recovered from drug manufacturers by its pharmacy benefits manager (PBM) (see Finding 17). DCH did not have a process to ensure that the pharmacy rebates recovered from drug manufacturers by its PBM were reasonable. As a result, DCH may not recover the appropriate amount of pharmacy rebates from drug manufacturers. DCH received pharmacy rebates totaling $437.3 million during the two-year period ended September 30, 2007.

(3) DCH needs to improve internal control over invoices received from the Centers for Medicare and Medicaid Services (CMS) for Medicare Part A and Part B premiums (see Finding 18). DCH paid exactly the amount billed by CMS and did not reconcile or perform a test of reasonableness on the amount billed using the data in its own database. As a result, DCH might not pay the appropriate amount for Medicare Part A and Part B premiums. Medicaid expenditures for Medicare Part A and Part B

premiums were $554.3 million for the two-year period ended September 30, 2007.

(4) DCH needs to improve internal control over recoveries from providers for medical services (see Finding 19). DCH subcontracts with an outside vendor that conducts postpayment reviews of Medicaid medical services payments to identify third party liabilities. The subcontractor informs DCH of these third party liabilities and, consequently, DCH recovers the identified Medicaid overpayment amounts from providers. Our test of recoveries of $104,000 disclosed that DCH recovered amounts totaling $22,206 that exceeded what the providers owed DCH.

b. Our review of DCH's internal control over financial reporting disclosed:

(1) DCH did not ensure that it prepared its SEFA in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and State financial management policies.

Specifically, our review of DCH's SEFA preparation process disclosed:

(a) DCH inappropriately included certified public expenditures claimed under the government provider DSH pool and expenditures commonly referred to by DCH as "gross-up" expenditures. As a result, DCH's SEFA for fiscal years 2005-06 and 2006-07 was overstated by $162.8 million (2%). These expenditures should not have been included on DCH's SEFA because they were not directly expended or distributed by DCH. DCH reported Medicaid Cluster expenditures totaling $10.4 billion on its SEFA for fiscal years 2005-06 and 2006-07 combined.

(b) DCH overstated amounts "Directly Expended" and understated amounts "Distributed to Subrecipients" by $97.9 million and $34.2 million for fiscal years 2005-06 and 2006-07, respectively.

DCH prepares its SEFA based on coded payment information contained in the State's accounting system. The coded payment information is entered into the State's accounting system based on

determinations by program staff as to whether the entity to be paid is a vendor or a subrecipient*.

During our audit period, DCH did not always use the proper codes when entering payment information into the State's accounting system. Specifically, we noted that program staff discontinued certain codes that designated expenditures as distributions to subrecipients during our audit period. However, financial accounting staff continued to use the discontinued codes when entering payment information into the State's accounting system.

(c) DCH's internal control did not ensure that recipients of federal funds were properly classified as a vendor or a subrecipient. As a result, DCH understated amounts "Directly Expended" and overstated amounts "Distributed to Subrecipients" by $5.6 million and $3.2 million for fiscal years 2005-06 and 2006-07.

During our audit period, DCH's program staff were responsible for determining whether a recipient of federal funds is a vendor or a subrecipient. However, program staff did not have the proper tools or training to make this determination.

(2) DCH's internal control over financial reporting did not ensure that DCH would identify accounting events that may require disclosure under GAAP.

DCH's annual review procedures were not sufficient to ensure that DCH would identify unexpected changes in financial information to identify possible errors and/or the need for disclosure under GAAP. For example, in fiscal year 2005-06, DCH received an additional $108.2 million (an increase of 21% from the prior year) in quality assurance assessment (QAA) tax revenue and incurred a reduction of $110.3 million (a decrease of 21% from the prior year) in tobacco tax revenue. Because these revenue changes occurred in the same fiscal year and were offsetting, DCH's annual review procedures did not identify the changes and, consequently, the need for the disclosure of these changes was not considered.

* *See glossary at end of report for definition.*

Also, in fiscal year 2006-07, DCH received an additional $114.4 million (a change from the prior year of 17%) in QAA tax revenue. DCH did not document its evaluation as to whether these changes needed to be disclosed in its notes to the financial schedules.

As a result of this audit, DCH has subsequently disclosed pertinent QAA and tobacco tax information in Notes 4 and 5 to the financial schedules contained in this report.

## RECOMMENDATION

We recommend that DCH improve its internal control over accounting and financial reporting to prevent and detect accounting and reporting errors.

## FINDING (3910803)

3. Cash Management

DCH needs to improve its internal control over its compliance with State and federal cash management requirements. As a result, DCH did not request federal reimbursement for eligible expenditures totaling $10.8 million. Also, DCH did not request federal reimbursement on a timely basis for eligible expenditures resulting in lost interest to the State of approximately $354,000.

The Department of Management and Budget (DMB) Administrative Guide and the federal Cash Management Improvement Act of 1990 (CMIA) require DCH to request funds from the federal government as close as possible to actual cash outlays for federal programs. Also, the CMIA requires states to comply with procedures, which have been agreed to by the federal government, for timely drawing on applicable major programs. The agreement with the federal government can be revised annually.

Our review of DCH's cash management practices disclosed:

a. DCH did not request federal funds for two federal programs until our audit brought the missed federal funds to DCH's attention. For one program, DCH did not follow its procedures and, as a result, failed to obtain federal funds of $6.1 million. For another program, DCH's internal control did not ensure that DCH obtained federal funds of $4.7 million.

b. DCH did not request and obtain federal funds on a timely basis for 3 of the 11 federal programs reviewed. For the 3 federal programs, we identified approximately $354,000 in interest lost to the State. For example, we reviewed DCH's cash management over a grant having total cash expenditures of $16.7 million during our two-year audit period. We noted that there was a 31-day period in which the average amount of cash expenditures that exceeded federal funds obtained was $1.6 million. With the exception of 24 days, cash expenditures exceeded federal funds obtained for the entire two-year audit period, during which time approximately $50,000 of interest was lost by the State.

Effective cash managers adhere to appropriate and detailed procedures and controls, including management oversight. Because DCH received $11.7 billion in federal funds during the audit period, it is critical that it develop and adhere to effective cash management procedures for all of its federal programs.

## RECOMMENDATION

We recommend that DCH improve its internal control over its compliance with State and federal cash management requirements.

## FINDING (3910804)

4. PIHP and CMHSP Contract Payments

DCH's internal control over contract payments to prepaid inpatient health plans (PIHPs) and community mental health services programs (CMHSPs) did not ensure that payments were in compliance with federal regulations and State laws. As a result, DCH made payments of $943.0 million to PIHPs and CMHSPs before approved contracts were in place. Also, DCH could not ensure that payments to CMHSPs were made in accordance with State eligibility requirements.

Appendix A, section C(1)(j) of Title 2, Part 225 of the *Code of Federal Regulations* (*CFR*) (OMB Circular A-87*) requires that costs charged to a federal program be supported by adequate documentation. Also, Section 330.1232 of the *Michigan Compiled Laws* (Act 258, P.A. 1974, as amended) provides that CMHSP eligibility for State financial support is contingent upon an approved contract.

* *See glossary at end of report for definition.*

For our two-year audit period, DCH made Medicaid payments of $3.3 billion to 18 PIHPs to manage and provide mental health and substance abuse services and support, such as inpatient psychiatric hospital services or substance abuse rehabilitation services. DCH also made General Fund payments of $908.4 million to 46 CMHSPs to manage and provide mental health services to eligible persons who are not covered by Medicaid or to fund a portion of the cost of mental health services when Medicaid funds have been exhausted.

We reviewed 6 PIHP contracts entered into during our audit period and the respective payments totaling $1.7 billion from Medicaid ($736.1 million General Fund/general purpose). We also reviewed 7 CMHSP contracts entered into during our audit period and the respective payments totaling $527.9 million from the General Fund.

We determined that DCH did not have a process to ensure that contracts and contract amendments were signed by all parties prior to issuing payments for the contracts. Specifically, we noted that DCH made Medicaid payments totaling $526.5 million to the PIHPs and General Fund payments totaling $416.5 million to the CMHSPs before a contract or a contract extension was signed by DCH and the PIHP or CMHSP, as applicable. Also, we noted that DCH made payments under three new rate schedules during our audit period before the contract amendment incorporating the new rate schedule was signed by DCH and the PIHP. Consequently, the portions of the payments that resulted from the rate changes were inappropriate. Because of complexities involved in applying the rate changes, DCH was not able to quantify the amount of inappropriate payments.

## RECOMMENDATION

We recommend that DCH improve its internal control over contract payments to PIHPs and CMHSPs to ensure that the payments are in compliance with federal regulations and State laws.

## FINDING (3910805)

5. Advance Payments

DCH did not obtain prior approval to make $30.2 million in advance payments to providers. As a result, DCH was not in compliance with State law.

Section 18.1422 of the *Michigan Compiled Laws* requires prior approval from DMB for advances. Also, DMB Administrative Guide procedure requires State agencies to submit to DMB a request to make advance payments at least two months before the date of the advance. DMB should then consult with the State Treasurer before approving any request for an advance that would provide disbursements in excess of $1,000,000 in any month.

DCH's Medicaid State Plan allows DCH to make DSH payments to hospitals serving a disproportionately high number of low-income persons. The DSH payments are normally made annually during the first quarter of the fiscal year. In September 2006, DCH issued fiscal year 2006-07 regular DSH payments to five Detroit Medical Center hospitals totaling $30.2 million. However, DCH did not obtain the required DMB approval for making these payments in advance.

## RECOMMENDATION

We recommend that DCH obtain prior approval to make advance payments to providers.

## FINDING (3910806)

6. Receivables System (RS) Database

DCH's internal control did not ensure the completeness and accuracy of its postings to the RS Database. As a result, DCH cannot ensure that it is properly collecting amounts owed to the State and federal governments.

DCH's Medicaid Collections Unit makes DCH's final effort to collect from Medicaid providers on past due receivables. These are receivables for amounts owed by these providers for various reasons, including overpayments to providers resulting from mistakes, fraud, or abuse or amounts owed to DCH after the provider has been through the annual cost settlement process. These receivables generally originated with other DCH units and other State agencies that were initially responsible for recouping Medicaid funds.

The Unit posted past due receivables and amounts in arbitration (i.e., estimated receivables) of $21.6 million to the RS Database for the two-year period ended September 30, 2007. Also during the two-year period, the Unit posted settlements with providers, which reduced estimated receivables by $14.5 million, posted

collections on past due receivables of $7.7 million, and posted referrals of uncollectible accounts receivable to the Department of Treasury of approximately $240,000. As of September 30, 2007, Medicaid receivables and estimated receivables posted to the RS Database totaled $11.1 million.

We identified the following control weaknesses relating to the completeness and accuracy of postings to the RS Database:

a. The Unit did not periodically reconcile the RS Database with receivables referred to the Unit from other DCH units and other State agencies.

   Periodic reconciliations of receivables referred from other units and agencies would help the Unit ensure that the RS Database completely and accurately reflected those receivables. A reconciliation process could include: (1) providing activity reports to the other units and agencies that contain debtor information and detailed changes from the previous activity report and (2) resolving responses as to the completeness and accuracy of the activity reports from the referring units and agencies.

b. The Unit did not document its review and approval of postings to the RS Database.

   The State has adopted Control Objectives for Information and Related Technology* (CobiT) standards. These standards state that entities that process data need to have processes to ensure that data and system errors are detected and corrected. The Unit stated that it requires someone other than the person posting the receivable to review the posting to the RS Database to ensure that each posting is complete and accurate. To establish accountability, the Unit's review and approval efforts should be documented.

   We reviewed 50 postings to the RS Database during the two-year period ended September 30, 2007. The Unit did not document its review for 5 (10%) of the 50 postings. Also, for 13 (26%) of the 50 postings, the Unit did not document that someone other than the person who posted the receivable reviewed the posting. These 18 postings represented $8.5 million of the

* *See glossary at end of report for definition.*

$21.6 million past due receivables posted to the RS Database during the two-year period ended September 30, 2007.

c. The Unit did not post all the Hospital and Health Plan Reimbursement Division's receivables from the gross adjustment details report (MQ-774 report) to the RS Database.

After acquiring approval from the Division to commence collection activities on certain accounts receivable, the Unit did not post the receivables to the RS Database.

We identified 8 Division-approved receivables that were not posted to the RS Database. The past due receivables represented $1.0 million and had no collection activity for an average of 181 days.

We noted the same condition in our prior Single Audit.

**RECOMMENDATION**

WE AGAIN RECOMMEND THAT DCH IMPROVE ITS INTERNAL CONTROL TO ENSURE THE COMPLETENESS AND ACCURACY OF ITS POSTINGS TO THE RS DATABASE.

**The status of the findings related to the financial schedules that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.**

## Section III: Findings and Questioned Costs Related to Federal Awards

### FINDING (3910807)

7. Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program), ***CFDA*** 10.557

| U.S. Department of Agriculture | *CFDA* 10.557: Special Supplemental Nutrition Program for Women, Infants, and Children |
|---|---|
| Award Number: | Award Period: |
| 2002IW101142 | 08/31/2002 - 09/30/2007 |
| 2003IW101142 | 09/30/2003 - 09/30/2007 |
| 2004IW101142 | 10/01/2004 - 09/30/2006 |
| 2004IW101142 | 09/30/2004 - 09/30/2008 |
| 2005IW100342, IW100642 | 10/01/2004 - 09/30/2005 |
| 2005IW500342 | 10/01/2004 - 09/30/2006 |
| 2005IW101142 | 09/16/2005 - 09/30/2008 |
| 2006IW100342, IW100642 | 10/01/2005 - 09/30/2006 |
| 2006IW450342 | 10/01/2005 - 09/30/2006 |
| 2006IW500342 | 10/01/2005 - 09/30/2007 |
| 2006IW101142 | 02/23/2006 - 09/30/2007 |
| 2006IW101142 | 09/30/2006 - 09/30/2008 |
| 2007IW100342, IW100642 | 10/01/2006 - 09/30/2007 |
| 2007IW101142 | 04/09/2007 - 09/30/2008 |
| | Questioned Costs: $11,833,275 |

DCH's internal control over the WIC Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring. Our review disclosed material weaknesses in internal control over federal laws and regulations regarding allowable costs/cost principles.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of WIC Program awards.

The WIC Program provides supplemental nutritious foods, nutrition education, and health care referrals for low-income persons. DCH contracts with local agency subrecipients to certify applicants' eligibility for WIC Program benefits and deliver such benefits to eligible beneficiaries. Local agency subrecipients provide these services at their primary facilities and associated clinics. The local agency

subrecipients provide the food benefits to eligible beneficiaries through paper coupons generated by the WIC Program's computer system. Beneficiaries can redeem the coupons by acquiring authorized foods at approved retailers.

At the time of redemption, federal regulations require that the beneficiary sign the coupon and that the retailer ensure that the signature matches the signature on the beneficiary's identification card. The retailer subsequently submits the redeemed paper coupons, with beneficiaries' signatures, to DCH for reimbursement. Federal requirements limit the time that retailers have to seek reimbursement from DCH. The WIC Program will not process expired coupons or provide for payments to retailers for expired coupons.

Federal expenditures for the WIC Program totaled $295.6 million for the two-year period ended September 30, 2007, including $60.2 million that was distributed to 49 local agency subrecipients for administrative costs.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

(1) DCH's internal control did not ensure that it retained supporting documentation for redeemed WIC Program coupons. As a result, DCH could not provide the supporting documentation for approximately 621,000 redeemed coupons totaling $11,739,878.

Appendix A, section C(1)(j) of federal regulation 2 *CFR* 225 requires that costs charged to a federal program be supported by adequate documentation.

DCH contracts with the Michigan Department of Information Technology (MDIT) to provide backup support and disaster recovery of the WIC Program paper coupons submitted by the retailers. MDIT scans the redeemed coupons, which creates an electronic image of the coupon that includes each beneficiary's signature. MDIT stores these images on digital video disks (DVDs). The scanning process also captures information from each coupon that populates DCH's data warehouse. DCH's data warehouse stores the detailed information regarding each coupon's redemption, including beneficiary, products purchased, retailer information, date, etc. After the DVD is created, DCH's subsequent

reconciliations help ensure that all coupons that were scanned were completely and accurately contained in DCH's data warehouse. After DCH's reconciliation process, DCH destroys the original paper copies of the WIC Program coupons.

MDIT provided DCH with original source DVDs, which contained the scanned images of the redeemed paper coupons. However, MDIT did not retain a backup of the data or provide a backup of the data to DCH. Also, DCH stated that MDIT did not provide DCH with all of the DVDs necessary to document redeemed WIC Program coupons. Consequently, DCH did not have 1 of 81 DVDs that contained supporting documentation for approximately 621,000 coupons. We reported known questioned costs totaling $11,739,878.

(2) DCH's internal control over the WIC Program coupon redemption process did not always ensure that MDIT maintained adequate control over redeemed coupons submitted by retailers. As a result, DCH did not timely process $277,621 of redeemed coupons and, consequently, did not receive a rebate from its infant formula manufacturer for eligible purchases.

DCH contracts with a manufacturer to supply infant formula to retailers authorized by DCH to redeem WIC Program coupons. The contract requires the manufacturer to pay DCH a rebate that is based upon the infant formula purchased through WIC Program coupon redemptions. The rebates offset WIC Program costs and correspondingly reduce DCH's need to obtain WIC Program funding from the U.S. Department of Agriculture. DCH invoices the manufacturer for the rebates to be paid to DCH based on the information on the redeemed coupons that MDIT has scanned into the WIC Program's computer system.

MDIT misplaced redeemed WIC Program coupons from one retailer. As a result, the coupons' time limit for being processed by the WIC Program's computer system expired before the misplaced coupons were discovered. Because the coupons were expired, the WIC Program's computer system would not process the coupons and the retailer could not be reimbursed using the WIC Program's automatic payment process. Instead, DCH issued a $277,621 manual payment to the retailer using the

State's manual payment process. Because the WIC Program's computer system would not process the coupons, the detailed redemption information contained on the coupon for infant formula rebate reporting, such as the product and quantity data, could not populate DCH's data warehouse. Consequently, DCH was unable to receive a rebate from the infant formula provider. We reported known questioned costs of $93,397.

b. Subrecipient Monitoring

DCH did not ensure that it reviewed its subrecipients' financial records on a timely basis and that it completely examined all significant compliance requirements during its monitoring visits and communicated areas of noncompliance to the local agency subrecipients.

Federal regulation 7 *CFR* 246.19(b)(1) and 246.19(b)(2) requires DCH to establish an ongoing management evaluation system of its local agency subrecipients, which includes monitoring of operations, review of financial reports and records, development of corrective action plans for noted deficiencies, and on-site monitoring visits of local agency subrecipients and associated clinics. Also, federal regulation 7 *CFR* 246.19(b)(3) requires DCH to ensure that each local agency subrecipient's financial records related to the WIC Program are reviewed at least once every two years. The review of local agency subrecipient financial records is performed by DCH or a public accounting firm responsible for conducting local agency subrecipient Single Audits.

Federal regulation 7 *CFR* 246.19(b)(4) requires DCH to notify the local agency subrecipient of any instances in which the local agency subrecipient did not comply with WIC Program requirements. DCH's procedures require it to provide each local agency subrecipient with a report stating whether the local agency subrecipient met WIC Program requirements. Also, DCH must obtain a corrective action plan from the subrecipient for instances of noncompliance.

Our review of DCH's monitoring of local agency subrecipients disclosed:

(1) DCH did not ensure that it, or a public accounting firm, reviewed its local agency subrecipients' financial records at least once every two years.

For the two-year period ended December 31, 2006, we determined that the required review of financial records was not performed for 15 (31%) of the 49 local agency subrecipients.

(2) DCH did not ensure that it completely examined all significant compliance requirements during its on-site monitoring visits and communicated areas of noncompliance to the local agency subrecipients.

Our review of the reports and supporting documentation for six on-site monitoring visits covering fiscal years 2005-06 and 2006-07 disclosed that DCH did not review whether a clinic associated with 1 (17%) of the 6 local agency subrecipients properly safeguarded unissued WIC Program coupons.

Also, DCH's supporting documentation noted local agency subrecipient noncompliance with the requirement to properly safeguard unissued WIC Program coupons for 2 (33%) of the 6 local agency subrecipients. However, DCH either did not report the noncompliance to the local agency subrecipient or did not document that the identified noncompliance was resolved in favor of the local agency subrecipient.

Because of the WIC Program coupons' value, the safeguarding of unissued coupons is a significant compliance requirement.

## RECOMMENDATION

We recommend that DCH improve its internal control over the WIC Program to ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

## FINDING (3910808)

8. Injury Prevention and Control Research and State and Community Based Programs (IPP), ***CFDA*** 93.136

| U.S. Department of Health and Human Services | *CFDA* 93.136: Injury Prevention and Control Research and State and Community Based Programs |
|---|---|
| Award Number: | Award Period: |
| VF1/CCV519922-04-1 | 11/01/2004 - 10/31/2005 |
| VF1/CCV519922-05-1 | 11/01/2005 - 10/31/2006 |
| VF1/CCV519922-05-2 | 11/01/2005 - 10/31/2007 |
| 4VF1/CE519922-05-3 | 11/01/2005 - 10/31/2008 |
| 1VF1/CE001110-01 | 11/01/2006 - 10/31/2007 |
| U17/CCU522312-03-2 | 09/30/2004 - 07/31/2006 |
| U17/CCU522312-03-3 | 09/30/2004 - 07/31/2006 |
| U17/CCU523418-03 | 09/30/2005 - 09/29/2006 |
| U17/CCU523418-03-1 | 09/30/2005 - 09/29/2006 |
| U17/CE523418-04 | 09/30/2006 - 09/29/2007 |
| U17/CCU524341-02 | 09/01/2005 - 08/31/2006 |
| U17/CCU524341-02-1 | 09/01/2005 - 08/31/2006 |
| U17/CCU524341-02-2 | 09/01/2005 - 08/31/2006 |
| U17/CCU524341-02-3 | 09/01/2005 - 08/31/2006 |
| | Questioned Costs: $32,208 |

DCH's internal control over IPP did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles, period of availability of federal funds, and subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of IPP awards.

IPP consisted of four subprograms during the audit period, including the Targeted Injury Prevention Program and the Enhancing State Capacity to Address Child and Adolescent Health Through Violence Prevention Program. DCH administered the subprograms through the use of 17 subrecipients for fiscal year 2005-06 and 12 subrecipients for fiscal year 2006-07. Two of these subrecipients administered subprograms through the use of their own subrecipients (second-tier subrecipients).

Federal expenditures for IPP totaled $3.5 million for the two-year period ended September 30, 2007, including $2.8 million that was distributed to IPP subrecipients. We reported known questioned costs totaling $32,208.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DCH's internal control did not ensure that it initially obtained a semiannual certification for one employee who reportedly worked solely on IPP. Consequently, DCH did not document that the payroll costs of the employee that DCH charged to IPP were allowable. As a result of our audit, DCH obtained the certification.

Appendix B, section 8 of federal regulation 2 *CFR* 225 requires DCH to obtain semiannual certifications for employees who work solely on a single federal award. Compliance with this requirement helps ensure that the payroll costs of the employee charged by DCH to IPP are allowed.

b. Period of Availability of Federal Funds

DCH improperly liquidated obligations for two subprograms incurred during the final funding period with payments that were 46 days and 65 days, respectively, beyond the 90-day requirement. As a result, we reported known questioned costs of $22,608 for the Targeted Injury Prevention Program and $9,600 for the Enhancing State Capacity to Address Child and Adolescent Health Through Violence Prevention Program.

Federal regulation 45 *CFR* 92.23 states that a grantee must liquidate all obligations incurred under a federal award not later than 90 days after the end of the funding period. The U.S. Department of Health and Human Services Grants Information Letter G06-004 permits grantees to extend the funding period and the 90-day requirement, as long as it is not the final funding period within a grant project period.

We noted this same condition in our prior Single Audit.

c. Subrecipient Monitoring

DCH's monitoring of its subrecipients needs improvement.

Federal regulation 45 *CFR* 92.40 and OMB Circular A-133, section 400(d)(3) require DCH to monitor the operations of its subrecipients to ensure compliance with applicable federal program requirements. Effective

monitoring of subrecipients by DCH can be accomplished by using various methods, depending on the nature and timing of the compliance requirement.

Our review of DCH's monitoring of IPP subrecipients noted:

(1) DCH did not adequately monitor and document its subrecipients' compliance with requirements pertaining to activities allowed or unallowed.

DCH stated that it conducted site visits of its subrecipients and reviewed periodic financial and performance reports submitted by the subrecipients to ensure their compliance with requirements pertaining to activities allowed or unallowed.

However, DCH did not conduct a site visit for 5 (29%) of the 17 IPP program subrecipients and did not document 1 (8%) of the 12 site visits that were conducted. Also, IPP program management did not document its review of any of the subrecipients' periodic financial reports and did not obtain the periodic financial reports from DCH's Accounting Division for 7 (41%) of the 17 subrecipients. In addition, IPP program management did not document its review of program narrative reports for 5 (29%) of the 17 subrecipients. Consequently, DCH could not demonstrate that it ensured that IPP subrecipients complied with activities allowed or unallowed requirements.

(2) DCH did not monitor its IPP subrecipients' compliance with requirements pertaining to allowable costs/cost principles, cash management, and period of availability of federal funds.

Specifically, DCH did not review documentation that supports the expenditures reported by its subrecipients, which is necessary for effective monitoring of allowable costs/cost principles, cash management, and period of availability of federal funds requirements.

(3) DCH did not monitor its subrecipients for compliance with requirements pertaining to subrecipient monitoring.

DCH stated that it did not determine whether the two subrecipients that used second-tier subrecipients monitored the second-tier subrecipients for compliance with applicable federal program requirements.

## RECOMMENDATIONS

We recommend that DCH improve its internal control over IPP to ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

WE AGAIN RECOMMEND THAT DCH IMPROVE ITS INTERNAL CONTROL OVER IPP TO ENSURE COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING PERIOD OF AVAILABILITY OF FEDERAL FUNDS.

## FINDING (3910809)

9. Immunization Grants, ***CFDA*** 93.268, Special Tests and Provisions

| U.S. Department of Health and Human Services | *CFDA* 93.268: Immunization Grants |
|---|---|
| Award Number: | Award Period: |
| H23/CCH522556-03 | 01/01/2005 - 12/31/2005 |
| H23/CCH522556-03-1 | 01/01/2005 - 12/31/2005 |
| H23/CCH522556-03-2 | 01/01/2005 - 12/31/2005 |
| H23/CCH522556-03-3 | 01/01/2005 - 12/31/2005 |
| H23/CCH522556-04 | 01/01/2006 - 12/31/2006 |
| H23/CCH522556-04-1 | 01/01/2006 - 12/31/2006 |
| H23/CCH522556-04-2 | 01/01/2006 - 12/31/2006 |
| H23/CCH522556-04-3 | 01/01/2006 - 12/31/2006 |
| H23/CCH522556-05 | 01/01/2007 - 12/31/2007 |
| H23/CCH522556-05-1 | 01/01/2007 - 12/31/2007 |
| H23/CCH522556-05-2 | 01/01/2007 - 12/31/2007 |
| | Questioned Costs: Not determinable |

DCH's internal control over the Immunization Grants Program did not ensure compliance with federal laws and regulations regarding special tests and provisions (control, accountability, and safeguarding of vaccines). Our review disclosed material weaknesses in internal control and material noncompliance* with federal laws and regulations regarding special tests and provisions. As a result, we issued

* *See glossary at end of report for definition.*

a qualified opinion on compliance with federal laws and regulations for the Immunization Grants Program.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Immunization Grants Program awards.

The Centers for Disease Control and Prevention (CDC) pays vaccine manufacturers to provide vaccines to the states for immunization of eligible children. The manufacturers ship the vaccines to DCH. CDC provided DCH with $112.8 million in vaccines during the two-year period ended September 30, 2007. DCH distributes the amount of vaccines requested by 45 subrecipient local health departments (LHDs) to the LHDs and stores the remainder for future distribution. LHDs administer the vaccines to eligible children or redistribute the vaccines to providers that administer the vaccines to eligible children.

Federal regulation 45 *CFR* 92.20(b)(3) requires DCH to maintain effective control and accountability for all grant and subgrant assets. For the Immunization Grants Program, assets include nonfinancial assistance, such as vaccine doses, that DCH provides to its subrecipients. To help comply with this regulation, DCH requires the LHDs to submit monthly vaccine inventory reports to DCH. DCH performs periodic analyses of this self-reported LHD inventory information to determine whether the LHDs properly accounted for vaccines.

Our review of DCH's compliance with special tests and provisions (control, accountability, and safeguarding of vaccines) noted:

a. DCH did not ensure that LHDs effectively controlled and accounted for vaccines distributed to them. As a result, DCH could not ensure that federally funded vaccines were distributed, safeguarded, and administered in accordance with federal laws and regulations.

   DCH did not determine a beginning or ending inventory using information from its own records for comparison to the self-reported LHD information. Without the use of accurate beginning and ending inventories, DCH's analyses resulted in unreconciled differences between the ending inventories that the LHDs reported to DCH and the calculated ending inventories that DCH expected the LHDs to report.

Also, DCH did not investigate and resolve the unreconciled amounts, such as differences between what DCH expected the LHD to report as ending inventory and what was actually reported as ending inventory. For example, DCH did not resolve ending inventory differences that ranged from a shortage of 18,430 vaccine doses (the LHD reported 53% less than what DCH expected should have been on hand) to an overage of 15,931 vaccine doses (the LHD reported 360% more than what DCH expected should have been on hand).

In addition, DCH did not perform physical inventory counts of vaccines on hand at the LHDs to validate the accuracy of the LHDs' self-reported inventory information submitted by the LHDs to DCH.

Further, DCH did not consider the higher risks that were attributable to the most costly vaccines when it allocated its resources to monitor LHD inventories. Although the costs of vaccine types ranged from $8 to $144, DCH did not place greater attention on ensuring adequate control and accountability over the higher dollar value vaccines. Instead, DCH monitored every type of vaccine dose equally.

b. DCH did not document its periodic physical inventories of vaccines stored by DCH and did not have someone who was independent of the process complete the inventories.

DCH uses a perpetual inventory system provided by CDC to track its vaccine inventory. DCH records the receipt of each dosage as an inventory increase and the distribution to subrecipients as an inventory decrease. The perpetual inventory system should show, by vaccine, the number of doses on hand at DCH at any given time.

To ensure effective control and accountability over the vaccines, DCH should conduct periodic physical inventory counts of the actual vaccines on hand. Subsequently, DCH should compare each physical inventory count to the perpetual inventory system records. Someone other than the person who maintains the perpetual inventory system record and without regular access to the vaccine inventory should perform these procedures.

DCH stated that it performed a weekly physical inventory count of vaccines on hand and compared these counts to its perpetual inventory system records.

However, DCH also stated that the physical inventory counts were not conducted by someone independent of the perpetual inventory system records and without regular access to the vaccine inventory. In addition, DCH stated that it did not retain documentation of the physical inventory counts and the associated reconciliations to the perpetual inventory system records. As a result, DCH did not ensure that it maintained proper control and accountability over vaccines purchased with Immunization Grants Program funds.

When we reviewed DCH's vaccine storage area in March 2008, the value of vaccines on hand was $6.7 million, representing approximately 201,000 doses.

## RECOMMENDATION

We recommend that DCH improve its internal control over the Immunization Grants Program to ensure compliance with federal laws and regulations regarding special tests and provisions (control, accountability, and safeguarding of vaccines).

## FINDING (3910810)

10. Immunization Grants, ***CFDA*** 93.268, Period of Availability and Subrecipient Monitoring

| U.S. Department of Health and Human Services | *CFDA* 93.268: Immunization Grants |
|---|---|
| Award Number: | Award Period: |
| H23/CCH522556-03 | 01/01/2005 - 12/31/2005 |
| H23/CCH522556-03-1 | 01/01/2005 - 12/31/2005 |
| H23/CCH522556-03-2 | 01/01/2005 - 12/31/2005 |
| H23/CCH522556-03-3 | 01/01/2005 - 12/31/2005 |
| H23/CCH522556-04 | 01/01/2006 - 12/31/2006 |
| H23/CCH522556-04-1 | 01/01/2006 - 12/31/2006 |
| H23/CCH522556-04-2 | 01/01/2006 - 12/31/2006 |
| H23/CCH522556-04-3 | 01/01/2006 - 12/31/2006 |
| H23/CCH522556-05 | 01/01/2007 - 12/31/2007 |
| H23/CCH522556-05-1 | 01/01/2007 - 12/31/2007 |
| H23/CCH522556-05-2 | 01/01/2007 - 12/31/2007 |
| | Questioned Costs: $200 |

DCH's internal control over the Immunization Grants Program did not ensure compliance with federal laws and regulations regarding period of availability of federal funds and subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Immunization Grants Program awards.

Federal financial expenditures for the Immunization Grants Program totaled $14.8 million for the two-year period ended September 30, 2007, including $10.8 million that was distributed to 52 subrecipients.

Our exceptions, by compliance area, are as follows:

a. Period of Availability of Federal Funds

DCH improperly charged personal service costs incurred by subrecipients during the Immunization Grants Program funding period ended December 31, 2005 to the funding period ended December 31, 2006. As a result, we reported known questioned costs of $200 and known and likely questioned costs of $11,787 for the funding period ended December 31, 2006.

Federal regulation 45 *CFR* 92.23 states that where the federal awarding agency specifies a funding period, a grantee may only charge costs to the award resulting from obligations that occurred during the funding period. Also, Part 3, section H of the *Compliance Supplement* to OMB Circular A-133 provides that an obligation is incurred by DCH on the date that the services were performed if the obligation relates to personal services performed by a subrecipient.

b. Subrecipient Monitoring

DCH did not monitor or sufficiently document its monitoring of its subrecipients' compliance with federal requirements.

DCH performs site visits of the LHDs that administer vaccines to review various compliance and operational areas, including review of client medical charts for documentation of vaccinations and eligibility. DCH documents its observations in site visit reports. Similarly, the LHDs review their providers for the same compliance and operational areas and document their observations in site visit reports that they submit to DCH. DCH's LHD site visits included efforts to determine whether LHDs complied with federal requirements related to activities allowed or unallowed, eligibility, program income, and special tests

and provisions, such as the LHDs' completeness and accuracy of immunization records.

Our review of DCH's monitoring of Immunization Grants subrecipients noted:

(1) DCH did not review documentation that supports the expenditures reported by its subrecipients, which is necessary for effective monitoring of allowable costs/cost principles and period of availability of federal funds requirements.

Federal regulation 45 *CFR* 92.40 and OMB Circular A-133, section 400(d)(3) requires DCH to monitor the operations of its subrecipients to ensure compliance with applicable federal program requirements. Effective monitoring of subrecipients can be accomplished by using various methods, depending on the nature and timing of the compliance requirement.

(2) DCH did not document its monitoring activities to ensure subrecipient compliance with requirements pertaining to client vaccination and eligibility documentation.

Federal law 42 *USC* 300aa-25 requires entities that administer vaccines (i.e., LHDs and providers) to document various critical details about vaccinating eligible children, such as the date of vaccination, the vaccine type and lot number, and the eligibility of the children, in the children's medical charts.

We reviewed 62 of the 3,216 site visit reports prepared by DCH and the LHDs during our two-year audit period. DCH concluded in 27 of the 62 site visit reports that the LHD or the provider did not always document the required vaccination information. However, DCH did not document its efforts to ensure that the LHD or the provider implemented appropriate corrective actions in 6 (22%) of the 27 instances.

Also, DCH concluded in 14 of the 62 site visit reports that the LHD or the provider did not always document client eligibility. However, DCH did not document its efforts to ensure that the LHD or the provider implemented appropriate corrective actions in 6 (43%) of the 14 instances.

We noted the same condition in a prior Single Audit (39-100-04).

(3) DCH did not document its monitoring activities to ensure subrecipient compliance with federal suspension and debarment requirements.

Federal regulation 45 *CFR* 92.35 prohibits DCH and its subrecipients from contracting with, or making subawards to, any party that is suspended or debarred. Federal regulation 2 *CFR* 180.300 requires DCH and its subrecipients to meet this requirement by checking the federal Excluded Parties List System, collecting a certification from those entities, or adding a clause or condition to the contract.

DCH stated that LHDs did not collect a certification from, or add a clause or condition to the contract with, the providers to which the LHDs distributed vaccines. Instead, DCH asserted that it verified that each provider was not suspended, debarred, or otherwise excluded by checking the Excluded Parties List System. However, DCH did not document its review.

## RECOMMENDATIONS

We recommend that DCH improve its internal control over the Immunization Grants Program to ensure compliance with federal laws and regulations regarding period of availability of federal funds.

WE AGAIN RECOMMEND THAT DCH IMPROVE ITS INTERNAL CONTROL OVER THE IMMUNIZATION GRANTS PROGRAM TO ENSURE COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING SUBRECIPIENT MONITORING.

## FINDING (3910811)

11. Centers for Disease Control and Prevention - Investigations and Technical Assistance, ***CFDA*** 93.283

| | |
|---|---|
| U.S. Department of Health and Human Services | *CFDA* 93.069: Public Health Emergency Preparedness |
| Award Number:<br>5U90TP517018-08 | Award Period:<br>08/31/2007 - 08/09/2008 |
| | Questioned Costs: $0 |

| | |
|---|---|
| U.S. Department of Health and Human Services | *CFDA* 93.283: Centers for Disease Control and Prevention - Investigations and Technical Assistance |
| Award Number:<br>CCU517018-06<br>CCU517018-07 | Award Period:<br>08/31/2005 - 08/30/2006<br>08/31/2006 - 08/30/2007 |
| | Questioned Costs: $0 |

DCH's internal control over the Centers for Disease Control and Prevention - Investigations and Technical Assistance (CDC Program) did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of CDC Program awards.

The objective of the CDC Program is to assist state, local, and other health agencies in controlling communicable diseases, chronic diseases and disorders, and other preventable health conditions. The CDC Program consisted of 17 subprograms during the audit period, including the Public Health Preparedness and Response for Bioterrorism Program (Bioterrorism Program). The federal government moved this subprogram from *CFDA* 93.283 to *CFDA* 93.069 during the audit period.

Federal expenditures for the CDC Program totaled $96.0 million for the two-year period ended September 30, 2007, including $44.7 million that was distributed to 120 subrecipients.

DCH did not monitor its Bioterrorism Program subrecipients' compliance with federal requirements. DCH did not review documentation that supports the expenditures reported by its Bioterrorism Program subrecipients, which is

necessary for effective monitoring of allowable costs/cost principles, cash management, and period of availability of federal funds requirements.

Federal regulation 45 *CFR* 92.40 and OMB Circular A-133, section 400(d)(3) require DCH to monitor the operations of its subrecipients to ensure compliance with applicable federal program requirements. Effective monitoring of subrecipients by DCH can be accomplished by using various methods, depending on the nature and timing of the compliance requirement.

The Bioterrorism Program was the largest of the 17 subprograms within the CDC Program. Federal expenditures totaled $59.3 million for the Bioterrorism Program for the two-year period ended September 30, 2007, including $37.8 million that was distributed to 77 subrecipients.

## RECOMMENDATION

We recommend that DCH improve its internal control over the CDC Program to ensure compliance with federal laws and regulations regarding subrecipient monitoring.

## FINDING (3910812)

12. Temporary Assistance for Needy Families (TANF), ***CFDA*** 93.558

| U.S. Department of Health and Human Services | *CFDA* 93.558: Temporary Assistance for Needy Families |
|---|---|
| Award Number:<br>G 05 01 MI TANF<br>G 06 02 MI TANF<br>0701MISOSR | Award Period:<br>10/01/2004 - 09/30/2006<br>10/01/2005 - 09/30/2007<br>10/01/2006 - 09/30/2008 |
| Pass-Through Entity:<br>Michigan Department of Human Services | Questioned Costs: $0 |

DCH's internal control over TANF did not ensure compliance with federal laws and regulations regarding eligibility.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of TANF awards.

DCH administers TANF's Family Support Subsidy Program as a subrecipient of the Department of Human Services (DHS). The Family Support Subsidy Program provides cash assistance (benefits) to families of children with severe disabilities. These families visit their local community mental health services programs (CMHSPs) to apply for TANF's Family Support Subsidy Program benefits.

CMHSPs determine applicant eligibility through the verification of applicant eligibility requirements to supporting documentation. CMHSPs forward the eligible applicants' completed applications to DCH and retain the supporting documentation. DCH reviews the application for completeness and, if all sections were properly completed, initiates monthly TANF payments to the applicant.

The interagency agreement between DHS and DCH requires that documentation determining eligibility be retained for seven years. DCH is responsible for ensuring compliance with documentation and eligibility determination program requirements.

Federal expenditures for TANF totaled $35.7 million for the two-year period ended September 30, 2007.

Our review of DCH's compliance with eligibility requirements disclosed:

a. DCH did not ensure that CMHSPs obtained and maintained case file documentation to support the recipients' eligibility for TANF.

   For 5 (7%) of 68 randomly selected case files, we noted that documentation required to support the recipient's eligibility was missing from the file. Subsequently, the CMHSPs either located the missing documentation or acquired it from an external source, including the recipients themselves, related to 4 of the 5 case files. For the remaining case, the CMHSP was unable to provide the supporting documentation, but DCH obtained information from within its Division for Vital Records that supported the recipient's eligibility.

b. DCH did not monitor the appropriateness of eligibility determinations made by the CMHSPs for the first 22 months of our audit period. As a result, DCH did not ensure that recipients were eligible for the program.

DCH implemented a process in August 2007 to test a sample of eligibility determinations made by selected CMHSPs each month.

## RECOMMENDATION

We recommend that DCH implement internal control over TANF to ensure compliance with federal laws and regulations regarding eligibility.

## FINDING (3910813)

13. State Children's Insurance Program (SCHIP), ***CFDA*** 93.767

| U.S. Department of Health and Human Services | *CFDA* 93.767: State Children's Insurance Program |
|---|---|
| Award Number:<br>05-0605MI5021<br>05-0705MI5021 | Award Period:<br>10/01/2005 - 09/30/2006<br>10/01/2006 - 09/30/2007 |
| | Questioned Costs: $23,023,640 |

| U.S. Department of Health and Human Services | *CFDA* 93.777 and 93.778: Medicaid Cluster |
|---|---|
| Award Number:<br>05-0605MI5048<br>05-0705MI5048 | Award Period:<br>10/01/2005 - 09/30/2006<br>10/01/2006 - 09/30/2007 |
| | Questioned Costs: ($18,711,112) |

DCH's internal control over SCHIP did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring. Our review disclosed material weaknesses in internal control and material noncompliance with federal laws and regulations regarding allowable costs/cost principles. As a result, we issued a qualified opinion on compliance with federal laws and regulations related to allowable costs/cost principles for SCHIP.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of SCHIP awards.

SCHIP initiates and expands health care coverage primarily to certain uninsured, low-income children. SCHIP consists of the Adult Benefits Waiver (ABW) Program, MIChild Program, Healthy Kids Medicaid Expansion (HKME), and Maternity Outpatient Medical Services (MOMS).

SCHIP eligibility requirements are similar to Medicaid eligibility requirements. Services provided to SCHIP beneficiaries under the ABW Program, HKME, and MOMS are generally eligible for funding under Medicaid. However, DCH receives an enhanced funding rate from the federal government for SCHIP beneficiaries as compared to the standard Medicaid funding rate. DCH charges expenditures to SCHIP based on health care coverage costs attributed to the specific beneficiaries identified by DCH as meeting the ABW Program, MIChild Program, HKME, or MOMS requirements. DCH relies on DHS, a subrecipient, to determine eligibility for ABW and HKME populations.

During the two-year audit period, DCH expended federal funds totaling $351.6 million to provide health care coverage each month to approximately 47,000 children and 61,000 adults. We reported known questioned costs totaling $23,023,640 pertaining to SCHIP and known negative questioned costs totaling $18,711,112 pertaining to the Medicaid Cluster.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DCH did not base its claim for federal reimbursement of HKME expenditures on only actual expenditures, as required by federal regulation.

Federal regulation 42 *CFR* 457.630 requires that the federal dollar amount claimed for reimbursement by DCH be a summary of actual expenditures. Claims developed through the use of sampling, projections, or other estimating techniques are considered estimates and are not allowable.

For the first 15 months of the two-year audit period, DCH used a ratio projection to estimate an amount of HKME expenditures from within a certain age and income segment of the Medicaid population. The Centers for Medicare and Medicaid Services (CMS) informed DCH that this method was not an acceptable alternative in May 2004. However, DCH continued to use a combination of estimated and actual HKME beneficiaries' expenditures for federal reimbursement purposes through December 2006. HKME federal expenditures reported by DCH for the 15-month period that were based on estimates totaled $23,023,640, which we reported as known questioned costs. Also, we reported known negative questioned costs of $18,711,112 pertaining to the Medicaid Cluster, which represents the amount of federal expenditures

DCH would have charged to the Medicaid Cluster had it not obtained the enhanced funding rate under SCHIP.

b. Subrecipient Monitoring

DCH did not monitor DHS's eligibility determinations for the ABW Program or HKME and did not ensure that it obtained complete and accurate information from DHS regarding beneficiaries who are eligible for HKME.

OMB Circular A-133 requires DCH to monitor its subrecipients' compliance with program requirements and applicable laws and regulations. Effective monitoring of subrecipients by DCH can be accomplished by using various methods, depending on the nature and timing of the compliance requirement.

Our review of DCH's monitoring of DHS disclosed:

(1) DCH did not monitor DHS's eligibility determinations for the ABW Program or HKME. Also, although DCH's interagency agreement with DHS provided for DHS to make eligibility determinations for HKME, the interagency agreement did not specify DHS's responsibilities for making eligibility determinations for the ABW Program. The agreement also did not specify the federal and other requirements with which DCH expects DHS to comply. In addition, the agreement did not specify that DHS must allow DCH to monitor DHS's compliance with the agreement.

Specifying compliance requirements, monitoring rights, and sanctions for noncompliance within the agreement would help DCH ensure that subrecipients comply with federal and other requirements.

We noted a similar condition in our prior Single Audit.

(2) DCH did not determine the reasonableness of the decrease of federal expenditures that DCH attributed to SCHIP's HKME-eligible beneficiaries. Consequently, DCH could not conclude whether its subreceipient's identification of HKME-eligible beneficiaries was complete and accurate.

As reported in part a. of this finding, for the first 15 months of the two-year audit period, DCH obtained reimbursement from the federal government based on a combination of estimated and actual HKME expenditures.

DCH stated that it required DHS to implement a methodology, beginning in July 2005, that would specifically identify HKME-eligible beneficiaries within DCH's Medicaid Management Information System using a unique identifier code. The implementation was to coincide with each beneficiary's annual eligibility redetermination and, therefore, should have been completed by July 2006. However, DCH did not fully implement its new methodology until January 2007. Under the new methodology, which was used during the last 9 months of the audit period, federal expenditures that DCH attributed to SCHIP's HKME-eligible beneficiaries decreased by an average of 55%, which equated to $61.4 million when applied to the first 15 months of the audit period.

## RECOMMENDATIONS

We recommend that DCH improve its internal control over SCHIP to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

WE AGAIN RECOMMEND THAT DCH IMPROVE ITS INTERNAL CONTROL OVER SCHIP TO ENSURE COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING SUBRECIPIENT MONITORING.

## FINDING (3910814)

14. Medicaid Cluster, ***CFDA*** 93.777 and 93.778, Special Tests and Provisions

| U.S. Department of Health and Human Services | *CFDA* 93.777 and 93.778: Medicaid Cluster |
|---|---|
| Award Number: | Award Period: |
| 05-0405MI0528 | 10/01/2003 - 09/30/2004 |
| 05-0505MI0528 | 10/01/2004 - 09/30/2005 |
| 05-0605MI5028 | 10/01/2005 - 09/30/2006 |
| 05-0705MI5028 | 10/01/2006 - 09/30/2007 |
| 05-0405MI5048 | 10/01/2003 - 09/30/2004 |
| 05-0505MI5048 | 10/01/2004 - 09/30/2005 |
| 05-0605MI5048 | 10/01/2005 - 09/30/2006 |
| 05-0705MI5048 | 10/01/2006 - 09/30/2007 |
| | Questioned Costs: $40,127,970 |

DCH did not ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to Medicaid-funded DSH payments for State psychiatric hospitals. Also, DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to the licensing of some medical providers. Because the noncompliance noted in this finding and in Findings 15 through 20 was collectively material to the Medicaid Cluster, we issued a qualified opinion on compliance with federal laws and regulations for the Medicaid Cluster.

Noncompliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Medicaid Cluster awards.

Federal expenditures for the Medicaid Cluster totaled $10.4 billion for the two-year period ended September 30, 2007. We reported known questioned costs totaling $40,127,970 and known and likely questioned costs totaling $40,129,564.

Our review of the Medicaid Cluster relating to hospital certification and provider licensure during the audit period disclosed:

a. DCH made Medicaid-funded DSH payments of $67.5 million to the Center for Forensic Psychiatry (CFP) during our audit period. To qualify for Medicaid-funded DSH payments, federal regulation 42 *CFR* 482.1(a)(5) requires that hospitals obtain CMS certification. Also, federal regulation 42 *CFR* 431.107 requires that a Medicaid state plan provide for an agreement

between DCH and CFP. However, CFP had not received the required CMS certification or entered into a provider agreement with DCH. As a result, we identified the federal portion of these payments as known questioned costs that totaled $38,134,427.

We noted this same condition in our prior Single Audit. In its corrective action plan for the prior Single Audit, DCH disagreed that it made ineligible DSH payments to CFP. DCH stated that it believed that federal requirements give the State substantial discretion in establishing criteria for DSH eligibility and that DCH believed that CFP qualified for DSH funding under the federal requirements.

Because CFP had not obtained the required certification or entered into a provider agreement with DCH, DCH needs to obtain clarification and resolution from the federal government regarding eligibility for Medicaid-funded DSH payments for CFP.

b. DCH made Medicaid payments to medical providers whose licenses were not issued in accordance with State licensing requirements:

(1) DCH issued licenses to 308 medical providers without conducting a criminal history background check, as required by State law, for Medicaid providers who were granted a license on or after May 1, 2006.

Our review also disclosed that DCH subsequently made Medicaid payments totaling $3.4 million during the audit period to these improperly licensed providers. As a result, we identified the federal portion of these payments as known questioned costs that totaled $1,939,949.

(2) DCH made Medicaid payments to medical providers that had not renewed their State medical licenses. DCH did not have procedures in place to ensure that providers remained licensed after the initial provider enrollment license verification. Our review of Medicaid providers receiving payments during the audit period disclosed that DCH made improper payments of $94,930 to 30 providers that were unlicensed when services were rendered. As a result, we reported known questioned costs that totaled $53,594 and known and likely questioned costs that totaled $55,188.

DCH's Medicaid State Plan assured the federal government that all providers of health care met State licensing requirements.

We noted this same condition in our prior Single Audit.

## RECOMMENDATIONS

WE AGAIN RECOMMEND THAT DCH ENSURE COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING SPECIAL TESTS AND PROVISIONS PERTAINING TO DSH PAYMENTS FOR STATE PSYCHIATRIC HOSPITALS.

We also recommend that DCH obtain clarification and resolution from the federal government regarding eligibility for Medicaid-funded DSH payments for CFP.

We further recommend that DCH ensure compliance with federal laws and regulations regarding special tests and provisions pertaining to licensing of medical providers.

## FINDING (3910815)

15. Medicaid Cluster, ***CFDA*** 93.777 and 93.778, Allowable Costs/Cost Principles - Omnibus

| U.S. Department of Health and Human Services | *CFDA* 93.777 and 93.778: Medicaid Cluster |
|---|---|
| Award Number: | Award Period: |
| 05-0405MI0528 | 10/01/2003 - 09/30/2004 |
| 05-0505MI0528 | 10/01/2004 - 09/30/2005 |
| 05-0605MI5028 | 10/01/2005 - 09/30/2006 |
| 05-0705MI5028 | 10/01/2006 - 09/30/2007 |
| 05-0405MI5048 | 10/01/2003 - 09/30/2004 |
| 05-0505MI5048 | 10/01/2004 - 09/30/2005 |
| 05-0605MI5048 | 10/01/2005 - 09/30/2006 |
| 05-0705MI5048 | 10/01/2006 - 09/30/2007 |
| | Questioned Costs: $866,501 |

DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Medicaid Cluster awards.

Appendix A, section C of federal regulation 2 *CFR* 225 states that program costs must conform to any limitations or exclusions set forth in federal laws, regulations, and awards. Appendix A, section C of federal regulation 2 *CFR* 225 requires costs charged to federal programs to be reasonable in nature and amount, which includes restraints or requirements imposed by laws and regulations, sound business practices, and terms and conditions of the federal award. This section also requires that costs charged to a federal program be supported by adequate documentation.

Federal expenditures for the Medicaid Cluster totaled $10.4 billion for the two-year period ended September 30, 2007. We reported known questioned costs totaling $866,501.

Our review of Medicaid expenditures regarding allowable costs/cost principles during the audit period disclosed:

a. DCH did not complete cost settlements with Medicaid providers in a timely manner. This resulted in lost interest earnings for the State and federal governments and numerous hospitals and increased the risk that DCH will be unable to collect amounts that may have been overpaid to hospitals.

   DCH issues Medicaid interim payments (MIPs) and capital interim payments (CIPs) to approximately 165 inpatient hospitals that volunteered to receive such payments as an alternative to receiving payments for actual claims received and processed by DCH weekly. DCH bases MIPs and CIPs on each hospital's most recent available annual cost data and issues MIPs and CIPs on a biweekly basis.

   After the close of each hospital's cost reporting period, which is generally one year, DCH reconciles MIPs to submitted claims during two scheduled preliminary MIP reconciliations. At final settlement, DCH again reconciles MIPs, along with CIPs, to the hospital's actual cost data. DCH approves approximately 95% of provider claims within one year of the date that a medical service was provided. The final settlement determines the State's

final overpayment or underpayment to each hospital by comparing the hospital's total MIPs and CIPs to actual costs as reported in the hospital's Medicaid cost report package. DCH cost settlements for some hospitals can encompass numerous annual cost reporting periods within the same State fiscal year.

As of July 2007, DCH had unsettled cost years dating back to fiscal year 1998-99. For settlements occurring during fiscal year 2005-06, DCH's settlement delay average, by hospital, ranged from 33 months to 104 months (2.8 years to 8.6 years) and averaged 51 months (4.3 years). For settlements that occurred during fiscal year 2006-07, DCH's settlement delay average by hospital, ranged from 34 months to 85 months (2.8 years to 7.1 years) and averaged 61 months (5.1 years).

Our review of DCH's cost settlement process during the audit period disclosed:

(1) During fiscal year 2005-06, DCH made 422 final settlements with 112 providers. The settlements disclosed that 64 providers owed DCH a total of $6.9 million. Amounts owed by individual providers were as much as $1.2 million and averaged $107,000. The settlements also disclosed that DCH owed 86 providers a total of $11.7 million. Amounts owed to individual providers were as much as $2.0 million and averaged $136,000.

    Delays in cost settlements resulted in net interest lost to the State and federal governments of approximately $788,000 (approximately $342,000 General Fund/general purpose) from 47 hospitals. We reported known questioned costs totaling $445,931 for the one-year period ended September 30, 2006. In addition, these delays resulted in net interest lost of approximately $1,293,000 by 58 hospitals that DCH identified through the settlement process as being owed additional funds.

(2) During fiscal year 2006-07, DCH made 206 final settlements with 87 providers. The settlements disclosed that 49 providers owed DCH a total of $3.5 million. Amounts owed by individual providers were as much as $670,000 and averaged $71,000. The settlements also disclosed that

DCH owed 54 providers a total of $2.7 million. Amounts owed to individual providers were as much as $518,000 and averaged $49,000.

Delays in cost settlements resulted in net interest lost to the State and federal governments of approximately $746,000 (approximately $325,000 General Fund/general purpose) from 45 hospitals. We reported known questioned costs totaling $420,570 for the one-year period ended September 30, 2007. In addition, these delays resulted in net interest lost of approximately $415,000 by 40 hospitals that DCH identified through the settlement process as being owed additional funds.

Delays in identification and collection of amounts owed to the State increased the risk that DCH will be unable to collect amounts that may have been overpaid. For example, DCH may lose the ability to receive full reimbursement from bankrupt hospitals.

The untimely cost settlements have also resulted in lost interest in the years prior to our audit period. For settlements completed from fiscal year 1999-2000 through fiscal year 2004-05, these delays have resulted in net interest lost to the State and federal governments of $13.8 million ($6.1 million General Fund/general purpose) from 115 hospitals. In addition, these delays resulted in net interest lost of $6.7 million by 71 hospitals that DCH identified through the settlement process as being owed additional funds.

b. DCH's process for maintaining the Medicaid Sanctioned Providers List did not ensure that it contained all providers having past and current associations with health professionals and other providers that were shown to have threatened the fiscal integrity of Medicaid.

Federal laws and regulations, State laws, and DCH's Medicaid Provider Manual provide DCH with broad latitude regarding the refusal to enroll, or the ability to disenroll, providers that provide inappropriate services, fail to conform to professionally accepted standards or billing actions, or threaten the fiscal integrity of Medicaid. DCH maintains the Sanctioned Providers List to help track providers not authorized to participate in Medicaid because of audits and investigations conducted by DCH and the U.S. Department of Health and Human Services. The list includes health professionals who had their licenses terminated or suspended by a state medical health board's disciplinary

subcommittee (DSC) and health professionals who voluntarily surrendered their licenses because of DSC efforts.

DCH's Program Investigation Section identified several providers that received significant amounts of improper payments. However, our audit determined that DCH had not added some of these providers to the Sanctioned Providers List. Our audit also disclosed that many health professionals may be enrolled in Medicaid under multiple Medicaid provider numbers. Consequently, whenever DCH determines that it should add a health professional to the Sanctioned Providers List, it needs to ensure that it includes all Medicaid provider numbers associated with that health professional.

For example, we identified a health professional who a DSC determined to have violated State laws during the audit period. The health professional's law violations included a violation of the general duty statutory requirement (consisting of negligence or failure to exercise due care) and unethical business practice (consisting of fraud or deceit in obtaining or attempting to obtain third party reimbursement). In fiscal year 2002-03, prior to the DSC's disciplinary action, DCH completed a postpayment audit of a provider that was owned by the health professional and determined that the provider received $370,000 in improper payments from 1998 through 2001. The $370,000 represented 20% of the $1.9 million paid to the provider for Medicaid services during the same period.

Also, in 1994, the U.S. Department of Health and Human Services sanctioned a provider, which was owned by the same health professional, for program-related violations. The health professional subsequently created another provider entity and reenrolled into Medicaid. Although DCH included the sanctioned provider on its Sanctioned Providers List, the list did not include the owner's subsequent provider entity.

Although the health professional and the providers owned by the health professional had a pattern of material noncompliance with Medicaid requirements, DCH did not disenroll the provider for these inappropriate practices and the provider currently provides Medicaid services. From November 1, 2000 through September 30, 2007, the provider received Medicaid payments that totaled $10.2 million, including $3.3 million that DCH paid the provider during our audit period.

c. DCH needs to improve internal control over contract payments to prepaid inpatient health plans (PIHPs) (see Finding 4). DCH did not have a process to ensure that contracts and contract amendments were signed by all parties prior to issuing payments for the contracts. Also, we noted that DCH made payments under three new rate schedules during our audit period before the contract amendment incorporating the new rate schedule was signed by DCH and the PIHP.

## RECOMMENDATION

We recommend that DCH improve its internal control over the Medicaid Cluster to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

## FINDING (3910816)

16. Medicaid Cluster, ***CFDA*** 93.777 and 93.778, Allowable Costs/Cost Principles - Disproportionate Share Hospital (DSH) Pools

| U.S. Department of Health and Human Services | *CFDA* 93.777 and 93.778: Medicaid Cluster |
|---|---|
| Award Number: | Award Period: |
| 05-0405MI0528 | 10/01/2003 - 09/30/2004 |
| 05-0505MI0528 | 10/01/2004 - 09/30/2005 |
| 05-0605MI5028 | 10/01/2005 - 09/30/2006 |
| 05-0705MI5028 | 10/01/2006 - 09/30/2007 |
| 05-0405MI5048 | 10/01/2003 - 09/30/2004 |
| 05-0505MI5048 | 10/01/2004 - 09/30/2005 |
| 05-0605MI5048 | 10/01/2005 - 09/30/2006 |
| 05-0705MI5048 | 10/01/2006 - 09/30/2007 |
| | Questioned Costs: $275,293 |

DCH's internal control over the Medicaid Cluster related to DSH pools did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Medicaid Cluster awards.

Federal expenditures for the Medicaid Cluster totaled $10.4 billion for the two-year period ended September 30, 2007. We reported known questioned costs totaling $275,293.

In the 1980s, Congress enacted changes to Medicaid that required states to increase the payments (DSH payments) made to hospitals serving a disproportionately high number of Medicaid eligible or low-income uninsured patients. The Medicaid State Plan created various DSH pools, which included regular inpatient hospital, indigent care agreement (ICA), Institute for Mental Disease, and government provider pools.

Federal regulations limit the amount of each hospital's DSH payments to the costs incurred by the hospital during the year of furnishing hospital services to persons who either are eligible for medical assistance under the Medicaid State Plan or have no health insurance for services provided during the year. To ensure that hospitals do not receive DSH payments in excess of this amount, DCH calculates an annual DSH ceiling amount for each eligible hospital. The DSH ceiling is the maximum share of DSH payments any eligible hospital can receive. To establish the DSH ceiling, DCH uses information from sources that include prior cost reports, cost-to-charge ratios, cost inflation information, and volume and payment trends.

Our review of Medicaid expenditures during the audit period noted:

a. DCH inappropriately billed and received federal reimbursement from the government provider DSH pool.

   After establishing each eligible hospital's DSH ceiling, DCH determines each hospital's share of the government provider DSH pool by subtracting payments received from any of the other DSH pools. The total DSH allotment for all eligible hospitals was $441.1 million for fiscal year 2005-06. During fiscal year 2005-06, the government provider DSH pool was created for 18 non-State-owned or non-State-operated hospitals. DCH claimed $74.1 million for the 18 hospitals in the government provider DSH pool.

   DCH incorrectly used outdated cost information for one hospital in its calculation of the eligible hospitals' DSH ceilings. As a result, DCH inaccurately calculated the government provider DSH pool and, consequently,

inappropriately received federal reimbursement of $275,293 for fiscal year 2005-06, which we reported as questioned costs.

b. DCH's internal control did not prevent errors in the calculation of DSH payments to State psychiatric hospitals. As a result, DCH's fiscal year 2005-06 allocation of DSH payments to each of the State psychiatric hospitals was incorrect. Total DSH payments to State psychiatric hospitals for each of fiscal years 2005-06 and 2006-07 were $141.9 million.

   Because of complexities involved in calculating the costs of Medicaid services provided to Medicaid participants (direct costs, indirect costs, standard costs, allocated costs, etc.), DCH stated that its State psychiatric hospitals' cost accounting systems cannot determine the actual costs of providing medical services to Medicaid participants. In the absence of actual Medicaid cost information, DCH has established a process to estimate the cost of providing Medicaid services to Medicaid participants. The process involves the calculation of a cost-to-charge ratio for each hospital.

   DCH calculates each hospital's cost-to-charge ratio by dividing each hospital's total routine and ancillary costs by the hospital's total routine and ancillary charges. DMB then uses the cost-to-charge ratio to calculate the maximum DSH payment a hospital can receive.

   DCH failed to include ancillary costs and charges in its fiscal year 2005-06 cost-to-charge ratio. Although the total amount of these DSH payments did not change because of DCH's failure to include ancillary costs and charges, the amounts paid to each individual hospital were incorrect.

   We noted a similar condition in our prior Single Audit.

c. DCH's internal control did not ensure compliance with the Medicaid State Plan for payments from the ICA DSH pool. In fiscal year 2006-07, DCH made ICA DSH payments of $51.2 million to one hospital, although an approved ICA was not in place until two months after the payments were made.

   Federal law 42 *USC* 1396a requires DCH to administer Medicaid under a state plan approved by CMS. The Medicaid State Plan, which is approved by the U.S. Department of Health and Human Services, created a special DSH pool

for geographic areas covered by an ICA. An ICA is an agreement between a hospital and a health care related entity located in the hospital's geographic area. The ICA must be in place and must stipulate that direct or indirect services are provided to low-income patients with special needs who are not covered under other public or private health care programs. For each of fiscal years 2005-06 and 2006-07, the federally approved ICA DSH pool totaled $158.2 million.

## RECOMMENDATION

WE AGAIN RECOMMEND THAT DCH IMPROVE ITS INTERNAL CONTROL OVER THE MEDICAID CLUSTER RELATED TO DSH POOLS TO ENSURE COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING ALLOWABLE COSTS/COST PRINCIPLES.

## FINDING (3910817)

17. Medicaid Cluster, ***CFDA*** 93.777 and 93.778, Allowable Costs/Cost Principles - Pharmacy Rebates

| U.S. Department of Health and Human Services | *CFDA* 93.777 and 93.778: Medicaid Cluster |
|---|---|
| Award Number:<br>05-0405MI0528<br>05-0505MI0528<br>05-0605MI5028<br>05-0705MI5028<br>05-0405MI5048<br>05-0505MI5048<br>05-0605MI5048<br>05-0705MI5048 | Award Period:<br>10/01/2003 - 09/30/2004<br>10/01/2004 - 09/30/2005<br>10/01/2005 - 09/30/2006<br>10/01/2006 - 09/30/2007<br>10/01/2003 - 09/30/2004<br>10/01/2004 - 09/30/2005<br>10/01/2005 - 09/30/2006<br>10/01/2006 - 09/30/2007 |
| | Questioned Costs: ($130,923) |

| U.S. Department of Health and Human Services | *CFDA* 93.767: State Children's Insurance Program |
|---|---|
| Award Number:<br>05-0605MI5021<br>05-0705MI5021 | Award Period:<br>10/01/2005 - 09/30/2006<br>10/01/2006 - 09/30/2007 |
| | Questioned Costs: $161,046 |

DCH's internal control over the Medicaid Cluster and SCHIP related to pharmacy rebates did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Medicaid Cluster and SCHIP awards.

Federal expenditures for the Medicaid Cluster totaled $10.4 billion for the two-year period ended September 30, 2007. We reported known negative questioned costs totaling $130,923 pertaining to the Medicaid Cluster. We also reported known questioned costs totaling $161,046 pertaining to SCHIP.

Section 1927(a)(1) of the Social Security Act requires pharmaceutical companies to enter into rebate agreements with the federal government if the company intends its drugs to be prescribed for beneficiaries of Medicaid and other programs. A rebate is payment to DCH by pharmaceutical companies for prescribed drugs provided to beneficiaries and paid for by the federal programs. Each specific drug has a specific rebate amount, which is agreed upon by the federal government and each pharmaceutical company. DCH's pharmacy benefits manager (PBM) reports which specific drugs were obtained by beneficiaries to the federal government and DCH. DCH stores the drug and beneficiary data in its data warehouse.

DCH's PBM uses the agreed-upon rebate amount and drug and beneficiary data to bill each pharmaceutical company on behalf of DCH for the rebates owed to DCH. Each pharmaceutical company subsequently remits payment to DCH. The documentation pertaining to the payment is provided to the PBM so that the PBM can maintain control over amounts billed to and received from each pharmaceutical company.

Our review of the Medicaid pharmacy rebates during the audit period disclosed:

a. DCH did not have procedures in place to ensure that rebates billed by the PBM to drug manufacturers on behalf of DCH were reasonable. DCH received pharmacy rebates totaling $437.3 million during the two-year period ended September 30, 2007. Because of complexities pertaining to program data, rebates received by the State are not identifiable to the program that initially purchased the drugs. Consequently, DCH established a process to

distribute rebates back to appropriate programs by calculating distribution percentages using information provided by the PBM.

b. DCH did not distribute pharmacy rebates received by DCH to the proper federal program. We noted:

(1) During fiscal year 2005-06, DCH incorrectly distributed pharmacy rebates attributable to SCHIP to the Medicaid Cluster. As a result, we reported the improper rebate distributions as known negative questioned costs of $130,923 pertaining to the Medicaid Cluster and known questioned costs of $161,046 pertaining to SCHIP.

(2) During fiscal year 2006-07, DCH incorrectly distributed pharmacy rebates between Medicaid Cluster program cost accounts. As a result, the affected program managers operated their program areas with incorrect financial information.

DCH used program cost accounts to track pharmacy expenditures and rebates for five Medicaid program areas (Title XIX, Healthy Kids, Plan First Contraceptives, Plan First Noncontraceptives, and Children's Special Health Care Services [CSHCS]).

An unidentified PBM error caused DCH to incorrectly distribute $4.4 million in rebates to the Medicaid Title XIX program cost account instead of the CSHCS program cost account. Consequently, the affected program managers operated their programs with incorrect financial information. The $4.4 million reduction to the CSHCS program area represented a 23% decrease from the $19.5 million the CSHCS program area should have received.

## RECOMMENDATION

We recommend that DCH improve its internal control over the Medicaid Cluster and SCHIP related to pharmacy rebates to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

## FINDING (3910818)

18. Medicaid Cluster, ***CFDA*** 93.777 and 93.778, Allowable Costs/Cost Principles - Medicare Part A and Part B

| U.S. Department of Health and Human Services | *CFDA* 93.777 and 93.778: Medicaid Cluster |
|---|---|
| Award Number: | Award Period: |
| 05-0405MI0528 | 10/01/2003 - 09/30/2004 |
| 05-0505MI0528 | 10/01/2004 - 09/30/2005 |
| 05-0605MI5028 | 10/01/2005 - 09/30/2006 |
| 05-0705MI5028 | 10/01/2006 - 09/30/2007 |
| 05-0405MI5048 | 10/01/2003 - 09/30/2004 |
| 05-0505MI5048 | 10/01/2004 - 09/30/2005 |
| 05-0605MI5048 | 10/01/2005 - 09/30/2006 |
| 05-0705MI5048 | 10/01/2006 - 09/30/2007 |
| | Questioned Costs: $0 |

DCH's internal control over the Medicaid Cluster related to Medicare Part A and Part B did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Medicaid Cluster awards.

Federal regulation 42 *CFR* 407.40 allows states to pay the Medicare health insurance premiums on behalf of persons who are eligible for both Medicare and Medicaid (dual eligible), such as persons who receive Supplemental Security Income (SSI) or are Consolidated Omnibus Budget Reconciliation Act (COBRA) widow(er)s. Under this arrangement, Medicaid's cost per dual eligible beneficiary is limited to the Medicare health insurance premium rather than the actual medical costs that may have been paid using Medicaid funding. The Medicare premium payments are an allowable cost for Medicaid.

CMS matches its database of Medicare eligible persons against DCH's database of Medicaid eligible persons to identify dual eligible beneficiaries on a monthly basis. CMS then sends the database of matched dual eligible beneficiaries to DCH. DCH subsequently reviews this data for accuracy and uses the data to update its own database. CMS invoices DCH for the cost of the Medicare Part A and Part B premiums associated with dual eligible beneficiaries.

DCH did not ensure that invoices received from CMS for Medicare Part A and Part B premiums were reasonable. DCH did not reconcile or perform a test of reasonableness on the amount billed using the data in its own database. Although DCH reconciled CMS's database in terms of the number of dual eligible beneficiaries, DCH did not ensure the reasonableness of the CMS invoices by comparing the invoices to the underlying reconciled CMS and DCH data.

Medicaid expenditures for Medicare Part A premiums totaled $157.1 million for the two-year period ended September 30, 2007 for approximately 16,000 eligible beneficiaries. Medicaid expenditures for Medicare Part B premiums totaled $397.2 million for the two-year period ended September 30, 2007 for approximately 180,000 eligible beneficiaries.

## RECOMMENDATION

We recommend that DCH improve its internal control over the Medicaid Cluster related to Medicare Part A and Part B to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

## FINDING (3910819)

19. Medicaid Cluster, ***CFDA*** 93.777 and 93.778, Allowable Costs/Cost Principles - Third Party Liabilities

| U.S. Department of Health and Human Services | *CFDA* 93.777 and 93.778: Medicaid Cluster |
|---|---|
| Award Number: | Award Period: |
| 05-0405MI0528 | 10/01/2003 - 09/30/2004 |
| 05-0505MI0528 | 10/01/2004 - 09/30/2005 |
| 05-0605MI5028 | 10/01/2005 - 09/30/2006 |
| 05-0705MI5028 | 10/01/2006 - 09/30/2007 |
| 05-0405MI5048 | 10/01/2003 - 09/30/2004 |
| 05-0505MI5048 | 10/01/2004 - 09/30/2005 |
| 05-0605MI5048 | 10/01/2005 - 09/30/2006 |
| 05-0705MI5048 | 10/01/2006 - 09/30/2007 |
| | Questioned Costs: ($12,544) |

DCH's internal control over the Medicaid Cluster related to third party liabilities did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Medicaid Cluster awards.

Federal expenditures for the Medicaid Cluster totaled $10.4 billion for the two-year period ended September 30, 2007. We reported known negative questioned costs totaling $12,544 and known and likely negative questioned costs totaling $71,115.

Medicaid is required to be the payer of last resort for medical services provided to eligible beneficiaries, which means that Medicaid should pay only after other third party sources, such as other health insurance companies, have met their legal obligation to pay. Federal regulation 42 *CFR* 433.138 requires DCH to develop a methodology for identifying third parties, determining the third party liabilities, and recovering reimbursement from third parties for services paid for under the Medicaid State Plan.

Our review of DCH's recovery of third party liabilities during the audit period disclosed:

a. DCH made excessive recoveries from providers for medical services.

   DCH subcontracts with an outside vendor that conducts postpayment reviews of the State's medical services paid for by Medicaid to identify third party liabilities. DCH recovers the identified Medicaid overpayment amounts from providers by reducing providers' future Medicaid payments (gross adjustments).

   DCH made approximately $588,000 in third party liability gross adjustments from providers for the two-year audit period. Our review of 31 third party liability gross adjustments totaling approximately $104,000 disclosed that DCH reduced Medicaid payments in excess of the identified third party liability for 2 (6%) providers. As a result, DCH recovered amounts totaling $22,206 that exceeded what the providers owed DCH. We reported the federal share of these amounts as known negative questioned costs that totaled $12,544 and known and likely negative questioned costs that totaled $71,115.

b. DCH did not have sufficient controls in place to ensure that Medicaid was the payer of last resort, as reported in our performance audit of the Court

Originated Liability Section (COLS), Medical Services Administration, Department of Community Health (391-0702-05). The audit reported the following control deficiencies, all of which were considered to be material conditions:

(1) The COLS's Paternity Unit did not coordinate with applicable State and local offices to ensure that the Wayne County Friend of the Court requested and sought reimbursement for the pregnancy and birthing-related Medicaid costs for Wayne County recipients involved in child support actions. The Unit missed an opportunity for potential Medicaid cost recoveries totaling up to an estimated $114.8 million (see Finding 1 and the related recommendation in that report).

(2) The COLS's Paternity Unit did not include some pregnancy and birthing-related Medicaid costs for mothers with nonmarital births on the reports provided to the governmental agencies involved in recovering the costs for Medicaid from the children's fathers. The Unit either missed or may miss an opportunity for potential Medicaid cost recoveries totaling up to an estimated $28.5 million and $16.6 million, respectively (see Finding 2 and the related recommendations in that report).

(3) The COLS's Paternity Unit did not have controls to ensure that it answered the requests of local prosecuting attorney and Friend of the Court offices for selected Medicaid recipients' pregnancy and birthing-related Medicaid costs. The Unit missed an opportunity for potential Medicaid cost recoveries totaling up to an estimated $29.3 million (see Finding 3 and the related recommendations in that report).

(4) The COLS's Paternity Unit did not coordinate with the applicable State and local offices to end the practice of establishing countywide limits on the amount of court-ordered reimbursement sought for pregnancy and birthing-related Medicaid costs. The Unit missed potential Medicaid cost recoveries totaling an estimated $2.6 million (see Finding 4 and the related recommendation in that report).

(5) The COLS's Casualty Unit did not use State motor vehicle and workers' compensation files to identify recipients with Medicaid costs related to injuries sustained in motor vehicle accidents or at work. The Unit missed

potential Medicaid cost recoveries totaling an estimated $10.6 million (see Finding 6 and the related recommendation in that report).

(6) The COLS's Casualty Unit did not have a sufficient basis for accepting partial payments from some third parties as full payment of their Medicaid liabilities. Also, the Unit did not identify some accident-related Medicaid costs for recipients when pursuing recovery from other liable third parties. The Unit missed Medicaid cost recoveries totaling an estimated $5.0 million (see Finding 7 and the related recommendations in that report).

## RECOMMENDATION

We recommend that DCH improve its internal control over the Medicaid Cluster related to third party liabilities to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

## FINDING (3910820)

20. Medicaid Cluster, ***CFDA*** 93.777 and 93.778, Reporting and Subrecipient Monitoring

| U.S. Department of Health and Human Services | *CFDA* 93.777 and 93.778: Medicaid Cluster |
|---|---|
| Award Number: | Award Period: |
| 05-0405MI0528 | 10/01/2003 - 09/30/2004 |
| 05-0505MI0528 | 10/01/2004 - 09/30/2005 |
| 05-0605MI5028 | 10/01/2005 - 09/30/2006 |
| 05-0705MI5028 | 10/01/2006 - 09/30/2007 |
| 05-0405MI5048 | 10/01/2003 - 09/30/2004 |
| 05-0505MI5048 | 10/01/2004 - 09/30/2005 |
| 05-0605MI5048 | 10/01/2005 - 09/30/2006 |
| 05-0705MI5048 | 10/01/2006 - 09/30/2007 |
| | Questioned Costs: $0 |

DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of Medicaid Cluster awards.

Our review of the Medicaid Cluster regarding reporting and subrecipient monitoring requirements disclosed:

a. Reporting

DCH needs to improve its internal control regarding reporting.

Federal regulation 42 *CFR* 431.16 requires DCH to submit its quarterly statement of expenditures (CMS-64 report) for the Medical Assistance Program, which reports expenditure types, such as inpatient hospital services, nursing facility services, and payments to managed care organizations.

DCH uses an internal journal voucher (IJV) system for compiling Medicaid expenditure data for use in preparation of the CMS-64 report. The IJV system, which is separate from the State's accounting system, serves as a tracking and reconciliation tool for numerous types of Medicaid expenditures, such as school based services, inpatient hospital services, and nursing facility services.

Our review of DCH's process for preparing the CMS-64 report disclosed:

(1) DCH did not document that the controls established to ensure the accuracy of the IJV entries were operating. As a result, DCH could not ensure that the CMS-64 report properly reported Medicaid expenditures.

DCH's internal control requires DCH grant accountants, who prepare the IJVs, to review each other's IJV entries. DCH uses these reviews to help ensure that the entries were completely and accurately prepared. The grant accountants' supervisor is also required to perform a periodic review of IJV entries.

In our test of 26 IJV entries, DCH did not document that 10 (38%) of the reviews were performed by the other grant accountants and did not document that any of the reviews were performed by someone at a supervisory level.

(2) DCH's internal control did not ensure accurate reporting of Medicaid payments recovered from providers for services covered by Medicare. During the audit period, CMS-64 reports identified only $0.5 million in

Medicare recoveries, although DCH stated that it had recovered $3.4 million.

Federal regulation 42 *CFR* 433.138 requires DCH to establish a third party liability process to determine the legal liability of third parties, such as Medicare or private health insurance companies, that are liable to pay for medical services furnished under the Medicaid State Plan. Third party recoveries are included on the CMS-64 report.

b. Subrecipient Monitoring

DCH did not perform adequate monitoring of its Medicaid Cluster subrecipient.

OMB Circular A-133, section 400(d)(3) requires DCH to monitor its subrecipients' compliance with program requirements and applicable laws and regulations. Effective monitoring of subrecipients by DCH can be accomplished by using various methods, depending on the nature and timing of the compliance requirement.

Through a grant from DCH, DHS was responsible for determining client eligibility for Medicaid. DCH entered into an interagency agreement with DHS, which contained the specific requirements of each agency. Federal regulations also require states to operate a Medicaid Eligibility Quality Control (MEQC) system to help ensure the propriety of eligibility determinations using requirements established by CMS. DCH's interagency agreement with DHS required DHS to have an MEQC system to assess the accuracy of DHS eligibility determinations. DHS's Office of Quality Assurance (OQA) developed a sampling plan as part of its MEQC system to assess DHS eligibility determinations.

The sampling plan required OQA to test a sample of DHS caseworker-determined Medicaid-eligible and Medicaid-ineligible cases. The interagency agreement required DHS to calculate and provide eligibility error rate information to CMS that was based on the results of the samples tested.

CMS compares the mispayment rate calculated by OQA to the federal mispayment tolerance of 3% when it determines whether to sanction DCH for excessive mispayment rates. DCH monitoring of the accuracy of the DHS-calculated mispayment rate could help ensure that CMS bases its

conclusions on accurate information. Also, by determining accurate reasons for mispayment rate fluctuations, DCH and DHS might improve their ability to formulate an effective corrective action plan to reduce future mispayment rates.

DCH and DHS develop an analysis of the MEQC mispayment rate that they submit to CMS. CMS reviews the analysis and may request that DCH provide additional information and/or perform other actions. For example, in response to one CMS request, DCH, with DHS, implemented a corrective action plan to reduce eligibility errors and mispayment rates. However, to ensure that the corrective action plan is effective, DCH should periodically evaluate the impact of the plan on eligibility errors and mispayment rates.

Our review disclosed the following related to the monitoring of subrecipient efforts to ensure the eligibility of Medicaid clients:

(1) DCH did not monitor whether its subrecipient (DHS) followed the CMS-approved sampling plan.

    Because DCH did not monitor whether DHS followed the approved sampling plan, DCH could not ensure that reports to CMS were accurate.

(2) DCH did not monitor the propriety and accuracy of the MEQC Medicaid mispayment rate calculations and did not determine the cause of periodic mispayment rate fluctuations.

    For fiscal year 2005-06, the OQA-calculated mispayment rate was 3.33%. During fiscal year 2005-06, DCH reported that its six-month moving average mispayment rate increased by 43%, from 2.90% to 4.15%, then decreased by 34%, from 4.15% to 2.73%.

(3) DCH did not evaluate the impact of corrective action plans on reducing the mispayment rate.

    In response to DCH's fiscal year 2004-05 analysis of the MEQC mispayment rate, CMS stated to DCH that the impact of DCH's corrective action plan on the overall reduction of DCH's mispayment rate was not clear. CMS subsequently requested that DCH submit a status report to

show how the corrective action plan had impacted mispayment rates. DCH responded to CMS that it could not demonstrate the specific impact that corrective action plan initiatives had had on mispayment rates.

(4) DCH did not sufficiently monitor DHS's compliance with federal requirements pertaining to subrecipient monitoring of allowable costs/cost principles and eligibility for the Medicaid Adult Home Help Program, which is an example of a Medicaid Cluster program for which DHS determines client eligibility.

The Medicaid Adult Home Help Program provides personal care services, such as assistance with eating, bathing, medication, and housework, to Medicaid eligible beneficiaries who are blind, disabled, or otherwise functionally disabled. These personal care services help enable beneficiaries to live independently.

In fiscal years 2005-06 and 2006-07, DCH recorded $177.1 million and $208.1 million in Medicaid Adult Home Help Program expenditures to 55,717 and 57,204 Medicaid Adult Home Help Program providers, respectively. Also, DCH stated that it passed through $38.3 million to DHS for case management during the audit period. As the pass-through entity*, DCH is responsible for monitoring its subrecipient DHS for compliance with federal requirements.

DCH's internal control to ensure that Medicaid Adult Home Help Program payments were appropriate included preenrollment case file reviews for exceptional cases. Exceptional cases occur because of complexities in caring for the beneficiary, such as terminal illness. Providers consequently receive payment at a higher than normal level for the personal services provided. DCH's preenrollment reviews included a review of medical records to ensure that the beneficiaries' medical conditions warranted the higher than normal payments.

DCH completed no preauthorization reviews for nonexceptional cases and no postauthorization reviews for any cases. DCH stated that

* *See glossary at end of report for definition.*

nonexceptional cases accounted for 97% of total Medicaid Adult Home Help Program expenditures and 99% of total Medicaid Adult Home Help Program beneficiaries during the audit period. As a result, DCH could not ensure that Medicaid Adult Home Help Program services paid for by DCH and reported as provided to beneficiaries actually occurred, were allowable, or were for eligible beneficiaries.

We noted similar conditions relating to subrecipient monitoring in our prior Single Audit. The U.S. Department of Health and Human Services (DCH's federal oversight agency for the Medicaid Cluster) agreed with the prior Single Audit finding and recommended that DCH develop and implement procedures to ensure that the program is adequately monitored for compliance with federal laws and regulations and that appropriate corrective action is taken in a timely manner.

## RECOMMENDATIONS

We recommend that DCH improve its internal control over the Medicaid Cluster to ensure compliance with federal laws and regulations regarding reporting.

WE AGAIN RECOMMEND THAT DCH IMPROVE ITS INTERNAL CONTROL OVER THE MEDICAID CLUSTER TO ENSURE COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING SUBRECIPIENT MONITORING.

## FINDING (3910821)

21. Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations (CMS Research), ***CFDA*** 93.779

| | |
|---|---|
| U.S. Department of Health and Human Services | *CFDA* 93.779: Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations |
| Award Number:<br>11-P-20180/5-13 | Award Period:<br>04/01/2005 - 03/31/2006 |
| | Questioned Costs: $27,708 |

DCH's internal control over the CMS Research Program did not ensure compliance with federal laws and regulations regarding period of availability of federal funds.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of CMS Research Program awards.

Federal expenditures for the CMS Research Program totaled $7.2 million for the two-year period ended September 30, 2007.

Federal regulation 45 *CFR* 92.23 states that a grantee must liquidate all obligations incurred under a federal award not later than 90 days after the end of the funding period. The federal agency may extend this deadline at the request of the grantee.

The CMS Research Program consisted of 11 grants, including the Medicare/Medicaid Assistance Program (MMAP) grant, which provides education and counseling assistance to Michigan's Medicare and Medicaid beneficiaries. Our review disclosed that DCH liquidated an obligation for the MMAP grant with a payment that was 28 days beyond the 90-day period available for such payments, without an extension from the federal government. As a result, we reported known questioned costs of $27,708.

## RECOMMENDATION

We recommend that DCH improve its internal control over the CMS Research Program to ensure compliance with federal laws and regulations regarding the period of availability of federal funds.

## FINDING (3910822)

22. Block Grants for Prevention and Treatment of Substance Abuse (SAPT), ***CFDA*** 93.959

| U.S. Department of Health and Human Services | *CFDA* 93.959: Block Grants for Prevention and Treatment of Substance Abuse |
|---|---|
| Award Number:<br>05B1MISAPT-01<br>06B1MISAPT-02<br>B1MISAPT-07-3 | Award Period:<br>10/01/2004 - 09/30/2006<br>10/01/2005 - 09/30/2007<br>10/01/2006 - 09/30/2008 |
| | Questioned Costs: $414,668 |

DCH's internal control over SAPT did not ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking; subrecipient monitoring; and special tests and provisions (independent peer reviews).

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of SAPT awards.

During our audit period, DCH awarded SAPT funds to 17 subrecipients who, in turn, distributed the funds to treatment providers for services to substance abusers, such as detoxification and counseling to help prevent and treat substance abuse.

Federal expenditures for SAPT totaled $118.6 million for the two-year period ended September 30, 2007, including $116.3 million that was distributed to 17 subrecipients. We reported known questioned costs totaling $414,668.

Our exceptions, by compliance area, are as follows:

a. Matching, Level of Effort, and Earmarking

DCH did not comply with SAPT earmarking requirements for the grant award that ended on September 30, 2007.

According to Part 3, section G of the *Compliance Supplement* to OMB Circular A-133, earmarking requirements specify the minimum and or maximum amount or percentage of a program's funding that may be used for a specified activity. Federal regulation 45 *CFR* 96.135(b)(1) requires that DCH expend no more than 5% of the SAPT grants to pay the costs of administering the grants.

DCH expended the entire SAPT award of $57,686,286 covering the period October 1, 2005 through September 30, 2007 during our audit period. DCH charged administrative expenditures of $4,669,340 to the award, which exceeded the 5% limitation by $1,785,026 (62%).

DCH had not identified that it exceeded the 5% limitation because it did not review total administrative expenditures in terms of the earmarking requirement. Based on our audit, DCH determined that it had improperly recorded $1,370,358 of program operation costs as administrative expenditures. DCH appropriately reclassified those costs as program operation costs. However, DCH still exceeded the 5% administrative cost limitation by $414,668. As a result, we reported known questioned costs of $414,668.

b. Subrecipient Monitoring

DCH did not perform adequate monitoring of its SAPT subrecipients.

OMB Circular A-133, section 400(d)(3) requires DCH to monitor its subrecipients' compliance with program requirements and applicable laws and regulations. Effective monitoring of subrecipients can be accomplished by using various methods, depending on the nature and timing of the compliance requirement.

OMB Circular A-133, section 400(d)(4) requires DCH to ensure that each subrecipient expending $500,000 or more in federal awards during the subrecipient's fiscal year has a Single Audit conducted. DCH's Office of Audit is responsible for ensuring that applicable subrecipients submit a copy of their completed Single Audits to DCH, as required by their agreements with DCH.

DCH can use the subrecipients' Single Audits to help ensure that subrecipients used funds in compliance with federal laws and regulations if the subrecipients' Single Audits were performed during the audit period and SAPT was audited as a major program as part of the Single Audit. Otherwise, federal regulations require DCH to perform other monitoring activities to ensure that the subrecipients used funds in compliance with federal laws and regulations.

DCH stated that it relied on Single Audits of its SAPT subrecipients for monitoring of direct and material federal requirements applicable to subrecipient activities. DCH also stated that it augments its reliance on Single Audits through periodic site visits of subrecipients, which included efforts to determine whether subrecipients complied with federal requirements related to activities allowed or unallowed.

DCH did not determine which program subrecipients had SAPT audited as a major program in their Single Audits. As a result, SAPT program management had no basis for reliance on Single Audits of its subrecipients for monitoring of the direct and material federal requirements applicable to SAPT. Also, DCH did not implement sufficient procedures for monitoring the one SAPT subrecipient that had not submitted required annual Single Audits during the audit period.

c. Special Tests and Provisions

DCH could not document that treatment providers' services were independently reviewed as required by federal regulations.

Federal regulation 45 *CFR* 96.136 requires the states to provide for independent peer reviews to assess the quality, appropriateness, and efficacy of treatment providers' services. To comply with the federal regulation, DCH requires that treatment providers acquire accreditation from one of five applicable accreditation bodies, such as the Joint Commission on Accreditation of Healthcare Organizations (JCAHO).

DCH stated that during its site visits to subrecipients, DCH reviewed the procedures performed by the subrecipients to ensure that treatment providers obtained the appropriate accreditation. DCH also stated that it visits two of each subrecipient's treatment providers to verify that the treatment providers are accredited as DCH requires.

However, during our review of DCH's site visits to 9 subrecipients and 18 corresponding treatment providers, we noted that DCH had not documented that it verified whether subrecipients had appropriate procedures for ensuring that all treatment providers were accredited because DCH had not developed a protocol for reviewing subrecipient procedures to ensure the accreditation of treatment providers. We also noted that DCH had not documented whether 7 (39%) of the 18 treatment providers were accredited.

## RECOMMENDATION

We recommend that DCH improve its internal control over SAPT to ensure compliance with federal laws and regulations regarding matching, level of effort, and earmarking; subrecipient monitoring; and special tests and provisions.

## FINDING (3910823)

23. Maternal and Child Health Services Block Grant to the States (MCH Block Grant), ***CFDA*** 93.994

| U.S. Department of Health and Human Services | *CFDA* 93.994: Maternal and Child Health Services Block Grant to the States |
|---|---|
| Award Number: | Award Period: |
| 1 B04MC06554-01-00 | 10/01/2005 - 11/18/2005 |
| 6 B04MC06554-01-02 | 10/01/2005 - 12/17/2005 |
| 4 B04MC06554-01-03 | 10/01/2005 - 03/31/2006 |
| 4 B04MC06554-01-04 | 10/01/2005 - 09/30/2007 |
| 6 B04MC06554-01-05 | 10/01/2005 - 09/30/2007 |
| 6 B04MC06554-01-06 | 10/01/2005 - 09/30/2007 |
| 1 B04MC07777-01-00 | 10/01/2006 - 09/30/2008 |
| 6 B04MC07777-01-01 | 10/01/2006 - 09/30/2008 |
| 6 B04MC07777-01-02 | 10/01/2006 - 09/30/2008 |
| 6 B04MC07777-01-03 | 10/01/2006 - 09/30/2008 |
| 6 B04MC07777-01-04 | 10/01/2006 - 09/30/2008 |
| 6 B04MC07777-01-06 | 10/01/2006 - 09/30/2008 |
| | Questioned Costs: $0 |

DCH's internal control over the MCH Block Grant Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

Internal control that does not ensure compliance with federal laws and regulations could result in sanctions, disallowances, and/or future reductions of MCH Block Grant awards.

Federal expenditures for the MCH Block Grant Program totaled $38.5 million for the two-year period ended September 30, 2007, including $20.7 million that was distributed to 82 subrecipients.

Our exceptions, by compliance area, are as follows:

a. Allowable Costs/Cost Principles

DCH did not have a process to ensure that the system-generated refund payments to insurance carriers were accurate.

DCH expended $13.9 million for medical care and treatment services provided to eligible beneficiaries through its CSHCS program. Subsequent to making

these payments, DCH determined that costs of some of the services provided should have been paid by the beneficiaries' other insurance carriers. As a result, the insurance carriers owed these amounts to DCH.

DCH's Third Party Liability Section is responsible for recovering the amounts owed to DCH from insurance carriers. However, because of complexities in identifying third party liabilities, DCH informed us that the recoveries from insurance carriers can sometimes exceed the amount of MCH Block Grant funds expended for the original services. DCH stated that its Third Party Liability Section subsequently identifies the excessive recoveries and, on an annual basis, refunds the excessive recoveries to the insurance carriers. Refunds to insurance carriers totaled approximately $121,000 during the audit period, of which approximately $43,000 was federally funded.

b. Subrecipient Monitoring

DCH did not perform adequate monitoring of its MCH Block Grant Program's subrecipients.

OMB Circular A-133, section 400(d)(4) requires DCH to ensure that each subrecipient expending $500,000 or more in federal awards during the subrecipient's fiscal year has a Single Audit conducted. DCH's Office of Audit is responsible for ensuring that applicable subrecipients submit a copy of their completed Single Audits to DCH.

DCH can use the subrecipients' Single Audits to help ensure that subrecipients used funds in compliance with federal laws and regulations if the subrecipients' Single Audits were performed during the audit period and the MCH Block Grant Program was audited as a major program as part of the Single Audit. Otherwise, federal regulations require DCH to perform other monitoring activities to ensure that the subrecipients used funds in compliance with federal laws and regulations.

DCH stated that it generally relied on Single Audits of its subrecipients for monitoring of all direct and material federal compliance requirements applicable to subrecipient activities.

We reviewed DCH's monitoring efforts for 11 of the 82 MCH Block Grant subrecipients. Our review disclosed that, for 10 of 11 subrecipients, either

DCH did not receive Single Audit reports or the Single Audit of the subrecipients did not include major program testing of MCH Block Grant federal requirements. Therefore, DCH had no basis for reliance on the Single Audits of those subrecipients for determining the subrecipients compliance with MCH Block Grant federal requirements.

Because DCH was not able to rely on the Single Audits of MCH Block Grant subrecipients, DCH should have implemented and supported other monitoring procedures to ensure that the subrecipients complied with all direct and material federal program requirements.

We noted the same condition in our prior Single Audit.

## RECOMMENDATIONS

We recommend that DCH improve its internal control over the MCH Block Grant Program to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

WE AGAIN RECOMMEND THAT DCH IMPROVE ITS INTERNAL CONTROL OVER THE MCH BLOCK GRANT PROGRAM TO ENSURE COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS REGARDING SUBRECIPIENT MONITORING.

**The status of the findings related to federal awards that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.**

# OTHER SCHEDULES

DEPARTMENT OF COMMUNITY HEALTH
Summary Schedule of Prior Audit Findings
As of September 15, 2008

## PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 2001 through September 30, 2003
**Finding Number:** 390401
**Finding Title:** Biennial Internal Control Assessment

**Finding:** The Department of Community Health's (DCH's) biennial internal control assessment was materially noncompliant with State requirements:

a. DCH did not require all managers of departmental activities to document internal control for their respective areas of responsibility.

b. DCH assessment activities failed to identify material weaknesses in the internal control of one of the assessable units included in the biennial assessment.

c. DCH did not take steps to correct a material weakness reported in the previous biennial assessment process.

d. DCH did not consider material weaknesses identified by external sources when completing the assessment process for the fiscal year 2001-02 biennial assessment.

**Comments:** DCH has corrected the deficiencies.

**Audit Period:** October 1, 2003 through September 30, 2005
**Finding Number:** 3910601
**Finding Title:** Internal Control

**Finding:** DCH's internal control was not sufficient to ensure the accuracy of its financial accounting and reporting and its compliance with direct and material federal requirements:

a. DCH's internal control over financial accounting and reporting and compliance with federal requirements needs improvement.

b.(1) DCH did not determine which information technology systems to include in its internal control evaluation (ICE).

b.(2) DCH did not require its assessable units to describe material weaknesses identified by their evaluation reports, which the designated senior official used to prepare the ICE.

b.(3) DCH did not require its assessable units to include material weaknesses identified by the external sources in the assessable units' respective evaluation reports.

**Comments:** DCH has corrected the deficiencies. Also, for part b.(2), for DCH's 2008 ICE and in regard to DCH's efforts to require its assessable units to describe material weaknesses identified by their evaluation reports, DCH has added a third section entitled "Status/Comments regarding material weaknesses noted from non-audit sources during the last four years" to its work sheets.

**Audit Period:** October 1, 2003 through September 30, 2005
**Finding Number:** 3910602
**Finding Title:** Internal Control Over Financial Reporting

**Finding:** DCH's internal control did not prevent and detect certain accounting and reporting errors:

a. DCH's internal control did not ensure that it recorded amounts billed to third party insurance carriers for Medicaid pharmaceutical claims in the State's accounting system.

b. DCH's internal control did not prevent errors in the calculation of the disproportionate share hospital (DSH) payments to State psychiatric hospitals and did not ensure that DCH always acquired related source documentation.

c. DCH's internal control over accounting did not include a reconciliation of invoices from the contracted pharmacy benefits manager to underlying claims files.

d. DCH's internal control over accounting did not prevent DCH from recording numerous accounting transactions in error during the audit period.

**Comments:** DCH has corrected the deficiencies. Also, for part b., DCH implemented a procedure in February 2007 to help ensure the accurate calculation of DSH payments to State psychiatric hospitals.

Audit Findings Not Corrected or Partially Corrected:

**Audit Period:** October 1, 2001 through September 30, 2003
**Finding Number:** 390402
**Finding Title:** Internal Control Over Financial Reporting and Accounting

**Finding:** DCH's internal control did not prevent certain reporting and accounting errors:

a. DCH's internal control over financial reporting did not ensure that its schedule of expenditures of federal awards (SEFA) was accurately prepared.

b. DCH's internal control over accounting did not prevent errors in the reporting of intrafund expenditure reimbursements and expenditure credits, long-term deferred revenue, and one contingent liability in DCH's notes to its financial schedules.

c. DCH's internal control over accounting did not include a reconciliation of invoices from First Health Services Corporation to the underlying claims files.

d. DCH's internal control over accounting did not properly account for federal funds passed through to the Department of Corrections.

e. DCH's internal control over accounting did not prevent DCH from recording numerous accounting transactions during the audit period that needed adjustment.

**Comments:** DCH has corrected the deficiencies noted in parts b. through e.

For part a., DCH has established policies and procedures to code contractual payments as "vendor" or "subrecipient" based on the program's designation of such made on the contract. DCH initiated improvements to its monitoring practices during fiscal year 2006-07. DCH continues working on training current staff, as well as new staff, on the importance of ensuring that proper codes are used. Also, DCH is currently creating a Web-based contract system that should further prevent the coding errors from occurring. It is anticipated that this new system will be operational sometime during fiscal year 2008-09.

**Audit Period:** October 1, 2003 through September 30, 2005
**Finding Number:** 3910603
**Finding Title:** Schedule of Expenditures of Federal Awards (SEFA)

**Finding:** DCH's internal control over financial reporting did not ensure that DCH prepared its SEFA in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and State financial management policies:

a. DCH was unable to provide procedures for reconciling the specific expenditure transactions in the State's accounting records to the Medicaid and State Children's Insurance Program (SCHIP) federal program expenditures presented in its SEFA.

b. DCH did not have adequate procedures to ensure that subrecipient expenditures reported on its SEFA accurately reflected the expenditures recorded in the State's accounting records.

c. DCH's internal control did not ensure that expenditures recorded in the State's accounting records were adequately reported in the SEFA as payments to subrecipients or payments to vendors.

d. DCH's internal control did not ensure that federal expenditures were accurately reported under the appropriate *Catalog of Federal Domestic Assistance* (*CFDA*) number on its SEFA.

**Comments:** DCH has corrected the deficiencies noted in parts a., b., and d.

For part c., DCH has established policies and procedures to code contractual payments as "vendor" or "subrecipient" based on the program's designation of such made on the contract. DCH initiated improvements to its monitoring practices during fiscal

year 2006-07. DCH continues working on training current staff, as well as new staff, on the importance of ensuring that proper codes are used. Also, DCH is currently creating a Web-based contract system that should further prevent the coding errors from occurring. It is anticipated that this new system will be operational sometime during fiscal year 2008-09.

**Audit Period:** October 1, 2003 through September 30, 2005
**Finding Number:** 3910604
**Finding Title:** Receivables System (RS) Database

**Finding:** DCH's internal control did not ensure the completeness and accuracy of its RS Database, which is used to record past due amounts owed to DCH by Medicaid providers:

a. DCH's Medicaid Collections Unit did not periodically reconcile the RS Database with receivables referred to the Unit from other DCH units and other State agencies.

b. The Unit did not ensure that its review and approval of postings to the RS Database were complete, accurate, and timely.

c. The Unit did not have procedures for identifying and documenting MQ-774 (the gross adjustment details report) receivables to be posted to the RS Database.

**Comments:** DCH has corrected the deficiency noted in part c. DCH will continue to review/revise existing policy as necessary.

For part a., as noted in the prior Single Audit, DCH implemented a procedure in January 2006 to send monthly reports to the Program Investigation Section for review. The Unit will continue to work with the Section to improve its ability to reconcile receivables referred to the Unit with the contents of the RS

Database. The Unit was not advised of any errors over the two-year time period.

For part b., DCH has developed policies and procedures that require someone other than the person posting the receivable to review it. DCH will continue to update the policy as necessary.

## PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 2001 through September 30, 2003

**Finding Number:** 390406

**Finding Title:** Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program), *CFDA* 10.557

**Finding:** DCH's internal control over the WIC Program did not ensure compliance with federal laws and regulations regarding subrecipient monitoring:

(1) DCH did not issue management evaluation reports to subrecipients in a timely manner.

(2) DCH did not ensure that WIC Program subrecipients submitted corrective action plans.

(3) In the Office of the Auditor General's (OAG's) review of 6 of the 33 corrective action plans submitted by subrecipients, WIC Program staff did not approve or deny 2 (33%).

**Comments:** DCH has corrected the deficiencies.

**Audit Period:** October 1, 2001 through September 30, 2003

**Finding Number:** 390408

**Finding Title:** Aging Cluster, *CFDA* 93.044 and 93.045, and National Family Caregiver Support, *CFDA* 93.052

**Finding:** DCH's internal control over the Aging Cluster and the National Family Caregiver Support Program did not ensure compliance with federal laws and regulations regarding reporting and subrecipient monitoring:

a. DCH did not report $4,512,488 in program income earned by subrecipients to the Administration on Aging, U.S. Department of Health and Human Services (HHS), in fiscal year 2001-02.

b.(1) DCH did not have adequate procedures to monitor subrecipient compliance with federal allowable cost requirements.

b.(2) DCH subrecipient monitoring procedures over cash management compliance requirements did not identify subrecipients that received cash in excess of immediate needs from the Aging Cluster and National Family Caregiver Support Program.

b.(3) DCH subrecipient monitoring procedures did not verify the accuracy and completeness of program income reported by subrecipients.

b.(4) DCH subrecipient monitoring procedures did not identify subrecipients that did not comply with earmarking requirements for certain Aging Cluster funds set forth in the State Plan for Michigan, which is approved by the HHS Administration on Aging.

**Comments:** DCH has corrected the deficiencies.

**Audit Period:** October 1, 2001 through September 30, 2003
**Finding Number:** 390411
**Finding Title:** Medicaid Cluster, *CFDA* 93.778, Internal Control

**Finding:** DCH's internal control over the Medicaid Cluster did not sufficiently ensure the preparation of reconciliations of a vendor's invoices to underlying claims and the receipt of amounts owed by a hospital to the State and federal government:

a. DCH's controls over accounting did not include a reconciliation of invoices from First Health Services Corporation to the underlying claims files.

b. DCH did not recover amounts owed to the State by a hospital, repay related unearned federally funded Medicaid amounts to the federal government, and refer the accounts receivable to the Michigan Department of Treasury for collection, as required by federal and State regulations.

**Comments:** DCH has corrected the deficiencies.

**Audit Period:** October 1, 2003 through September 30, 2005
**Finding Number:** 3910607
**Finding Title:** Family Planning - Services (FPS), *CFDA* 93.217

**Finding:** DCH's internal control over FPS did not ensure compliance with federal laws and regulations regarding subrecipient monitoring:

a. DCH placed improper reliance on subrecipients' Single Audits for compliance with federal program requirements.

b. DCH did not comply with its policy requiring on-site visits at least every three years.

**Comments:** DCH has corrected the deficiencies.

**Audit Period:** October 1, 2003 through September 30, 2005
**Finding Number:** 3910609
**Finding Title:** Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles

**Finding:** DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles:

a.(1) DMB did not accurately calculate the DSH payments to eligible State psychiatric hospitals.

a.(2) DCH did not properly calculate the incentive fee for the repackaged unit pharmacy providers.

b. DCH did not ensure that Medicaid was the payer of last resort, as reported in the OAG's performance audit of Selected Medicaid Pharmaceutical Drug Transactions.

c.(1) DCH did not ensure that its Medicaid payments for beneficiaries entitled to emergency services only complied with federal regulations.

c.(2) DCH did not prevent, or have procedures to recover, fee-for-service overpayments of $870,318 made to physicians and inpatient hospitals for Medicaid beneficiaries who were retroactively enrolled in a managed care health plan for the period July 1, 2001 through June 30, 2004.

c.(3) DCH did not ensure that its Medicaid managed care health plans provided all required pharmaceutical services to enrolled Medicaid beneficiaries.

c.(4) DCH did not prevent duplicate Medicaid payments for persons having multiple beneficiary identification numbers.

c.(5) DCH did not ensure that deceased Medicaid beneficiaries receiving full Medicaid benefits were identified on a timely basis and promptly removed from the beneficiary eligibility databases.

**Comments:** DCH has corrected the deficiencies. Also, for part a.(1), DCH implemented a procedure in February 2007 to ensure the accurate calculation of DSH payments to State psychiatric hospitals.

**Audit Period:** October 1, 2003 through September 30, 2005
**Finding Number:** 3910612
**Finding Title:** Block Grants for Community Mental Health Services, *CFDA* 93.958

**Finding:** DCH's internal control over Block Grants for Community Mental Health Services did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

**Comments:** DCH has corrected the deficiency.

Audit Findings Not Corrected or Partially Corrected:

**Audit Period:** October 1, 2001 through September 30, 2003
**Finding Number:** 390409
**Finding Title:** Immunization Grants, *CFDA* 93.268

**Finding:** DCH's internal control over the Immunization Grants Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient

monitoring. Also, in some instances, DCH did not document certain subrecipient monitoring activities:

a. DCH's internal control did not prevent noncompliance with allowable cost/cost principle provisions related to payroll costs.

b.(1) DCH did not have adequate procedures to monitor subrecipient compliance with federal allowable cost requirements.

b.(2) DCH procedures did not ensure that DCH reconciled subrecipient inventory reports to DCH inventory records and did not ensure that subrecipients submitted their inventory reports in a timely manner.

b.(3) DCH did not document its monitoring activities to ensure subrecipient compliance with federal guidelines regarding client vaccinations and eligibility.

b.(4) DCH did not document its monitoring activities to ensure that subrecipients complied with federal requirements regarding vaccination fees charged to clients.

**Comments:** DCH has corrected the deficiencies noted in parts a., b.(1), and b.(4).

For part b.(2), this portion of the finding will be rectified now that the State has gone to a centralized distribution of vaccine system and Vaccine Inventory Module (VIM) through the Web-based Michigan Childhood Immunization Registry (MCIR) system.

For part b.(3), DCH spends a substantial amount of time reviewing all Vaccines for Children/Assessment Feedback Incentive and Exchange (VFC/AFIX) site visit reports that come into the Immunization Grants Program. The Program implemented a new system requesting corrective action on all

critical findings during a site visit. DCH feels that substantial progress in collecting and documenting all work to correct or clarify issues found during a site visit has been made, but it agrees to reiterate documentation requirements to staff.

**Audit Period:** October 1, 2001 through September 30, 2003
**Finding Number:** 390412
**Finding Title:** Medicaid Cluster, *CFDA* 93.778, Subrecipient Monitoring

**Finding:** DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding subrecipient monitoring:

a. DCH did not document how and whether it resolved Medicaid Eligibility Quality Control (MEQC) error cases.

b. DCH did not monitor the propriety of MEQC non-error assessments.

c. DCH did not monitor the propriety and accuracy of the MEQC Medicaid mispayment error rate.

Also, the interagency agreement, which was last updated in 1996, did not include federal award information required by OMB Circular A-133.

**Comments:** DCH has corrected the deficiencies noted in parts a. and b. and in the last item related to the interagency agreement.

For part c., as stated in the prior Single Audit, DCH feels that its activities are sufficient and the condition does not warrant further action. DCH is very cognizant of the error rates calculated and reported to the Centers for Medicare and Medicaid Services (CMS) and is committed to ensuring the accuracy of eligibility determinations. In 2005, DCH and the Department of Human Services (DHS) established a Medicaid Quality Control Review

Committee, consisting of representatives from DCH and DHS. The Committee meets regularly to monitor changes in error rates, to identify the basis(es) for these changes, and to identify strategies to reduce errors.

**Audit Period:** October 1, 2001 through September 30, 2003

**Finding Number:** 390413

**Finding Title:** Medicaid Cluster, *CFDA* 93.778, Reporting and Special Tests and Provisions

**Finding:** DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding reporting and special tests and provisions:

a. DCH submitted reports to the federal government that misclassified expenditures among categories by as much as $719 million. The aggregate of the overstatements and understatements netted to zero.

b.(1) DCH did not establish and maintain a program for conducting a biennial risk assessment of the Medicaid Management Information System (MMIS), as required by federal regulations.

b.(2) DCH did not have controls in place to ensure that it did not make Medicaid payments to medical providers who had not renewed their State medical licenses.

**Comments:** DCH has corrected the deficiencies noted in parts a. and b.(1).

For part b.(2), DCH developed and tested a systems solution to prevent Medicaid payments from being made to providers whose medical licenses had lapsed. The edit subsequently had to be turned off because it ended up identifying a large number of licensed providers incorrectly as not having a current license. Because DCH is in the very time-consuming process of

implementing a new MMIS and the amounts at issue are relatively immaterial, DCH, out of necessity, has decided to delay further testing of this solution for the time being. While DCH expects this issue to be addressed by the new system, DCH will consider further testing of the current solution if time and resources become available.

**Audit Period:** October 1, 2003 through September 30, 2005

**Finding Number:** 3910605

**Finding Title:** Residential Substance Abuse Treatment for State Prisoners (RSAT), *CFDA* 16.593

**Finding:** DCH's internal control over RSAT did not ensure compliance with federal laws and regulations regarding subrecipient monitoring:

a. DCH did not have adequate procedures to monitor subrecipient compliance with federal allowable costs/cost principles requirements.

b. DCH could document only 1 of 10 RSAT subrecipient site visits that were required by DCH's procedures.

**Comments:** DCH has corrected the deficiencies noted in part b.

For part a., during the usual site monitoring review process, prior month invoices and supporting documentation are reviewed for allowable cost compliance; however, the Office of Drug Control Policy (ODCP) agrees that documentation was not always maintained to support this review. ODCP modified the site monitoring review form to include the specific month and supporting documentation reviewed.

**Audit Period:** October 1, 2003 through September 30, 2005
**Finding Number:** 3910606
**Finding Title:** Injury Prevention and Control Research and State and Community Based Programs (IPP), *CFDA* 93.136

**Finding:** DCH's internal control over IPP did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and period of availability of federal funds:

a. DCH authorized an IPP subrecipient to expend federal funds for an equipment purchase that exceeded allowable federal limits.

b. DCH's internal control did not ensure compliance with federal period of availability requirements.

**Comments:** DCH has partially corrected the deficiencies. For part b., DCH implemented, but had not yet documented, a new procedure in March 2007 to request prior approval to liquidate obligations for the last budget period within a project period to come into full compliance with HHS/Centers for Disease Control and Prevention's Grants Information Letter G06-004.

**Audit Period:** October 1, 2003 through September 30, 2005
**Finding Number:** 3910608
**Finding Title:** State Children's Insurance Program (SCHIP), *CFDA* 93.767

**Finding:** DCH's internal control over SCHIP did not ensure compliance with federal laws and regulations regarding eligibility, reporting, and subrecipient monitoring:

a. DCH's internal control did not prevent it from enrolling ineligible children into the MIChild Program. Also, DCH did not refer eligible children to the Medicaid Program.

b. DCH's internal control did not ensure compliance with federal laws and regulations regarding reporting.

c. DCH's internal control over SCHIP did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

**Comments:** DCH corrected the deficiencies noted in parts a. and b. but did not agree with part c.

For part c., as stated in the prior Single Audit, DCH feels that its activities are sufficient and the condition does not warrant further action. DHS's MEQC Section includes applicable program populations in its sampling plan. In addition, the agreement clearly states that all references to Medicaid or Medicaid programs will be understood to refer to all DCH medical assistance programs and that DHS's responsibilities include: "Provide initial and annual eligibility determinations for applicants for Medicaid programs as assigned by DCH in accordance with DCH approved policy." The agreement language is intended to provide flexibility so the agreement does not have to be amended each time a new eligibility program is covered by DCH. DCH will attempt to work with DHS to add language to address possible monetary sanctions in the interagency agreement.

**Audit Period:** October 1, 2003 through September 30, 2005
**Finding Number:** 3910610
**Finding Title:** Medicaid Cluster, *CFDA* 93.777 and 93.778, Procurement and Suspension and Debarment and Subrecipient Monitoring

**Finding:** DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding

procurement and suspension and debarment and subrecipient monitoring:

a. DCH and Medicaid health plan payment controls did not prevent Medicaid payments for services provided by sanctioned providers.

b.(1) DCH did not monitor whether DHS followed the CMS-approved sampling plan.

b.(2) DCH did not monitor the propriety of MEQC non-error assessments.

b.(3) DCH did not monitor the propriety and accuracy of the MEQC Medicaid mispayment error rate calculations and did not determine the cause of sizable periodic error rate fluctuations.

b.(4) DCH did not specify within its agreement with DHS potential monetary sanctions against DHS for noncompliance with the agreement.

**Comments:** DCH corrected the deficiencies noted in parts a. and b.(2).

For part b.(1), DCH has developed a protocol to ensure that DHS follows the approved sampling plan.

For part b.(3), as stated in the prior Single Audit, DCH feels that its activities are sufficient and the condition does not warrant further action. DCH is very cognizant of the error rates calculated and reported to CMS and is committed to ensuring the accuracy of eligibility determinations. In 2005, DCH and DHS established a Medicaid Quality Control Review Committee, consisting of representatives from DCH and DHS. The Committee meets regularly to monitor changes in error rates, to identify the basis(es) for these changes, and to identify strategies to reduce errors.

For part b.(4), DCH intends to improve its subrecipient monitoring by attempting to work with DHS to add language to the interagency agreement that DHS include, and pay for, the audit of MEQC as part of DHS's Single Audit, as well as to add language that specifies potential monetary sanctions against DHS for noncompliance with the agreement.

**Audit Period:** October 1, 2003 through September 30, 2005

**Finding Number:** 3910611

**Finding Title:** Medicaid Cluster, *CFDA* 93.777 and 93.778, Special Tests and Provisions

**Finding:** DCH's internal control over the Medicaid Cluster did not ensure compliance with federal laws and regulations regarding special tests and provisions:

a.(1) DCH made Medicaid-funded DSH payments of $95.8 million to the Center for Forensic Psychiatry during the audit period and payments of $68.7 million during fiscal year 2000-01 through fiscal year 2002-03.

a.(2) DCH made Medicaid-funded DSH payments of $32.7 million to the Huron Valley Center during fiscal year 2000-01.

b. DCH made payments of $49,723 to 22 unlicensed providers during the audit period, of which $28,198 was federally funded and is reported as known questioned costs.

**Comments:** DCH has corrected the deficiency noted in part a.(2).

For part a.(1), DCH continues to believe that its actions with respect to these payments were appropriate. However, DCH has obtained the necessary support to seek Medicare certification. A written provider agreement has been established.

For part b., as noted in the prior Single Audit, DCH has delayed testing of systems solutions to prevent Medicaid payments from being made to providers whose medical licenses had lapsed due to the implementation of a new MMIS (the Community Health Automated Medicaid Processing System, commonly referred to as CHAMPS). While DCH expects this issue to be addressed by the new system, DCH will consider further testing of the current solution if time and resources become available.

**Audit Period:** October 1, 2003 through September 30, 2005

**Finding Number:** 3910613

**Finding Title:** Maternal and Child Health Services Block Grant to the States, *CFDA* 93.994

**Finding:** DCH's internal control over the Maternal and Child Health Services Block Grant to the States did not ensure compliance with federal laws and regulations regarding subrecipient monitoring.

**Comments:** Subsequent to the audit exception noted in May 2006, DCH initiated action to create the capacity within Public Health Administration programs to conduct financial compliance reviews of subrecipients. The majority of the activities conducted during 2006 dealt with identifying tools for assessing risk, developing fiscal review questionnaires, and providing training for staff. Additional work had to be completed to identify an efficient way to meet the subrecipient monitoring requirements without duplicating efforts and having numerous programs descend upon the local health departments. During fiscal year 2006-07, coordination of monitoring activities across the Public Health Administration continued.

DEPARTMENT OF COMMUNITY HEALTH
Corrective Action Plan
As of October 13, 2008

## FINDINGS RELATED TO THE FINANCIAL SCHEDULES

**Finding Number:** 3910801
**Finding Title:** Internal Control

**Management Views:** Part a.: The Department of Community Health (DCH) agrees with the recommendation but does not agree with all of the examples cited in support of the conclusion that DCH's internal control did not ensure the accuracy of its financial accounting and reporting and its compliance with direct and material federal requirements. Because all of the examples referred to in this part represent specific findings that are separately addressed in this report, the corrective action and detailed responses will not be duplicated here but separately addressed in response to each specific finding.

Part b.: DCH agrees that there are opportunities for improving its efforts to monitor the effectiveness of its internal control process using its biennial internal control evaluation (ICE). However, DCH would like to point out that it has significantly improved the ICE process from 2002 through 2006.

Part b.(1): DCH disagrees that assessable units were not required to assess the materiality of weaknesses identified by their evaluation work sheets. In two specific places on the work sheets, the assessable units were requested to document their weaknesses: in the section entitled "Activity Level Objectives" (Overall Conclusion/Control System Strengths and

Weaknesses) and in the section entitled "Status/Comments regarding any material weaknesses noted from audits during the last four years." In addition, during the three training sessions in the summer of fiscal year 2005-06, all participants were verbally advised to list any material weaknesses from non-audits in the section entitled "Status/Comments regarding any material weaknesses noted from audits during the last four years." However, DCH acknowledges that not all areas within DCH appropriately identified material weaknesses.

Part b.(2): DCH disagrees that it could not support that it considered all material weaknesses identified by external sources. DCH had an audit chapter that contained written documentation as to the material findings identified by external sources as well as the current status of these findings. The designated senior official (DSO) personally followed up with the relevant managers concerning their material weaknesses and, based on these discussions, some of these findings were reduced to a lower level of weakness. DCH acknowledges that this process may not have been documented appropriately.

Part b.(3): DCH agrees that it did not submit the ICE on a timely basis.

**Corrective Action:**

Part a.: Refer to the responses to Finding 1.b. through Finding 23.

Part b.(1): For the 2008 ICE, DCH added a third section entitled "Status/Comments regarding material weaknesses noted from non-audit sources during the last four years."

Part b.(2): The DSO will appropriately document the disposition of all material findings for the 2008 ICE.

Part b.(3): The ICE document for 2008 will be submitted on a timely basis.

**Anticipated Completion Date:** Part a.: Refer to the responses to Finding 1.b. through Finding 23.

Part b.(1): Ongoing

Part b.(2): Ongoing

Part b.(3): Ongoing

**Responsible Individual:** Part a.: Refer to the responses to Finding 1.b. through Finding 23.

Part b.: DCH's DSO

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**Finding Number:** 3910802

**Finding Title:** Accounting and Financial Reporting

**Management Views:** DCH agrees with the recommendation but does not agree with all of the examples cited in support of the conclusion that DCH's internal control did not prevent and detect certain accounting and reporting errors.

Part a.: Because part of the examples referred to in this finding represent specific findings that are separately addressed in this report, the corrective action and detailed responses will not be duplicated here but separately addressed in response to each specific finding.

Part b.(1)(a): DCH has prepared the Medicaid schedule of expenditures of federal awards (SEFA) in a consistent method since DCH was created as a

State agency in 1996. That method ensures that the SEFA equals the federal share of expenditures claimed on the appropriate quarterly federal Medicaid expenditure reports plus year-end accruals to meet the requirement of preparing the SEFA on an accrued basis. Thus, the SEFA equals total federal accrued revenues recorded in the accounting records (i.e., the Michigan Administrative Information Network [MAIN]).

Part b.(1)(b): DCH agrees that contractual payments were not always appropriately coded as payments to subrecipients instead of vendors.

Part b.(1)(c): DCH agrees that it did not ensure that recipients of federal funds were properly classified as vendor or subrecipient.

Part b.(2): DCH agrees that prior variance analysis of certain generally accepted accounting principles (GAAP) subclass categories was not at a level to identify accounting events that may require disclosure under GAAP.

**Corrective Action:**

Part a.: Refer to responses to Findings 16 through 19.

Part b.(1)(a): DCH footnoted the fiscal year 2005-06 and 2006-07 SEFAs to clarify to the reader that the expenditures equal total reported expenditures on the federal reports, plus accruals. DCH will adjust how future SEFAs are prepared based on receiving confirmation of the auditor's recommendation from the U.S. Office of Management and Budget (OMB).

Part b.(1)(b): DCH has established policies and procedures to code contractual payments as vendor or subrecipient based on the program's designation of such made on the contract. DCH initiated

improvements to its monitoring practices during fiscal year 2006-07. DCH continues working on training current staff, as well as new staff, regarding the importance of ensuring that proper codes are used. Also, DCH is currently creating a Web-based contract system that should further prevent the coding errors from occurring.

Part b.(1)(c): Procedures will be drafted to require reconciliation of the subrecipient and vendor payments from the SEFA to transaction source data.

Part b.(2): Effective with the fiscal year 2007-08 closing, DCH will analyze material expenditures and revenues at the comptroller object level.

**Anticipated Completion Date:** Part a.: Refer to responses to Findings 16 through 19.

Part b.(1)(a): Completed and ongoing

Part b.(1)(b): Completed and ongoing

Part b.(1)(c): March 31, 2009

Part b.(2): Immediate with fiscal year 2007-08 closing

**Responsible Individual:** Part a.: Refer to responses to Findings 16 through 19.

Part b.: Tim Becker

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**Finding Number:** 3910803
**Finding Title:** Cash Management

**Management Views:** DCH agrees that there are opportunities for improvement in its internal control over its cash management efforts for federally funded programs. However, proper monitoring of the federal cash management function over DCH's several hundred

grant/grant phases is possible only if additional supervisory resources and full staffing are obtained.

Part a.: DCH agrees that written procedures were not always followed, which resulted in funds not being drawn on a timely basis for two federal programs.

Part b.: DCH agrees that for a large portion of the amount noted in the finding, funds were not drawn following written procedures. Another portion of the amount is for a grant for which a substantial expenditure was incurred one day after the monthly draw, thus being counted in the lost interest as calculated per the auditor's methodology. Expenditures often occur shortly after a draw is made; these expenditures would be included in the next draw.

**Corrective Action:** Part a.: Reconciliations of all programs are completed at year-end to ensure that the appropriate draws have been made throughout the year. The two draws noted in the finding were made.

Part b.: A Grants Accounting Section manager has been hired in September 2008 and will be tasked with reviewing current procedures and recommending standardized reconciliation procedures to eliminate draw and expenditure errors.

**Anticipated Completion Date:** Part a.: Completed

Part b.: By September 30, 2009

**Responsible Individual:** Tim Becker

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**Finding Number:** 3910804
**Finding Title:** PIHP and CMHSP Contract Payments

**Management Views:** DCH acknowledges that improvements in the contractual process are necessary. It is imperative that timely payments are made to the prepaid inpatient health plans (PIHPs) and community mental health services programs (CMHSPs) to ensure continuity of services to individuals whose health conditions are such that an interruption of services could be life threatening and/or place the consumer at significant risk.

**Corrective Action:** DCH will implement changes to the contracting process intended to ensure that fully executed agreements are in place prior to payment.

**Anticipated Completion Date:** September 30, 2009

**Responsible Individual:** Irene Kazieczko

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**Finding Number:** 3910805
**Finding Title:** Advance Payments

**Management Views:** DCH agrees that advance payments were made to the hospitals noted in the finding but disagrees that prior approval was not obtained. Medicaid payments are scheduled as required to successfully run the program. DCH provides the Department of Treasury an annual major disbursement schedule, which is a spending plan for the upcoming fiscal year. The plan is prepared in July for the next fiscal year, so changes to anticipated expenditure dates periodically occur. There was a programmatic need for these funds to reach Medicaid providers by October 2, 2007 and, to accomplish that in light of the end of the fiscal year

issues, the payment was processed as a prepaid, which resulted in the providers receiving the cash on October 2, 2007. In this specific case, the Medical Services Administration Director was in communication with a Department of Treasury Deputy Director and agreement was reached to make this payment to ensure that funds were available to the provider when required.

**Corrective Action:** Future amendments to or increases in advances will be formally documented, and advances will only be disbursed with written approval.

**Anticipated Completion Date:** Completed

**Responsible Individual:** Tim Becker

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**Finding Number:** 3910806

**Finding Title:** Receivables System (RS) Database

**Management Views:** DCH agrees that there are opportunities for improvement in helping to ensure the completeness and accuracy of its postings to the RS Database.

Part a.: DCH agrees that the MAIN and Medicaid Support Section (MMSS) needs to improve its efforts in regard to reconciling the RS Database. MMSS implemented a procedure in January 2006 to provide activity reports to all areas within DCH that routinely provide receivables for inclusion into the database. Anyone that received a report was requested to reconcile any variances. However, MMSS acknowledges that additional efforts are needed.

Part b.: DCH agrees that it did not always specify the name of the reviewer on the document.

Part c.: DCH agrees that not all receivables were posted immediately upon approval for collection by the Hospital and Health Plan Reimbursement (HH) Division but disagrees that not posting to the RS Database immediately after receiving approval has a direct correlation to properly collecting amounts owed to the State and federal governments related to HH receivables. The MQ-774 report, which comes from the Medicaid Management Information System (MMIS), is the official record for HH receivables, and the RS Database is just an additional tool to track progress and to make more efficient the collection efforts.

**Corrective Action:**

Part a.: The Medicaid Collections Unit will continue to work with the Program Investigation Section to improve its ability to reconcile receivables referred to the Unit with the contents of the RS Database.

Part b.: DCH has developed policies and procedures that require someone other than the person posting the receivable to review it. DCH will continue to update the policy as necessary and ensure that all reviews are appropriately documented.

Part c.: Dependent upon staffing resources, the Unit will post receivables on a timelier basis.

**Anticipated Completion Date:**

Part a.: Completed and ongoing

Part b.: Completed and ongoing

Part c.: Ongoing

**Responsible Individual:** Nancy Grugel

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**Finding Number:** 3910807

**Finding Title:** Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Program), *CFDA* 10.557

**Management Views:** DCH agrees in part with certain components of the finding but disagrees that the WIC Program did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

Part a.(1): DCH agrees that one digital video disk (DVD) containing scanned coupon images was not properly maintained. DCH relies on the Michigan Department of Information Technology (MDIT) through its service level agreement to perform various information technology related functions, including the receiving, handling, processing, and recording of all WIC coupons. DCH was able to provide the Office of the Auditor General (OAG) audit staff with very detailed information for each coupon redeemed during the audit period. This detailed information could only be obtained when a WIC coupon was processed and scanned by MDIT; therefore, DCH disagrees that adequate supporting documentation was not maintained for WIC coupon expenditures.

Part a.(2): DCH agrees that a batch of coupons was temporarily misplaced by MDIT. Once the vendor informed DCH that it had not been reimbursed for the coupon batch it had submitted, DCH worked with the vendor and MDIT to determine the cause of the problem. MDIT was able to locate the coupons that were temporarily misplaced, the coupons were scanned into the system and reconciled, and a payment was made to the vendor.

Part b.(1): DCH agrees that it must establish an ongoing management evaluation system, which includes, among other things, a review of financial reports and financial management systems and on-site visits once every two years according to Title 7, Part 246, Section 19 of the *Code of Federal Regulations (CFR)*. DCH is performing a programmatic on-site monitoring review at least once every two years. The review of financial reports and financial management systems is accomplished through the DCH Office of Audit annual review of agencies' Single Audits and a separate DCH Office of Audit fiscal review of local agencies on approximately a three-year cycle. DCH did not interpret federal regulation 7 *CFR* 246.19(b)(3) as specifically requiring that subrecipients' financial records related to the WIC Program be reviewed at least once every two years, only that "monitoring reviews" be conducted at least once every two years with no specificity regarding the content of the monitoring reviews. In addition, U.S. Department of Agriculture financial reviews of the Michigan WIC Program noted the outstanding quality of the DCH Office of Audit fiscal reviews and use of Single Audits, with no exception regarding the frequency of the financial reviews performed. However, DCH now recognizes that the OMB Circular A-133 Compliance Supplement states, "The on-site reviews of local agencies shall include . . . financial management systems . . . These reviews must be conducted on each local agency at least once every two years." Accordingly, DCH will investigate a means to accomplish the required financial management systems reviews at least once every two years on each subrecipient.

Part b.(2): DCH disagrees that it did not ensure that critical compliance requirements were reviewed and

the results communicated to the appropriate local agency subrecipients; however, DCH acknowledges that these reviews were not always appropriately documented. The WIC Division management evaluation procedures provide for a review of clinic procedures utilized for safeguarding and maintaining inventory for unissued coupon stock. The monitoring was completed by the WIC Division reviewer in all cases cited by the auditor. The agencies were appropriately cited as "met" or "not-met" for the applicable indicators. The WIC Division reviewers indicated on the review work sheet checklist or left the item blank in order to double-check the status with policy and with the agency. Having done so, the correct responses were included in the official documentation sent to the local agency in the review findings.

**Corrective Action:**

Part a.(1): A backup and retention policy was implemented so that the images are saved in compliance with federal regulations. DCH will work with MDIT to ensure that all existing data is appropriately backed up.

Part a.(2): This was an isolated incident that occurred during a relocation of MDIT data center staff. MDIT has implemented procedures to ensure that, if relocation is necessary in the future, this will not happen again.

Part b.(1): DCH will investigate a means to accomplish the required financial management systems reviews at least once every two years on each subrecipient.

Part b.(2): DCH has revised the management evaluation procedures to help ensure that the review checklist is appropriately completed and correlates

with the final evaluation report prior to approval/issuance.

**Anticipated Completion Date:** Part a.(1): Completed and ongoing

Part a.(2): Completed and ongoing

Part b.(1): March 31, 2009

Part b.(2): Completed and ongoing

**Responsible Individuals:** Part a.: Stan Bien and Sue Doby

Part b.(1): Deb Hallenbeck

Part b.(2): Stan Bien

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**Finding Number:** 3910808

**Finding Title:** Injury Prevention and Control Research and State and Community Based Programs (IPP), *CFDA* 93.136

**Management Views:** DCH agrees that there are opportunities for improvement with regard to internal control over IPP but disagrees with certain components of the finding.

Part a.: DCH agrees that there was an initial delay in obtaining a semiannual certification for one employee but disagrees that payroll costs charged to the Rape Prevention Program were not appropriately documented. DCH has a procedure in place for initiating semiannual certifications. The procedure requires the preparation of the forms by support staff and subsequent review by the appropriate budget liaison. A control log is maintained to track the distribution and subsequent receipt of all the budget liaison's required certifications. The semiannual certifications for grant 251047 were in process prior to the request by the auditors; however, they were not

completed and sent to the program area supervisors due to other priorities assigned to the budget liaison.

Part b.: DCH agrees that it does not have appropriate documentation to support the Centers for Disease Control and Prevention's (CDC's) acceptance of $32,208 in expenditures that were liquidated beyond the 90-day requirement. However, DCH believes that CDC accepted the modifications because funds were drawn to support the expenditures and the grant has been moved to the inactive section of the payment management system quarterly report.

Part c.(1): DCH agrees that site visits were not conducted for all program recipients during the audit period and that adequate documentation was not always maintained to support its review of financial reports and program narrative reports.

Part c.(2): DCH agrees that it did not review documentation that supports the expenditures reported by its subrecipients to ensure compliance with allowable costs/cost principles, cash management, and period of availability. However, a site visit and review of documentation that supports reported expenditures of *all* subrecipients is not practical, nor required by the *Code of Federal Regulations* or OMB Circular A-133 to gain the reasonable assurance necessary. DCH believes that the nature, timing, and extent of monitoring necessary to gain reasonable assurance that subrecipients are administering federal awards in compliance with laws, regulations, and the provisions of contracts are dependent on a number of risk factors. Depending on risk factors present for a subrecipient, monitoring activities may take various forms, including reporting, site visits, and/or regular contact. DCH has developed a risk-based approach to

identify the types of monitoring activities necessary for each subrecipient.

Part c.(3): DCH disagrees that one subrecipient was not appropriately monitored for compliance with requirements pertaining to second-tier subrecipients. DCH worked directly and closely with the subrecipient to ensure compliance with allowable activities and costs as documented by progress reports and review and DCH approval of second-tier subrecipient invoices. DCH agrees that one subrecipient was not appropriately monitored for compliance with subrecipient monitoring requirements. Because the other subrecipient is a State agency, DCH assumed that it would monitor its subrecipients appropriately.

**Corrective Action:**

Part a.: DCH will ensure that semiannual certifications are done on a timelier basis.

Part b.: DCH will establish policies and procedures for the appropriate reporting of grant obligations.

Part c.: DCH will follow the subrecipient monitoring guidelines established by the newly formed DCH local subrecipient monitoring work group and ensure that appropriate documentation is maintained to support whatever monitoring is conducted.

**Anticipated Completion Date:**

Part a.: Completed

Part b.: March 31, 2009

Part c.: October 2008

**Responsible Individuals:** Part a.: Karen Spak

Part b.: Tim Becker

Part c.: Linda Scarpetta and Betsy Pash

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**Finding Number:** 3910809

**Finding Title:** Immunization Grants, *CFDA* 93.268, Special Tests and Provisions

**Management Views:** DCH generally agrees that additional monitoring procedures are needed to ensure that the Immunization Grants subrecipients are in compliance with federal laws and regulations.

Part a.: DCH agrees that there are opportunities for improvement with regard to monitoring the vaccine inventories reports submitted by the local health departments (LHDs). All federally funded vaccine inventories are monitored by DCH during LHD Vaccines for Children/Assessment Feedback Incentive and Exchange (VFC/AFIX) site visits, which are conducted by State immunization field representatives. Physical refrigerator inventory counts and doses administered reports are submitted to DCH on a monthly basis. State immunization field representatives were provided variance information identified for the LHDs; however, DCH agrees that these variances may not have been appropriately pursued.

Part b.: DCH agrees that proper documentation of inventory counts and associated reconciliations were not maintained as well as they could have been; however, routine monitoring was conducted by the immunization field representatives while on site visits. DCH also agrees that the proper separation of duties was not maintained between staff maintaining the

vaccine inventories and the individuals performing periodic physical inventory counts. However, DCH feels that any risks associated with inappropriate physical inventories or records were minimal.

**Corrective Action:** Part a.: DCH has now moved to a centralized distribution of vaccine program and Vaccine Inventory Module through the electronic Web-based Michigan Care Improvement Registry (MCIR) system. All but one public health clinic are now using the Vaccine Inventory Module in the MCIR to account for all publicly provided vaccines on a dose-for-dose basis. This new system allows DCH to monitor inventory levels for every vaccine, including the higher dollar value doses.

Part b.: DCH will maintain appropriate documentation for physical inventory counts and reconciliations. In addition, a Division of Immunization administrative staff member will be assigned to complete physical inventories at the DCH vaccine depot.

**Anticipated Completion Date:** Part a.: Completed

Part b.: Completed

**Responsible Individual:** Bob Swanson

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**Finding Number:** 3910810

**Finding Title:** Immunization Grants, *CFDA* 93.268, Period of Availability and Subrecipient Monitoring

**Management Views:** DCH generally agrees that additional monitoring procedures are needed to ensure that the Immunization Grants subrecipients are in compliance with federal laws and regulations; however, DCH does not agree with all components of the finding.

Part a.: DCH agrees that one payment for $200 was charged to the incorrect grant phase.

Part b.(1): DCH generally agrees that additional monitoring procedures are needed. However, DCH believes that the nature, timing, and extent of monitoring necessary to gain reasonable assurance that subrecipients are administering federal awards in compliance with laws, regulations, and the provisions of contracts are dependent on a number of risk factors. The Division of Immunization has performed and documented a risk assessment for all of its subrecipients (beginning in fiscal year 2005-06) and will continue to do this annually. Minimally, all subrecipients' financial status reports and immunization field representative risk assessment forms will be reviewed. For those agencies determined to be higher risk, additional monitoring activities will be performed, up to and including a site visit that may include a review of documentation that supports the expenditures reported.

Part b.(2): DCH agrees that there are opportunities for improvement with regard to appropriate documentation to support its monitoring activities. DCH spends a substantial amount of time reviewing all VFC/AFIX site visit reports that come into the program. The Immunization Grants Program implemented a new system requesting corrective action on all critical findings during a site visit. DCH feels that substantial progress at collecting and documenting all works to correct or clarify issues found during a site visit has been made.

Part b.(3): DCH agrees that it did not adequately document its monitoring activities in relation to

suspension and debarment requirements. However, a physician who is suspended or debarred will not be registered as a VFC provider per the internal control checks conducted by DCH prior to appointing new VFC providers. VFC providers are enrolled on an annual basis through the LHDs, and LHDs are enrolled annually via State VFC staff and State immunization field representatives. It should also be noted that internal quality assurance measures were in place; however, the information reviewed was not documented as such.

**Corrective Action:**

Part a.: DCH will establish policies and procedures for the appropriate reporting of grant expenditures.

Parts b.(1) and b.(2): The Division of Immunization will follow the subrecipient monitoring guidelines established by the newly formed DCH local subrecipient monitoring work group and ensure that appropriate documentation is maintained to support whatever monitoring is conducted.

Part b.(3): DCH has added a line to each annual enrollment form that requires the provider to verify that it is not suspended or debarred from distributing vaccines. Future reviews of the Excluded Parties List System, which State immunization staff access through the U.S. Department of Health and Human Services Office of Inspector General system, will be documented.

**Anticipated Completion Date:**

Part a.: March 31, 2009

Parts b.(1) and b.(2): Completed and ongoing

Part b.(3): Completed and ongoing

**Responsible Individuals:** Part a.: Tim Becker

Part b.: Bob Swanson

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**Finding Number:** 3910811

**Finding Title:** Centers for Disease Control and Prevention - Investigations and Technical Assistance, *CFDA* 93.283

**Management Views:** DCH agrees that there are opportunities for improvement with regard to internal control over the Centers for Disease Control and Prevention - Investigations and Technical Assistance (CDC Program). DCH agrees that it needs to improve its internal control over the CDC Program to ensure compliance with federal laws and regulations regarding subrecipient monitoring within the bioterrorism subprogram.

**Corrective Action:** The Office of Public Health Preparedness will follow the departmental guidelines established by the newly formed DCH local subrecipient monitoring work group.

**Anticipated Completion Date:** Completed

**Responsible Individual:** Jackie Scott

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**Finding Number:** 3910812

**Finding Title:** Temporary Assistance for Needy Families (TANF), *CFDA* 93.558

**Management Views:** DCH agrees that there are opportunities for improvement to ensure compliance with federal laws and regulations regarding eligibility.

Part a.: DCH agrees that CMHSPs need to do a better job maintaining case file documentation.

Part b.: DCH agrees that, prior to August 2007, DCH did not adequately monitor the appropriateness of the CMHSPs' eligibility determinations.

**Corrective Action:** Part a.: DCH has updated the family support subsidy manual and will reiterate supporting documentation requirements to all CMHSPs.

Part b.: No additional corrective action required.

**Anticipated Completion Date:** Part a.: Completed

Part b.: Not applicable

**Responsible Individual:** Sheri Falvay

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**Finding Number:** 3910813

**Finding Title:** State Children's Insurance Program (SCHIP), *CFDA* 93.767

**Management Views:** DCH disagrees that its internal control over SCHIP did not ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

Part a.: DCH disagrees that it did not base its claim for federal reimbursement of Healthy Kids Medicaid Expansion (HKME) expenditures on only actual expenditures and disagrees that, for the first 15 months of the two-year audit period, it used an estimate, as defined by the Centers for Medicare and Medicaid Services (CMS), to determine the amount of HKME expenditures. Rather, it used a methodology that allocated actual expenditures between Medicaid and SCHIP.

It is DCH's position that the federal regulation cited by the OAG and information on CMS's Web site are not intended to prohibit allocation methods that rely on sampling and other accepted statistical techniques. CMS has specifically approved multiple methodologies that involve sampling and statistical projections as the basis for Michigan's claim for federal matching funding.

DCH disagrees that CMS's May 2004 communication to DCH indicated its billing method for HKME was not an acceptable alternative. Rather, this reference related to DCH's temporary use of a method to identify HKME beneficiaries, and CMS was indicating this method was not a viable option to the development of a unique identifier code over the longer term.

Beginning in May 2005, DCH and the Department of Human Services (DHS) gradually transitioned to using a unique identifier code. As part of this transition process, DCH continued to use its previous billing methodology through December 2006. CMS staff were aware that DCH continued to use this methodology and that DCH needed time to implement the unique code to identify this population and to change its billing methodology. DCH made the necessary changes and this was deemed satisfactory for CMS to judge DCH as conforming to the regulation. This is evidenced by the lack of action by CMS to recover money from DCH for HKME expenditures and by CMS not issuing any correspondence to DCH directing it to change its billing methodology for HKME.

Part b.(1): DCH disagrees that it did not monitor DHS's eligibility determinations for the Adult Benefits Waiver (ABW) Program or HKME. DHS's Medicaid

Eligibility Quality Control (MEQC) Section includes both of these populations in its sampling plan.

DCH disagrees that the interagency agreement did not specify DHS's responsibilities for making eligibility determinations for the ABW Program or the federal and other requirements with which DCH expects DHS to comply. The agreement clearly states that all references to Medicaid or Medicaid Programs will be understood to refer to all DCH medical assistance programs and that DHS's responsibilities include, "Provide initial and annual eligibility determinations for applicants for Medicaid programs as assigned by DCH in accordance with DCH approved policy." The assignment of HKME and ABW eligibility determination to DHS is reflected in DHS's Program Eligibility Manual.

The agreement also states, "Assigned functions will be carried out by DCH and FIA [Note: FIA is now known as DHS] in full compliance with Michigan's approved State Plan for Medicaid and the statutory and regulatory requirements of the U.S. Department of Health and Human Services Centers for Medicare and Medicaid Services."

The agreement language is intended to provide flexibility so that the agreement does not have to be amended each time a new eligibility program is covered by DCH or a federal or other requirement is implemented or changed.

DCH agrees that the interagency agreement did not specify that DHS must allow DCH to monitor DHS's compliance with the agreement.

Part b.(2): DCH acknowledges that for the first 15 months of the audit period, it did not require DHS to specifically identify HKME-eligible beneficiaries.

DCH was aware of a decrease in quarterly expenditures for the HKME population after the new identification methodology became effective, and partially disagrees that it had not determined the reasonableness of this decrease. DCH made a substantial effort to determine reasonableness but was constrained by systems and process limitations. However, experience and conversations with DHS staff led DCH to conclude that the decrease in expenditures was reasonable within the constraints of existing systems.

**Corrective Action:**

Part a.: The unique identifier code was implemented and DCH's billing methodology for HKME was changed.

Part b.(1): DCH will develop a crosswalk for selected items in the interagency agreement to DHS's Program Eligibility Manual. DCH will attempt to work with DHS to add language to the interagency agreement that allows DCH to monitor DHS's compliance.

Part b.(2): DHS's new eligibility determination system (Bridges) will more systematically identify children who qualify for HKME. When the system has been fully implemented, a final and more definitive outcome on this issue will occur.

**Anticipated Completion Date:**

Part a.: Completed

Part b.(1): By September 30, 2009

Part b.(2): Subsequent to Bridges' implementation

**Responsible Individuals:** Part a.: Neil Oppenheimer

Part b.(1): Terry Geiger

Part b.(2): Neil Oppenheimer

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**Finding Number:** 3910814

**Finding Title:** Medicaid Cluster, *CFDA* 93.777 and 93.778, Special Tests and Provisions

**Management Views:** DCH agrees that there are opportunities for improvement to ensure compliance with federal laws and regulations regarding special tests and provisions.

Part a.: DCH AGAIN STRONGLY DISAGREES WITH THE FINDING. The OAG issued a similar finding in the Single Audit covering fiscal years 2004-05 and 2005-06. It continues to be DCH's position that it has complied with federal laws and regulations regarding special tests and provisions for State psychiatric disproportionate share hospital (DSH) payments.

Federal assistance in the form of DSH payments is available to hospitals that serve a disproportionate number of low-income individuals, and states have substantial discretion in establishing criteria for DSH eligibility. Section 1923(b)(4) of the Social Security Act states, "The Secretary may not restrict a State's authority to designate hospitals as disproportionate share hospitals . . . ." Section 1923(h) identifies psychiatric hospitals as a separate entity to receive DSH payments.

It is DCH's position that the establishment of a Statewide DSH allotment by the federal government is the basis upon which it intends to limit its DSH obligation, and that its intent is not to limit the ability of

states, within reasonable parameters, to determine which hospitals should receive DSH payments.

In addition, it remains the position of DCH that the OAG has incorrectly interpreted federal laws and regulations applicable to the hospital DSH program as they pertain to State psychiatric hospitals. DCH continues to believe that states have substantial discretion in establishing criteria for DSH eligibility and that Michigan's designation of the Center for Forensic Psychiatry (CFP) as a qualifying facility was appropriate.

As required, DCH provided a copy of its previous Single Audit report to CMS. CMS is fully aware of the previous DSH finding, yet has again approved DCH's plan to make DSH payments to CFP. This federal approval clearly supports DCH's position that its DSH payments to CFP are legal and appropriate.

Nevertheless, DCH has enrolled CFP as a Medicaid provider retroactive to October 1, 2000 and is seeking CMS certification of the facility. Funding to obtain certification was initially included in DCH's fiscal year 2007-08 budget and has been continued in fiscal year 2008-09.

Part b.(1): DCH acknowledges that criminal history checks were not performed for applicants for initial licensure beginning May 1, 2006, as indicated in the Michigan Public Health Code, but disagrees that this is an internal control issue that DCH can remedy. DCH agrees that the new State law indicates that applicants for initial licensure shall submit fingerprints to the Michigan Department of State Police (MSP) to have a criminal history check completed; however, until MSP has the capacity to handle the additional work load,

DCH cannot modify current licensing requirements. DCH strongly disagrees that known questioned costs are applicable in this situation, since all initial applicants are subject to existing State licensing requirements and, thus, are permitted under the Medicaid State Plan to be Medicaid providers.

Part b.(2): DCH agrees that it made improper payments of $94,590 ($53,402 federal) and will initiate recovery of these funds from the 29 unlicensed providers if it is cost effective to do so. In addition, DCH will terminate these providers' participation in the Michigan Medicaid Program if they have not renewed their medical licenses.

**Corrective Action:**

Part a.: DCH continues to believe that its actions with respect to these payments were appropriate. Nevertheless, it has established a provider agreement with CFP and is in the process of seeking CMS certification for the facility.

Part b.(1): MSP has made the necessary system changes. The Licensing Division has updated the application instructions and communicated the requirement to external stakeholders, such as educational institutions and professional associations.

Part b.(2): The new Community Health Automated Medicaid Processing System (CHAMPS) provider enrollment system verifies that professionals are appropriately licensed prior to enrollment.

**Anticipated Completion Date:**

Part a.: Not applicable

Part b.(1): Completed

Part b.(2): Completed

**Responsible Individuals:** Part a.: Richard Miles

Part b.(1): Melanie Brim

Part b.(2): Jay Slaughter

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**Finding Number:** 3910815

**Finding Title:** Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - Omnibus

**Management Views:** DCH generally agrees that there are opportunities for improvement to ensure compliance with federal laws and regulations regarding allowable costs/cost principles but does not necessarily agree with all components of the finding.

Part a.: DCH agrees that hospital cost settlements are not always completed in a timely fashion. DCH also agrees with the questioned costs of $866,501.

DCH acknowledges that delays in identifying and collecting amounts owed to the State may increase the risk that DCH will be unable to collect amounts that have been overpaid. However, it is DCH's position that, as a result of controls it implemented several years ago, such as Medicaid interim payment (MIP) reconciliations 15 months after a provider's fiscal year-end and quarterly analysis of utilization of interim payments, the risk of DCH being unable to collect overpayments is extremely low.

Part b.: DCH disagrees it did not have an effective process to ensure the completeness of its Medicaid Sanctioned Providers List. The list is regularly updated to reflect individual health professionals and business entities that have been sanctioned. It is important to note that the sanctioning of a business entity does not necessarily mean the health

professionals providing services under that entity are sanctioned as individuals. There must be a legal basis for sanctioning an individual or an entity. Therefore, the Sanctioned Providers List may only contain individuals and entities that have been legally sanctioned. DCH agrees that the Sanctioned Providers List should include the National Provider ID number associated with a sanctioned health professional. DCH disagrees that the list should contain all providers having past and current associations with health professionals who, and other providers that, have threatened the fiscal integrity of the Medicaid Program. While DCH acknowledges that it paid the referenced provider $10.2 million from November 2000 through September 2007, including $3.3 million during the audit period, these payments were not necessarily improper. A large percentage of the improper payments identified by DCH's Program Investigation Section relates to billing errors, not fraud. Providers cannot be added to the Sanctioned Providers List as the result of billing errors.

Part c.: Refer to the response for Finding 4.

**Corrective Action:**

Part a.: DCH will explore options to improve the timeliness of hospital cost settlements.

Part b.: DCH will review its policies and procedures, and make any changes if necessary, to help ensure that the Sanctioned Providers List includes the National Provider ID number associated with a sanctioned health professional. DCH will investigate the situation noted in the finding and initiate action, if appropriate, to disenroll the provider and its business(es) from the Medicaid Program.

In March 2008, DCH implemented the provider enrollment component of its new Medicaid Management Information System (MMIS). This included a number of changes that will improve DCH's ability to ensure that its Medicaid provider information is current, complete, and accurate.

Part c.: Refer to the response for Finding 4.

**Anticipated Completion Date:** Part a.: By September 30, 2009

Part b.: By September 30, 2009

Part c.: Refer to the response for Finding 4

**Responsible Individuals:** Part a.: Jim Brandell and Brenda Fezatte

Part b.: Jim Brandell

Part c.: Refer to the response for Finding 4

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**Finding Number:** 3910816

**Finding Title:** Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - Disproportionate Share Hospital (DSH) Pools

**Management Views:** DCH generally agrees with the finding but does not agree that it inappropriately received $275,293 in federal reimbursement.

Part a.: DCH agrees that incorrect cost report information was used for a calculation for one of the hospitals in the government provider DSH pool, which resulted in receiving $275,293 additional in federal reimbursement. In accordance with Medicaid State Plan requirements, claims for government provider DSH pool funds are initially made as interim payments, then these payments are ultimately adjusted during the reconciliation process and any variances are adjusted

at that time. Thus any overage that DCH initially received was corrected during this reconciliation process.

Part b.: DCH agrees with this finding. It should be noted, however, that the total claim for State psychiatric hospital DSH payments covering fiscal year 2005-06 was not impacted by this finding, given that the aggregate amount is limited by federal law.

Part c.: DCH agrees that indigent care agreement (ICA) DSH pool payments were made in December 2006, and the relevant ICA was not signed until February 2007. However, the approved ICA covered the period October 1, 2006 through September 30, 2007 and therefore was effective for the time period in which the payments were made.

**Corrective Action:**

Part a.: DCH has taken steps to ensure that correct cost report information will be used for all future calculations in the government provider DSH pool.

Part b.: DCH implemented a procedure in February 2007 to help ensure the accurate calculation of DSH payments to State psychiatric hospitals.

Part c.: DCH has taken steps to ensure that, for future time periods, the approved ICA is in place prior to the ICA related DSH payment being made.

**Anticipated Completion Date:**

Part a.: Completed

Part b.: Completed

Part c.: Completed

**Responsible Individual:** Part a.: Richard Miles

Part b.: Richard Miles

Part c.: Richard Miles

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**Finding Number:** 3910817

**Finding Title:** Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - Pharmacy Rebates

**Management Views:** DCH generally agrees that there are opportunities for improvement to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

Part a.: DCH agrees that during the audit period, it did not have a procedure in place to ensure that rebates billed by the pharmacy benefits manager (PBM) to drug manufacturers on behalf of DCH were reasonable.

Part b.: DCH agrees that $228,118 in pharmaceutical rebates were not distributed to the proper federal program; however, as indicated in the audit finding, "Because of complexities pertaining to program data, rebates received by the State are not identifiable to the program that initially purchased the drugs." Therefore, the State uses an estimate to determine how much to distribute to each program (i.e., HKME). The gross rebates of $228,118 that are at issue represented only .09% of the total rebates received and were not considered material to DCH.

**Corrective Action:** Part a.: DCH implemented increased internal control over drug manufacturer rebate invoicing performed by the PBM during fiscal year 2007-08. The Pharmacy Services Section's quarterly procedure validates the

reasonableness of the invoiced amounts to provide assurance that DCH is maximizing allowable rebates.

Part b.: DCH implemented a process to distribute rebates associated with HKME effective October 1, 2006.

**Anticipated Completion Date:** Part a.: Completed

Part b.: Completed

**Responsible Individuals:** Part a.: Trish O'Keefe

Part b.: Nancy Grugel

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**Finding Number:** 3910818

**Finding Title:** Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - Medicare Part A and Part B

**Management Views:** DCH agrees that it needs to improve its internal control related to Medicare Part A and Part B premiums to ensure compliance with federal laws and regulations regarding allowable costs/cost principles.

**Corrective Action:** DCH continues to investigate every beneficiary that does not match CMS's monthly file. In addition, DCH now compares for reasonableness the CMS invoice to the beneficiary reconciliation and to the previous amounts billed by CMS.

**Anticipated Completion Date:** Ongoing

**Responsible Individual:** Jay Slaughter

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**Finding Number:** 3910819

**Finding Title:** Medicaid Cluster, *CFDA* 93.777 and 93.778, Allowable Costs/Cost Principles - Third Party Liabilities

**Management Views:** DCH generally agrees that there are opportunities for improvement to ensure compliance with federal laws and regulations regarding allowable costs/cost principles but disagrees that it missed the opportunity for potential Medicaid recoveries in the amounts noted in the finding.

Part a.: DCH agrees it made excessive recoveries from providers for medical services and agrees with the known negative questioned costs of $12,544.

Part b.(1): DCH generally agrees with the recommendation that the Paternity Unit needed to improve its efforts during the audit period to coordinate with applicable State and local offices to encourage the Wayne County Friend of the Court (FOC) to request and seek reimbursement for pregnancy and birthing-related Medicaid costs for Wayne County recipients involved in child support actions but disagrees that it missed the opportunity to recover $114.8 million in Medicaid costs. Because recovery is subject to various factors that are outside the direct control of DCH, it is impossible to accurately estimate how much of the Medicaid costs mentioned in the finding are actually recoverable. DCH is responsible for providing pregnancy and birthing-related costs in response to the specific requests it receives, and any amounts identified for potential recovery are ultimately limited to the amount ordered by the court, which has the judicial discretion to order less than the full amount. DCH lacks the authority to directly pursue collections and does not have the resources or technical capability to measure actual collections at

the recipient level or to even determine the potential for actual recovery.

Part b.(2): DCH agrees that some pregnancy and birthing-related Medicaid costs for mothers with nonmarital births were not included on the reports provided to governmental agencies involved in recovering Medicaid costs.

Part b.(3): DCH agrees that it did not have appropriate controls in place to ensure that it adequately addressed the requests of local prosecuting attorney and FOC offices for selected Medicaid recipients' pregnancy and birthing-related costs but disagrees that it missed the opportunity to recover $29.3 million in Medicaid costs.

Part b.(4): DCH agrees that it did not make a concerted effort to coordinate with the applicable State and local offices to end the practice of establishing countywide limits on the amount of court-ordered reimbursement sought.

Part b.(5): DCH agrees that it did not use State motor vehicle and workers' compensation files to identify recipients with Medicaid costs related to injuries sustained in motor vehicle accidents or at work.

Part b.(6): DCH agrees that it may not have demonstrated a sufficient basis for accepting partial payments from some third parties as final payment for their Medicaid liabilities and agrees that it may not have identified and pursued recovery of some accident-related expenditures.

**Corrective Action:**

Part a.: DCH is processing corrected gross adjustments to return the money owed the two

providers and has verified that other third party liability gross adjustments processed during the audit period were paid correctly. In addition, DCH implemented new written procedures in March 2008 to help ensure that future third party liability gross adjustments are processed for the correct amounts.

Part b.(1): Subsequent to the performance audit, DCH attempted to develop a system to enable it to identify and provide information involving Medicaid recipients, who have been involved in actions brought under the Paternity Act and the Family Support Act, without having to wait for specific requests for information. This system was unworkable and is not being used. DCH is responding to additional follow-up requests it receives from Wayne County pertaining to the time period referenced in the audit and is responding to those cases for which there is a reasonable chance of collection. DCH has processed all requests for birthing-related costs for deliveries during calendar years 2001 through 2005 for all counties. All birthing-related expense requests for delivery dates subsequent to the audit period have been processed, subject to applicable DCH policy. DCH has worked extensively with DHS's Office of Child Support (OCS), the State Court Administrative Office (SCAO), and the Establishment Work Improvement Team (WIT) on this issue. It has also made contact with the Wayne County FOC and will explore with it whether it is cost effective to re-create the birthing-related expense requests that were not submitted to DCH's Third Party Liability Section for processing. It should be noted that the audit finding and recommendation did not address the additional costs that would be incurred by other agencies, such as the FOC and courts, to re-create birthing-related expense requests.

Part b.(2): DCH has implemented corrective measures that include all pregnancy and birthing-related Medicaid costs for mothers with nonmarital births on the reports provided to the governmental agencies involved in recovering Medicaid costs from the children's fathers. In December 2005, DCH established new formulas for gathering pregnancy and birthing-related Medicaid expenditures that incorporate the maternity case rate and pharmaceutical product costs, when applicable. In addition, payments made to maternal support services providers are now included, when appropriate. DCH has also changed its practice and has begun using a 90-day post-delivery end date for gathering postpartum care costs. DCH is still attempting to determine if it is cost-effective to attempt recovery for previously processed requests. It should be noted that the audit finding and recommendation did not address the additional costs that would be incurred by other agencies, such as the FOC and courts, to re-create pregnancy and birthing-related Medicaid expenditures.

Part b.(3): DCH has taken steps to ensure that all current requests are processed and in December 2005 implemented the Paternity and Casualty Recovery System (PCRS), which allows the Paternity Unit to track and report on all pregnancy and birthing-related expenditure requests. DCH has hired a contractor to generate the birthing-related cost reports for DCH. DCH staff also review a biweekly processing volume report provided by the contractor. DCH has processed all requests for birthing-related costs for deliveries during calendar years 2001 through 2005 for all counties. All birthing-related expense requests for delivery dates subsequent to the audit period have been processed, subject to applicable DCH policy.

Part b.(4): DCH has worked with OCS, the SCAO, and the FOCs and believes that a process to resolve the issue will be developed and implemented in fiscal year 2008-09.

Part b.(5): DCH is using PCRS to perform matches against the State motor vehicle (CRASH) and workers' compensation (WORCS) files and has developed protocols for its contractor to use in processing matches identified by PCRS. It is also fully utilizing the trauma edit code system in conjunction with its contractor.

Part b.(6): DCH will continue to utilize the negotiation parameters granted under Section 106(5), Act 409, P.A. 2004, in determining acceptance of partial payments. Negotiation parameters were established for staff in October 2006. Staff are trained on a continuous basis on proper case file documentation.

**Anticipated Completion Date:** Part a.: October 31, 2008

Part b.(1): Ongoing

Part b.(2): By September 30, 2009

Part b.(3): Completed in 2007

Part b.(4): By September 30, 2009

Part b.(5): Completed in first quarter 2008

Part b.(6): Completed in October 2006

**Responsible Individuals:** Part a.: Tanya Lowers

Part b.(1): Dan Voss

Part b.(2): Dan Voss

Part b.(3): Dan Voss

Part b.(4): Dan Voss

Part b.(5): Dan Voss

Part b.(6): Dan Voss

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**Finding Number:** 3910820

**Finding Title:** Medicaid Cluster, *CFDA* 93.777 and 93.778, Reporting and Subrecipient Monitoring

**Management Views:** DCH agrees that there are opportunities for improvement in the internal control over the Medicaid Cluster to ensure compliance with federal laws and regulations.

Part a.(1): DCH agrees that not all internal journal vouchers included the initials of both employees.

Part a.(2): DCH agrees that the amount reported for inclusion on the CMS-64 reports was not accurate. However, the amount recovered from providers was offset against overall Medicaid expenditures; therefore, the total amount claimed to the federal government was accurate.

Part b.(1): DCH agrees that it did not monitor whether DHS followed the CMS-approved sampling plan.

Part b.(2): DCH agrees that it did not monitor the propriety and accuracy of the MEQC mispayment rate calculations. While DCH agrees that it did not identify the basis for all of the monthly fluctuations in the mispayment rates, it disagrees with the value in making such determinations. DCH is very cognizant of the error rates calculated and reported to CMS and is committed to ensuring the accuracy of eligibility determinations.

Part b.(3): DCH agrees it did not evaluate the impact of corrective action plans on reducing the mispayment rate.

Part b.(4): DCH agrees that it needs to improve its internal control over the Medicaid Adult Home Help Program to ensure compliance with federal laws and regulations regarding subrecipient monitoring.

**Corrective Action:**

Part a.(1): A new task has been added to the CMS-64 Preparation Task List to verify that all internal journal vouchers were initialed by both the employee who created the document and the employee who reviewed it.

Part a.(2): DCH has reviewed and corrected the queries that generate the Medicare claim adjustment amounts for reporting purposes and will monitor future query results to ensure their accuracy. In addition, DCH will adjust a subsequent CMS-64 report to ensure that the amount is appropriately recorded. DCH will also develop reconciliation procedures to ensure that subsequent CMS-64 reports are verified against DCH accounting records.

Part b.(1): DCH has asked DHS to include monitoring of the sampling plan in the DHS Single Audit.

Part b.(2): DCH is in the process of hiring a contractor to conduct independent eligibility audits of both Medicaid and SCHIP programs to fulfill federal requirements outside of MEQC requirements. These audits will be completely separate from DHS and the MEQC process. This independent process will establish an eligibility error rate independent of the DHS MEQC findings and allow DCH to consider the

validity of the DHS findings as compared with the independent audit.

Part b.(3): DCH has begun to evaluate the impact of corrective action plans on reducing the mispayment rate. DHS reports to DCH on the activities of the error reduction specialists and has implemented a case reading process to follow up on the effectiveness of corrective action plans and reports results to DCH.

Part b.(4): DCH has selected a contractor for monitoring of the Adult Home Help Program. DCH will provide oversight for the contractor to ensure that services paid by Medicaid actually occurred, were allowable, and were provided only on behalf of eligible beneficiaries. In addition, DCH will more closely monitor the interagency agreement between DCH and DHS to ensure that the responsibilities of both parties are being upheld.

**Anticipated Completion Date:**

Part a.(1): Completed

Part a.(2): Completed and ongoing, policies/procedures March 2009.

Part b.(1): Completed

Part b.(2): December 1, 2008

Part b.(3): Completed and ongoing

Part b.(4) Completed

**Responsible Individuals:**

Part a.(1): Tim Becker

Part a.(2): Karen Rothfuss and Tim Becker

Part b.(1): Dan Ridge

Part b.(2): Dan Ridge

Part b.(3): Dan Ridge

Part b.(4): Deb Katcher

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**Finding Number:** 3910821

**Finding Title:** Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations (CMS Research), *CFDA* 93.779

**Management Views:** DCH agrees that there are opportunities for improvement in the internal control over the Medicare/Medicaid Assistance Program Grant to ensure compliance with federal laws and regulations regarding period of availability of federal funds. However, DCH disagrees with the questioning of the $27,708 in expenditures associated with this finding. DCH believes that CMS has accepted the submission of the final financial status report as funds were drawn for the total reported expenditures and DCH has not received any notification that expenditures were inappropriate.

**Corrective Action:** DCH/Office of Services to the Aging has added new reporting deadlines to the subrecipient agreement. These new requirements will assist DCH/Office of Services to the Aging in complying with liquidation of federal obligation requirements.

**Anticipated Completion Date:** Completed

**Responsible Individuals:** Tim Becker

Peggy Brey

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**Finding Number:** 3910822

**Finding Title:** Block Grants for Prevention and Treatment of Substance Abuse (SAPT), *CFDA* 93.959

**Management Views:** DCH agrees that there are opportunities for improvement in internal control over SAPT to ensure compliance with federal laws and regulations.

Part a.: DCH agrees that SAPT expenditures for administration were recorded in MAIN at a level that exceeded the 5% limit for SAPT funds for the period October 1, 2005 through September 30, 2007.

Part b.: DCH agrees that program management did not determine which program subrecipients had the SAPT program audited as a major federal program in their Single Audit, but believed such a determination was not necessary to meet the monitoring responsibilities of OMB Circular A-133. Program management is appropriately relying on Single Audits of its subrecipients for monitoring of direct and material federal requirements applicable to the SAPT program, and appropriately relying on the DCH Office of Audit's Single Audit reviews and notification procedures to implement alternative monitoring procedures if deemed necessary.

DCH also agrees that program staff did not implement additional monitoring procedures for one SAPT program recipient that had not submitted timely annual Single Audits during the audit period. However, the DCH Office of Audit was working with the subrecipient on corrective actions and was in continuous contact with the subrecipient and its audit firm.

Part c.: DCH agrees that monitoring of provider accreditation needs to take place.

**Corrective Action:**

Part a.: As noted in the finding, $1,370,358 has been identified as program expenditures and has been properly reclassified. The remaining $414,668 in excess SAPT-funded administrative expenditures have been reclassified as program expenditures, and General Fund program expenditures were reclassified as General Fund administration expenses.

Part b.: The DCH Office of Audit will notify program staff in the event of a delay in Single Audit submission so they can determine if additional monitoring procedures are necessary. No other corrective action is necessary. The Office of Audit has one full-time employee fully dedicated to reviewing SAPT subrecipients' Single Audits. The SAPT program is typically tested as a major program in the majority of the coordinating agencies' (CAs') Single Audits. If not, Office of Audit staff review the prior year Single Audit report to ensure that the SAPT program was tested as a major program. Office of Audit staff will notify program management if the SAPT program was not tested as a major program for two consecutive years for a CA so program management can implement alternative monitoring procedures if deemed appropriate.

Part c.: DCH has added verification of appropriate accreditation to its fiscal year 2007-08 CA and provider treatment monitoring protocols. In addition, DCH has visited the Web sites of the involved accreditation bodies and, through contact with CAs, has confirmed that 18 of the 19 providers were accredited during the audit period. The CA verified accreditation before contracting with the remaining provider.

**Anticipated Completion Date:** Part a.: Completed

Part b.: Completed

Part c.: Completed

**Responsible Individuals:** Part a.: Mark Steinberg and Deborah Hollis

Part b.: Deb Hallenbeck

Part c.: Mark Steinberg and Deborah Hollis

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**Finding Number:** 3910823

**Finding Title:** Maternal and Child Health Services Block Grant to the States (MCH Block Grant), *CFDA* 93.994

**Management Views:** DCH agrees that there are opportunities for improvement in the internal control over the MCH Block Grant Program to ensure compliance with federal laws and regulations regarding allowable costs/cost principles and subrecipient monitoring.

Part a.: DCH agrees that it did not have a process in place during the audit period to ensure that system-generated refund payments to insurance carriers were accurate.

Part b.: DCH disagrees that internal control was not in place to ensure compliance with federal laws and regulations regarding subrecipient monitoring. Although DCH may have initially relied on Single Audit reports for subrecipient monitoring requirements, subsequent to the audit exception noted in May 2006, DCH did initiate action to create the capacity within public health programs to conduct financial compliance reviews of subrecipients.

**Corrective Action:** Part a.: DCH will explore revising its Post-Payment Recovery System to generate reports that will allow

staff to monitor payments from insurance carriers for potential refunds. In the interim, DCH will monitor the situation through random sampling.

Part b.: The majority of the activities conducted during 2006 dealt with identifying tools for assessing risk, fiscal review questionnaires, and training for staff. Risk assessments have been completed for all programs within the MCH Block Grant; program consultants have reviewed the risk assessments. Site visits will be conducted as deemed necessary.

**Anticipated Completion Date:** Part a.: Exploration of a Post-Payment Recovery System resolution targeted for 2010; random sampling will be initiated by December 2008.

Part b.: Ongoing

**Responsible Individuals:** Part a.: Tanya Lowers

Part b.: Alethia Carr

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# GLOSSARY

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| ABW Program | Adult Benefits Waiver Program. |
| AIDS | acquired immunodeficiency syndrome. |
| Bioterrorism Program | Public Health Preparedness and Response for Bioterrorism Program. |
| CA | coordinating agency. |
| CDC | Centers for Disease Control and Prevention. |
| CDC Program | Centers for Disease Control and Prevention - Investigations and Technical Assistance. |
| ***CFDA*** | *Catalog of Federal Domestic Assistance.* |
| CFP | Center for Forensic Psychiatry. |
| ***CFR*** | *Code of Federal Regulations.* |
| CIP | capital interim payment. |
| CMHSP | community mental health services program. |
| CMIA | federal Cash Management Improvement Act of 1990. |
| CMS | Centers for Medicare and Medicaid Services. |
| CMS Research | Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations. |
| CMS-64 report | quarterly statement of expenditures. |
| COLS | Court Originated Liability Section. |

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| control deficiency in internal control over federal program compliance | The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect on a timely basis noncompliance with a type of compliance requirement of a federal program. |
| control deficiency in internal control over financial reporting | The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. |
| Control Objectives for Information and Related Technology (COBIT) | A framework, control objectives, and audit guidelines published by the IT Governance Institute as a generally applicable and accepted standard for good practices for controls over information technology. |
| CSHCS | Children's Special Health Care Services. |
| DCH | Department of Community Health. |
| DHS | Department of Human Services. |
| DMB | Department of Management and Budget. |
| DSC | disciplinary subcommittee. |
| DSH | disproportionate share hospital. |
| DSO | designated senior official. |
| DVD | digital video disk. |
| financial audit | An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting. |

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| FOC | Friend of the Court. |
| FPS | Family Planning - Services. |
| Framework | *Evaluation of Internal Controls - A General Framework and System of Reporting.* |
| GAAP | generally accepted accounting principles. |
| HH Division | Hospital and Health Plan Reimbursement Division. |
| HHS | U.S. Department of Health and Human Services. |
| HIV | human immunodeficiency virus. |
| HKME | Healthy Kids Medicaid Expansion. |
| ICA | indigent care agreement. |
| ICE | internal control evaluation. |
| IJV | internal journal voucher. |
| internal control | A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. |
| IPP | Injury Prevention and Control Research and State and Community Based Programs. |
| LHD | local health department. |
| low-risk auditee | As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an |

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| | annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee. |
| MAIN | Michigan Administrative Information Network. |
| material misstatement | A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting. |
| material noncompliance | Violations of laws, regulations, contracts, and grants that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts. |
| material weakness in internal control over federal program compliance | A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected. |
| material weakness in internal control over financial reporting | A significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules and/or financial statements will not be prevented or detected. |
| MCH Block Grant | Maternal and Child Health Services Block Grant to the States. |
| MCIR | Michigan Care Improvement Registry. |
| MDIT | Michigan Department of Information Technology. |
| MEQC | Medicaid Eligibility Quality Control. |

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| MIP | Medicaid interim payment. |
| MMAP | Medicare/Medicaid Assistance Program. |
| MMIS | Medicaid Management Information System. |
| MMSS | MAIN and Medicaid Support Section. |
| MOMS | Maternity Outpatient Medical Services. |
| MQ-774 report | gross adjustment details report. |
| MSP | Michigan Department of State Police. |
| MSU | Michigan State University. |
| OAG | Office of the Auditor General. |
| OCS | Office of Child Support. |
| ODCP | Office of Drug Control Policy. |
| OMB | U.S. Office of Management and Budget. |
| OMB Circular A-87 | Guidance regarding "Cost Principles for State, Local, and Indian Tribal Governments," which has been incorporated into the *Code of Federal Regulations* as Title 2, Part 225 (i.e., federal regulation 2 *CFR* 225. |
| OQA | DHS's Office of Quality Assurance. |
| pass-through entity | A nonfederal entity that provides a federal award to a subrecipient to carry out a federal program. |
| PBM | pharmacy benefits manager. |
| PCRS | Paternity and Casualty Recovery System. |

PIHP — prepaid inpatient health plan.

QAA — quality assurance assessment.

qualified opinion — An auditor's opinion in which the auditor:

a. Identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the financial schedules and/or financial statements presenting the basic financial information of the audited agency in conformity with the disclosed basis of accounting or the financial schedules and/or financial statements presenting supplemental financial information in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or

b. Expresses reservations about the audited agency's compliance, in all material respects, with the cited requirements that are applicable to each major federal program.

questioned cost — A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not

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| | reflect the actions a prudent person would take in the circumstances. |
| RSAT | Residential Substance Abuse Treatment for State Prisoners. |
| RS Database | Receivables System Database. |
| RTI | Research Triangle Institute. |
| SAPT | Block Grants for Prevention and Treatment of Substance Abuse. |
| SCAO | State Court Administrative Office. |
| SCHIP | State Children's Insurance Program. |
| SEER | Surveillance, Epidemiology and End Results. |
| SEFA | schedule of expenditures of federal awards. |
| significant deficiency in internal control over federal program compliance | A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected. |
| significant deficiency in internal control over financial reporting | A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial schedules and/or financial statements that is more than inconsequential will not be prevented or detected. |

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|---|---|
| Single Audit | A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133. |
| ***SOMCAFR*** | *State of Michigan Comprehensive Annual Financial Report.* |
| subrecipient | A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program. |
| TANF | Temporary Assistance for Needy Families. |
| TB | tuberculosis. |
| TSCA | Toxic Substances Control Act. |
| unqualified opinion | An auditor's opinion in which the auditor states that:<br><br>a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or<br><br>b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" |

opinion, the auditor has applied auditing procedures to the supplemental financial schedules and/or financial statements to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules and/or financial statements taken by themselves; or

c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.

***USC*** *United States Code.*

USDA U.S. Department of Agriculture.

VFC/AFIX Vaccines for Children/Assessment Feedback Incentive and Exchange.

WIC Program Special Supplemental Nutrition Program for Women, Infants, and Children.

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STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL